



Luxembourg,

## **FINAL FINDINGS**

### **EDP dialogue visit to Cyprus**

**23 – 24 May 2019**

## Executive Summary

Eurostat undertook an EDP dialogue visit to Cyprus on 23 - 24 May 2019 as part of its regular visits to Member States. The purpose of the visit was to review the existing institutional responsibilities for compiling EDP statistics, to discuss the quality and exhaustiveness of primary data sources and the revision policy, to review the progress in the implementation of previous action points, and to examine the sector classification of some units and the statistical treatment of specific operations undertaken by government.

In the context of the discussions on institutional responsibilities, it was observed that no major change has taken place since the previous dialogue visit, in the framework of the reporting of data under the Excessive Deficit Procedure (EDP). The quality management system and information related to audit activities were also discussed. The revision policy was discussed in detail, notably in the context of the benchmark revision scheduled for September 2019. In this context, the timeline for updating the EDP Inventory was agreed.

There were discussions on the *Integrated Financial Management System of the Treasury of the Republic of Cyprus - FIMAS*, and especially on its coverage. CYSTAT presented the plans to introduce a new *Enterprise Resource Planning System (ERP)*, which should become operational in 2021 and is expected to replace FIMAS.

Progress achieved by the Cypriot statistical authorities on the open action points from the previous EDP dialogue visit, which took place in February 2017, was discussed. The compilation of the EDP tables and questionnaire, of the questionnaire on government controlled entities classified outside general government as well as outstanding issues stemming from the October 2018 and April 2019 EDP notifications were analysed in more detail.

Concerning the delimitation of general government, a discussion about the performing of the market/non-market test took place. Eurostat reviewed the list of the government controlled entities classified outside general government sector and asked the Cypriot statistical authorities to check the availability and the reliability of data for public corporations. The classification of some specific units was discussed, such as the *Cyprus Port Authority*, the *Electricity Authority of Cyprus*, the *Grain Commission*, the *Human Resources Development Authority*, the *Restructuring Fund* and the *Game (Hunting) Fund* (which are all currently classified in S.11) and Eurostat requested checks to be done on the sector classification of some of them.

The classification of specific financial entities was also discussed: the *Cyprus Development Bank Public Company Ltd.*, the *Housing Finance Corporation* (both classified in S.12) and the *Central Agency for Equal Distribution of Burden* (currently classified in S.13), and the outcome was that none of them can be considered a development bank. It was also agreed that their sector classification should remain unchanged.

The discussion continued on the recording of taxes and social contributions, in particular the implementation of the accrual principle, the VAT repayments (CYSTAT will perform a continuous monitoring of the monthly data) and the treatment of deferred taxes (following a recent law amendment). The nature of contributions from employees in case of the *Restructuring/Recapitalization Fund* and of the payments for hunting and the fishing licenses, and their treatment as taxes or as fees were also discussed.

On the recording of interest, the discussions concentrated on the adjustments for accrued interest/coupons on loans, on the completion of the *Table on interest* and on the revisions of the *Consolidated Interest D.41 uses*.

In the context of the statistical treatment of government transactions in relation to the EU funds, the discussions focused on the appropriate recording of the EU flows. It was agreed that the Treasury will provide CYSTAT with the information necessary for a proper recording of government receivables (for money spent by government on behalf of the EU) and on the expenditure carried out by government on behalf of the EU.

The restructuring of the *Cyprus Cooperative Bank Ltd. (CCB)* and especially the recording of government interventions and their fiscal impact were discussed in detail. Part of the CCB assets and liabilities have been sold to the Hellenic Bank in 2018 and two new entities have been created: the *Cooperative Asset Management Company Ltd. (Sedipes)* and the *Cyprus Asset Management Company Ltd. (Kedipes)* – both classified inside government. The recording of the transactions associated to the CCB's restructuring resulted in a significant increase of deficit for 2018 as reported in April 2019 compared to the October 2018 forecast. Following the discussions, it was agreed that both Eurostat and CYSTAT will further examine the accounting implications of the CCB restructuring, as well as subsequent operations involving Kedipes and Sedipes, in order to ensure a correct recording in government accounts.

Eurostat enquired on an unusually large transaction reported in ESA tables in 2018Q3 and CYSTAT informed that this recording is mainly due to a Credit Note which was received from the Central Bank with respect to a Judicial Guarantee, in a case where the State acted as an intermediary between two parties that had a conflict (a Russian and a Cypriot company, with the latter winning the case). A District Court ordered that the Russian company has to constitute a guarantee deposit and this company transferred the amount to a government account held with the Central Bank. Discussions were held on the legal basis for the existence of the dedicated account at the Central Bank of Cyprus, on the recording of the amounts deposited in this account and on their impact on B.9. It was agreed that both Eurostat and CYSTAT will reflect on the recording of the amounts stipulated in the court decisions following court cases not involving government but only third parties.

Other relevant issues discussed include: gross fixed capital formation (GFCF) and the consumption of fixed capital, changes in inventories (for the military supplies as well as for stocks of oil and gas), guarantees, debt assumptions, debt cancellations and debt write-offs, capital injections, dividends and super dividends, PPPs and concessions, as well as energy performance contracts.

Finally, on the ESA 2010 transmission programme and government finance statistics (GFS) data, discussions focused on the recording of government grants provided to private transport operators and the reclassification of the 2018 exceptional payments to purchase water and pharmaceutical products (from *intermediate consumption* to *changes in inventories*).

Eurostat highly appreciated the quality of the information provided by the Cypriot statistical authorities prior to the mission and thanked the Cypriot statistical authorities for the transparency and detailed explanations given during the mission.

## **Final findings**

### **Introduction**

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Cyprus on 23-24 May 2019. The agenda of the meeting is annexed to this report (Annex 1).

Eurostat was represented by Mr Luca Ascoli (director, Directorate D “Government Finance Statistics (GFS)”), Mr Jukka Jalava (head of unit, Unit D3 “Excessive Deficit Procedure 2”), Ms Olga Leszczynska-Luberek (Unit D1), Ms Corina Mihaela Niculeț (Unit D3), Mr Levente Szekely (Unit D3) and Mr Alexander Reimers (Unit D3). The European Central Bank (ECB) was also represented, as observer. Cyprus was represented by the Statistical Service of Cyprus (CYSTAT), the Central Bank of Cyprus (CBC), the Treasury of the Republic (Treasury) and the Ministry of Finance (MoF). A list of the meeting’s attendees is annexed to this report (Annex 2).

The previous Eurostat EDP dialogue visit to Cyprus took place on 15 - 17 February 2017.

The purpose of this EDP dialogue visit was to ensure that the provisions of the European System of National and Regional Accounts (ESA 2010), of Eurostat's Manual on Government Deficit and Debt (MGDD 2016), as well as Eurostat's decisions, are duly implemented as regards the production of Cyprus’ EDP and Government Finance Statistics (GFS) data.

The visit aimed to review, in particular, the data sources for the EDP/GFS data compilation (in particular the availability of data for local government); to discuss the scope of the general government sector; and to review the implementation of ESA 2010 methodology, mainly for the proper recording of GFCF, taxes, the EU flows, interest, etc. A follow up on the open action points from the previous EDP dialogue visit was carried out.

With regard to the procedural arrangements, Eurostat sent to CYSTAT the *main conclusions and action points* on 6 June 2019 and the *provisional findings* on 23 August 2019. The *final findings* from the EDP dialogue visit have been agreed between Eurostat and the Cypriot authorities, the *final findings* will also be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat greatly appreciates the co-operation and transparency demonstrated by the statistical authorities of Cyprus during the meeting, and the information provided before and during the dialogue visit.

## **1. Statistical institutional issues**

The general government (GG or S.13) sector is composed in Cyprus of three sub-sectors: central government (CG or S.1311), local government (LG or S.1313) and the social security funds (SSF or S.1314).

The CG subsector includes 15 central budgetary units (ministries - including public hospitals, that fall under the Ministry of Health; constitutional powers; and constitutional services), 27 extra-budgetary units (extra-budgetary funds), and 22 semi-government organisations that are included inside Central Government as per the market/non-market test.

The LG subsector includes six districts, 39 municipalities and 349 villages.

The SSF subsector includes six funds managed by the Ministry of Labour and Social Insurance.

### **1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation**

#### *Introduction*

The Cypriot National Statistical Institute (CYSTAT) is responsible for the compilation and transmission of the EDP notification tables (except for planned debt and deficit data, which are compiled by the Ministry of Finance) and for the GFS tables.

A CYSTAT unit, the Public Finance Statistics Section, is solely responsible for the EDP notifications, except forecasts. In addition, this unit is responsible for the production of the GFS data as required by the ESA2010 Transmission Programme regarding the compilation of non-financial accounts for the GG Sector (including subsectors) and quarterly accounts. The S.13 non-financial accounts, which are compiled by the Public Finance Statistics section, are not adjusted by the national accounts colleagues when balancing the institutional sector accounts for the whole economy. CYSTAT is also responsible for the S.13 financial accounts.

The legal basis for the compilation of GFS and EDP data is the *Fiscal Responsibility and Budgetary Framework Law of 2014* (FRBF), which provides the framework for the promotion of fiscal responsibility among all entities comprising the GG.

Moreover, a *Memorandum of Understanding for the statistical cooperation* between the Fiscal Council, CYSTAT, the Ministry of Finance, the Central Bank of Cyprus and the University of Cyprus as regards public finance statistics and public accounts was signed on 10 June 2014.

#### *Discussion*

Eurostat reviewed the institutional responsibilities in place and the framework for reporting data under the Excessive Deficit Procedure (EDP) and Government Finance Statistics (GFS), and the role and responsibilities of CYSTAT, the MoF and the CBC in the production and reporting of EDP and GFS data.

CYSTAT confirmed that there have been no substantial changes in the institutional responsibilities concerning the compilation and the reporting of EDP data since the previous EDP dialogue visit.

Eurostat reiterated its concerns about the limited staff of CYSTAT available for working on EDP/GFS. It reminded that the problem of limited resources has been a concern for the EDP reporting of Cyprus for several years and that, during the previous EDP dialogue visit, the Ministry of Finance had promised CYSTAT more resources.

CYSTAT explained that the number of staff had not changed so far, however, CYSTAT had applied to obtain nine additional posts, of which four were already released. It is up to the director of CYSTAT to allocate the posts obtained among units. CYSTAT confirmed that it considers EDP/GFS to be one of its priority areas in this respect. CYSTAT recognizes the risks associated to this shortage in staff resources and considers the issue as a priority for the next period. Nevertheless, it was mentioned that the PFS team receives support from CYSTAT's national accounts team as well as from the Ministry of Finance.

In the same context, Eurostat observed that no representative of CYSTAT is regularly attending the EDP Statistics Working Group (EDPS WG) and other Eurostat meetings related to EDP and GFS, and stressed the importance of experts from CYSTAT attending such meetings at least twice a year for the EDPS WG. CYSTAT confirmed the intention to attend the meetings organised by Eurostat.

Another question of Eurostat regarded the need to update the *Memorandum of Understanding for the statistical cooperation*, as the file is relatively outdated (from 2014). CYSTAT declared that the Memorandum is based on the general framework, no changes in the responsibilities occurred in the meanwhile, so there is no need for a revision of this document.

### ***Quality management framework, audit and internal control arrangements***

#### *Introduction*

The quality management framework is safeguarded by the Fiscal Responsibility and Budgetary Framework Law (FRBF Law). The accounts of all units included in the GG sector are audited by internal and external auditors as well as by the Auditor General of the Republic of Cyprus: all flows and all accounts of all the units are audited upon submission of their annual reports to the Auditor General.

On the procedural framework, CYSTAT implemented procedures in order to ensure quality of the data provided in EDP tables, on a quarterly and annual basis.

The budget execution is monitored through FIMAS<sup>1</sup>: all transactions that enter FIMAS are recorded on cash basis and undergo internal quality and consistency checks as well as validation. The system of data collection and processing of transactions is consistent with the Treasury's standards that are set out by the Accountant General.

#### *Discussion*

CYSTAT emphasized that the quality is assured by the procedures in place. The Treasury provides the reconciliation tables between the budget codes and the ESA2010 codes, and the level of detail is the same for the monthly as for the annual reporting.

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<sup>1</sup> The Integrated Financial Management System of the Treasury of the Republic of Cyprus; it covers the 15 budgetary units (ministries and departments) of the central government, the 6 social security funds and the 27 extra-budgetary funds.

Eurostat acknowledged the quality of the basic data as being crucial, but for assuring the quality of the EDP/GFS data a description and analysis of the compilation process is also needed, as well as the implementation of a four-eye principle at all compilation stages.

Eurostat enquired on any internal audits on statistical data. CYSTAT replied that internal audits have not recently been carried out. Two years ago the upstream verification procedures for the data were audited by the Auditor General. The procedures will be more formalized after the introduction, as of 1 January 2021, of the new fully IPSAS-based integrated accounting system, namely the *Enterprise Resource Planning System (ERP)*<sup>2</sup>. The EDP tables are sent to the Auditor General of Cyprus and it is planned to have the data certified by the Auditor General when the ERP project will be implemented.

## **1.2. Data sources and revision policy; EDP Inventory**

### **1.2.1. Changes in data sources and revision policy**

#### *Introduction*

Public accounts are compiled by the National Treasury of the Republic of Cyprus. The Treasury records all transactions of the government budget on a cash basis.

CYSTAT has the final role in compiling EDP data, after the Ministry of Finance and the Treasury collect non-financial and financial data (as well as the debt data) for budgetary, social security and extra-budgetary funds transactions through FIMAS (the online accounting database system of the National Treasury). Monthly reports on local government and semi-government organisations' transactions are also collected and provided to CYSTAT by the National Treasury. The Ministry of Finance prepares the forecasts based on models developed by the University of Cyprus.

Budget reporting is the main data source for compiling the accounts of the State (central government) as well as social security funds. The data reported in the budget are on a cash basis. The most recent year for which final data on central government are available for the April notification is the year (n-1). The Statistical Service has on-line access to the National Treasury accounts, having thus the ability to monitor all transactions on a daily basis.

Budget reporting is also the main data source for the compilation of the accounts of the extra-budgetary funds<sup>3</sup>. Data based on interim reports (reporting figures for the January-December for year (n-1)) for extra-budgetary funds are available in the April (n) notification. Data for the semi-government organisations included in this subsector, are collected by CYSTAT.

Information on net lending/net borrowing of the local government is obtained directly from the units (municipalities and community boards) comprising this subsector.

The audited accounts of the Ministry of Labour and Social Insurance are the source of information for the accounts of the social security funds. The final audited accounts for each of the six funds comprising the social security funds subsector are available within six months after the closing of the year.

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<sup>2</sup> Largely discussed under agenda point 1.2.1

<sup>3</sup> The extra-budgetary units and the semi-government organisations are listed in the [Annex I to the Cyprus EDP Inventory of data sources and methods](#).

## *Discussion*

CYSTAT communicated to Eurostat that there were no changes as regard the data sources, compared to February 2017: the National Treasury provides to CYSTAT the cash transactions for budgetary, social security and extra-budgetary funds transactions (via FIMAS) and the monthly reports on local government and semi-government organisations transactions.

CYSTAT made a detailed presentation on the implementation, maintenance and operation of the *Enterprise Resource Planning System* (ERP), which will cover the functional areas of Payroll and Pensions, Accounting, Budgeting and Human Resource Management, for all ministries and independent services that are included in the Government Budget as well as for the Social Insurance Fund and other Special Funds. The system will also be used by some local authorities and public organisations on a monthly basis for submitting financial data to the authorities. Moreover, the ERP will facilitate the transition from cash to accrual accounting, based on International Accounting Standards (such as IPSAS). The system should be able to support both the planning and the preparation of the budget, and the execution and monitoring of the budget implementation on a cash basis.

It is planned that the ERP system will be operational on 01.01.2021, with FIMAS running in parallel for at least one year.

Eurostat enquired on the scope, the coverage and the functionality of this new system and CYSTAT presented various solutions to be implemented in specific cases, e.g. the situation of a newly created unit classified in the general government sector: CYSTAT explained that, immediately after registering in the statistical system, this unit will be imported in the ERP system. The national statistical authorities will actively participate in the implementation of the new system: one of the main responsibilities will be to provide the bridge tables between the IPSAS and ESA 2010 terminology.

## ***Revision policy***

### *Introduction*

The revision policy related to EDP/GFS data is described in the EDP Inventory<sup>4</sup>.

Since all data is collected on a monthly basis, most data is considered to be final shortly after the end of the year. Revisions therefore should have no significant impact on the government B.9. At the same time, revisions should have no material impact on the debt or on the B.9f, since CYSTAT reconciles stock with flows, which results in no big discrepancy between B.9 and B.9f.

### *Discussion*<sup>5</sup>

The benchmark revision of the Cypriot national accounts is foreseen for September 2019, and Eurostat enquired on the changes which might occur for the October 2019 EDP reporting.

CYSTAT informed that some changes are expected regarding the government expenditure on

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<sup>4</sup> Source: [CY EDP Inventory ESA 2010](#), p.46

<sup>5</sup> The discussion on the revision of F.2 in relation to the revision of the LG consolidated debt are presented under the agenda point 3.



R&D. CYSTAT will revise also the recording of the UMTS (the 2016 spectrum licenses CETA, reallocating the 2004 licences) and of the signature bonds in the case of oil exploitations. CYSTAT will not revise the 2004 mobile phone licenses (their recording is not spread over time).

### *Findings and conclusions*

Eurostat requested, and CYSTAT agreed, that a detailed Explanatory note on the revision will be sent together with the October 2019 EDP transmission. Eurostat has also encouraged CYSTAT to send on regular basis, together with the EDP notification, a note describing revision of the data, if any.

## ***FIMAS - the Integrated Financial Management System of the Treasury of the Republic of Cyprus***

### *Introduction*

Several hundred users, having the appropriate rights, record all transactions of the State Budget on a daily basis in FIMAS. FIMAS provides detailed information (20,000 budget expenditure codes and 1,000 budget revenue codes) for budget activities (State budget) but also revenue and expenditure details for the extra-budgetary funds and the social security funds. However, FIMAS does not cover the local authorities and the semi-government organisations.

As of 1 January 2006, CYSTAT has full access to FIMAS and hence to information about all government flows that is necessary for the compilation of GFS and EDP tables.

### *Discussion*

Eurostat requested some detailed information on FIMAS.

Starting from the fact that FIMAS is on cash-basis, Eurostat enquired about the recording of the non-cash transactions, e.g. transactions involving revaluation, or GFCF. CYSTAT replied that the transactions, which are not covered by FIMAS are excluded when recording the transactions involving these accounts.

When asked, CYSTAT confirmed that there are no corporations or units classified inside the general government, which are not covered by FIMAS, as they are legally required to report.

Eurostat underlined the necessity of having more information on FIMAS and requested CYSTAT to provide documentation (on business architecture of the system, user manual, etc.), in English.

During the DV 2017, a number of action points were agreed on FIMAS. Some of them are considered to be *in progress* or *not accomplished* so they were discussed during the current EDP dialogue visit (Action point 5, Action point 10 and Action point 12).

- ***Action point 5 from DV 2017:*** The Statistical Service of Cyprus (CYSTAT) will introduce, where necessary, in the bridge table translating FIMAS to ESA 2010 more detail (e.g. 2-digit or 3-digit codes of ESA2010) (e.g. to distinguish between taxes/subsidies on production and on products).<sup>6</sup>

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<sup>6</sup> Closed (the status of the action points from DV 2017 is as considered at the date of this document)

CYSTAT sent the bridge table within the deadline after the DV 2017 (last time on 01.02.2019) but without 2-digit or 3-digit details for all lines, and without being translated into English. Following its analysis, a number of questions were raised by Eurostat during the follow-ups.

On the issue of identifying the accounts, CYSTAT informed Eurostat that “account groups cannot be identified from the 12-digit code of FIMAS. Departments and the type of transaction can be extracted from the 12-digit code, as well as the budget article number. This information is included in the reconciliation tables provided from the National Treasury every quarter.”

Taking into account that the new system, ERP will allow a more detailed representation, by codes, of the transactions, Eurostat considers that this action point is completed.

- **Action point 10 from DV 2017:** With the assistance of the Treasury, CYSTAT will carry out a reconciliation exercise between the single government bank account as stated by the Central Bank of Cyprus and the related accounts recorded in FIMAS (Treasury system) and will, notably, monitor the difference created by government cheques issued but not yet cashed with the central bank. This reconciliation will also be routinely appended to EDP tables.<sup>7</sup>

In December 2018, answering to Eurostat’s question on updated information on the reconciliation between FIMAS and bank accounts, CYSTAT indicated that “a reconciliation between FIMAS and the government’s general account is carried out every month. All payments, including those not cleared, are recorded in the relevant expenditure categories and reflected in the B.9 balance.”

CYSTAT reiterated during the discussions that unpaid cheques are recorded as other accounts payable (F.8) until more information is obtained or by when the cheques are presented for payment to the Treasury (see also discussion under agenda point 4.2.3). Moreover, Cyprus is not issuing loans in foreign currency.

Taking into account the supplementary information and the explanations provided by CYSTAT, Eurostat consider this action point as being closed.

- **Action point 12 from DV 2017:** The Ministry of Finance will provide to Eurostat the complete Chart of Accounts of FIMAS.<sup>8</sup>

CYSTAT sent on April 2017 the Greek version of the table “Chart of Accounts – FIMAS”.

Eurostat took note that some parts of the table could be transmitted in English, and encouraged CYSTAT to consider this possibility for the future. Eurostat considers this action point to be closed.

Eurostat enquired on how some specific types of transactions (e.g. revaluations, acquisitions of non-produced assets) are recorded in FIMAS. CYSTAT replied that those accounts that are not covered in EDP/GFS are excluded from FIMAS, but are part of the bridge tables provided by the treasury to Cystat for the compilation of GFS and EDP data.

Eurostat also remarked that in the Excel file it received from CYSTAT containing all revenues and expenditures recorded in FIMAS for 2018, the revenues side contained much fewer transactions (around 700), while the expenditure side contained more than 10.000 transactions.

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<sup>7</sup> Closed

<sup>8</sup> Closed

CYSTAT explained that not all general government entities are collecting revenues and that revenue codes (accounts) are not as detailed as expenditure codes (accounts).

In addition, the “13-14 month closing period” issue, raised during the previous dialogue visit in 2017, was also discussed. CYSTAT clarified that during the year some appropriations foreseen in the national budget (CYSTAT term “votes”) cannot be allocated to FIMAS codes right away. Therefore, these are recorded in ESA-account D.9 (capital transfers), which is used as a kind-of suspense account. Later on, during the 2 months following each fiscal year (i.e. the “13<sup>th</sup> and 14<sup>th</sup> months”) these amounts are allocated to their correct FIMAS codes (accounts) and the suspense accounts (D.9) are cleared. CYSTAT confirmed that the time lag for the clearing of these suspense accounts is no longer than 2 months.

#### *Findings and conclusions*

**Action Point 1.** CYSTAT will send to Eurostat the documentation on FIMAS, in English (on business architecture of the system, user manual, etc.) as discussed during the dialogue visit.

*Deadline: end of September 2019*

**Action Point 2.** CYSTAT will investigate the financial transactions of all units not covered by FIMAS and being part of S.13, from 2015 onwards.

*Deadline: end of November 2019*

### **1.2.2. Compliance with Council Directive 2011/85**

In the Article 3(2), Chapter II on accounting and statistics of Directive 2011/85<sup>9</sup>, there are requirements on the publication of:

- a) the cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:
  - *monthly* for central government, state government and social security sub-sectors, before the end of the following month, and
  - *quarterly* for the local government sub-sector, before the end of the following quarter;
- b) a detailed *reconciliation table* showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA2010 standard.

Also, according to Article 14(3), "for all sub-sectors of general government, Member States shall publish relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof. Member States shall also publish information on the participation of general government in the capital of private and public corporations in respect of economically significant amounts".

Data developed in the context of Directive are published on CYSTAT' web page<sup>10</sup>.

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<sup>9</sup> [Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States](#)

<sup>10</sup> Methodological Note - [Reconciliation table \(RT\) of Article 3\(2\) of Directive 2011/85 on budgetary frameworks, January 2014](#)

Before the mission, CYSTAT informed Eurostat that “Cyprus is now regarded to have successfully and fully transposed the Directive into national law” as result of the closing of an EU pilot case on Cyprus by the Commission.

## ***Contingent liabilities***

### *Introduction*

On 1 February 2019, CYSTAT published data on contingent liabilities and potential obligations of the State, for the period 2010-2017.

The total stock of government guarantees published nationally was consistent with the data sent to Eurostat in the *Supplement on contingent liabilities* and with the data in the EDP Questionnaire tables 9.1 and 9.4. In central government, the total stock of one-off guarantees includes also standardised guarantees.

Comparing with the December 2017 transmission, in 2018 the stock of the non-performing loans (NPLs) provided by government is reported as being zero for all years (2010 -2017) and for each subsector. CYSTAT explained these recordings because “they have been informed recently by the competent authority that the actual stock of NPLs provided by government to local authorities is zero.”

In December 2018, CYSTAT transmitted data on the liabilities of public corporations as at year-end 2017, in the *Questionnaire on government controlled entities*.

The data were consistent with the ones published by CYSTAT, there were no units added or removed from the list of public corporations and the reported values were not very much different from the ones reported in 2016.

One significant difference to the previous transmission was that the liabilities of the *Cyprus Cooperative Bank Ltd* (CCB) were available only as of September 2017 (as the last available financial data of the CCB was the consolidated financial information for the nine months ended 30 September 2017).

The total liabilities of *Cyprus Ports Authority* were neither provided in 2017, nor in 2018.

Moreover, data coverage was not exhaustive for other (non-financial) public corporations: compared to data transmitted in 2017. For three units controlled by local and central government, CYSTAT indicated “not available” for total liabilities.

### *Discussion*

Eurostat enquired on the missing data and CYSTAT replied that it could not be provided because the 2017 annual reports of those entities were not available at the time of reporting by CYSTAT to Eurostat.

Eurostat took note that CYSTAT will provide data for all public corporations in the December 2019 transmission of the Questionnaire on government controlled units classified outside general government, together with the updated methodological note.

### *Findings and conclusions*

**Action Point 3.** CYSTAT will provide data on liabilities of all public corporations for the year 2018 in the context of the end of December 2019 transmission of data on government contingent liabilities.

*Deadline: December 2019 transmission of the Questionnaire on government controlled units classified outside general government*

### **1.2.3. EDP Inventory**

#### *Introduction*

The latest updated version of the *EDP Inventory (ESA 2010)* was provided by CYSTAT and published on the Eurostat website in July 2018. The *Annex 1 - Register of General Government units by subsector and by NACE* was provided and published together with the EDP Inventory.

Before the mission, Eurostat sent to CYSTAT a number of questions and comments to the document.

#### *Discussion*

Eurostat acknowledged the receipt of the answers to its questions on the current EDP Inventory from CYSTAT. Both parties agreed that the EDP Inventory will be updated by the end of 2019 also by significantly improving and expanding the description of the data production and quality assurance processes deployed by CYSTAT for the purposes of EDP/GFS reporting.

#### *Findings and conclusions*

**Action Point 4.** The EDP Inventory will be updated by CYSTAT by the end of 2019.

*Deadline: December 2019*

## **2. Follow-up of the previous EDP dialogue visit of 15-17 February 2017**

#### *Introduction*

The previous EDP dialogue visit to Cyprus took place on 15 - 17 February 2017.

There were still several action points, which were considered by Eurostat to be *in progress* or *not accomplished* at the time of this visit. Some of the action points were discussed under different agenda points.

#### *Discussion*

Under this agenda point, the discussions focused on the following action points:

- **Action point 20 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will investigate the duration of new exploration licences and then treat them statistically as appropriate, according to ESA2010: usually as rent (with a non-produced asset of zero value created at inception and rent spread over the life of the licence), or as a disposal of a non-produced asset if they are unlimited. In accordance with this, the treatment of the 2013Q1 licence sale will be changed by the next benchmark revision at the latest.<sup>11</sup>

Even if the deadline for this AP was indicated as “next benchmark revision at the latest”, Eurostat requested the revisions of the 2013 exploration licences during the October 2017

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<sup>11</sup> During DV 2019 a new AP was opened on this subject (AP 5)

notification and the implementation of the recording of the 2013Q1 licence sale as rent (D.45r). The answers of CYSTAT were always indicating a willingness to incorporate all changes during the next benchmark revision of national accounts.

The issue was discussed in the context of the benchmark revision planning and activities. It was agreed that CYSTAT will revise the treatment of the UMTS transaction of the contract signed in 2016, and it will also revise the recording of the 2013 exploration rights.

#### *Findings and conclusions*

**Action Point 5.** CYSTAT will revise the treatment of the UMTS transaction concerning the contract signed in 2016. Additionally, CYSTAT will revise the recording of the 2013 exploration rights.

*Deadline: end of September 2019*

- **Action point 21 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will redo the market/non-market test for a Sewerage Board unit<sup>12</sup> (line 9 in the questionnaire on government controlled units classified outside general government).<sup>13</sup>
- **Action point 24 from DV 2017:** CYSTAT and EUROSTAT will reflect on how to statistically treat Sewerage Boards, in the light of whether fees are sales or a form of tax.<sup>14</sup>

In February 2018, CYSTAT indicated that “all D9p amounts are recorded in COFOG 06.3. These amounts are not taken into consideration for the calculation of the market test. The grants received cover capital investments and not operational costs” and considered this AP as being closed.

Before the mission, CYSTAT explained that “Fees imposed by sewerage boards at economically significant prices cover the current and the capital expenditure of these units, allowing them to record a profit. The fee rate is directly tied to the cost of the service provided and its value depends on the size and type of the dwelling.”

During the meeting, Eurostat enquired about the nature of the income from sales, and CYSTAT declared that this represents in fact the value of the services provided. The Sewerage Boards do not receive subsidies.

Taking into consideration the outcomes of the discussions, Eurostat considers Action point 21 and Action point 24 from the DV 2017 as being closed.

- **Action point 22 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will verify the NACE classification reported in the questionnaire on government controlled units classified outside government. Remaining NACE O entities should be classified

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<sup>12</sup> The Sewerage Board is a public utility organisation having as mission the construction, operation and maintenance of the central sewerage system for the collection and treatment of municipal wastewater of an area, the re-use of the treated water for agricultural and other purposes and optimum sludge disposal.

<sup>13</sup> Closed

<sup>14</sup> Closed

within general government given that, in ESA2010, NACE O entities are considered to be non-market.<sup>15</sup>

In October 2017, CYSTAT communicated to Eurostat that only the *Game Fund* (Ταμείο Θήρας) has been reclassified in NACE 01, which coincides with the classification of this fund in National Accounts. Eurostat noted in February 2018 that no impact of this reclassification was visible in ESA Table 2, and CYSTAT replied that “The Game (Hunting) Fund was never part of S.13 and it was wrongly reported as NACE 84 in the questionnaire on government controlled units classified outside government.”. The action point was closed. In the January 2019 transmission, the *Game Fund* appears to be classified in NACE 01 category, in S.11.

In the *Questionnaire on government controlled units classified outside general government* transmitted by CYSTAT in 2018, there is only one unit - *Human Resource Development Authority* - classified under NACE 85. The main activities and sources of financing of the unit were discussed during the visit. In the opinion of Eurostat it should be classified inside government. CYSTAT agreed that it will check the classification of the *Human Resource Development Authority* (ID 124511).

- **Action point 23 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will re-examine the classification of the following regulatory authorities, NACE category 84, and classify them in S.13 if necessary (for instance because of quasi-judicial powers): Electronic, communication and postal authority (ID 127259), Radio-television authority (ID 124520) and Energy regulatory agency (ID 127260). The Statistical Service of Cyprus (CYSTAT) will re-examine as well the classification of the Hunting Fund (ID 151417) and the nature of unit ID 124511 (Restructuring Fund), which possibly has a social policy purpose.<sup>16</sup>

The *regulatory authorities* have been reclassified in S.13 and the impact for the years 2014 – 2017 was reported in the April 2018 notification, when the noticed revision of B.9 was attributed to the reclassification of the units within general government.

The *Game (Hunting) Fund* was classified under S.11, and the *Restructuring (Recapitalisation) Fund* was classified in S.13<sup>17</sup>. Eurostat enquired during the meeting if the classification was done for whole time series. CYSTAT replied that it encountered difficulties in having access to historical data.

On the *Restructuring Fund*, Eurostat noticed that under this ID (124511) in the 2018 questionnaire another unit appears: *Human Resource Development Authority* and that the *Restructuring Fund* is not anymore included in the questionnaire.

CYSTAT declared that it will check the information on all the units for which the classification has been discussed.

#### *Findings and conclusions*

**Action Point 6.** CYSTAT will check the sector classification of the *Human Resources Development Authority* (ID 124511), of the *Restructuring Fund*, of the *Game (Hunting) Fund*

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<sup>15</sup> During DV 2019 a new AP was opened on this subject (AP 6)

<sup>16</sup> During DV 2019 a new AP was opened on this subject (AP 6)

<sup>17</sup> The 3 regulatory authorities and the Restructuring Fund are classified in the S.1311 subsector and are listed in [Annex I of the CY EDP Inventory](#).

(ID 151417) and of the *Cyprus Port Authority* (ID 151408), from 2015 onward (follow-up of the AP 22 and AP 23 from the DV 2017).

*Deadline: end of September 2019*

- **Action point 26 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will adapt the calculation method for the market/non-market test by excluding grants: subsidies on production D.39, selected subsidies on products, current transfers D.7, and capital transfers D.9. An updated calculation will be submitted to Eurostat.<sup>18</sup>

CYSTAT transmitted the updated market/non-market test performed by excluding grants, as requested in October 2017, however no details were presented so that Eurostat could not assess the plausibility of the calculations.

During the mission, CYSTAT presented in detail how it performs the test excluding grants from the revenues of sales. CYSTAT confirmed that it would perform the market/non-market test as requested in this action point. The action point was closed.

- **Action point 28 from DV 2017:** CBC will assist CYSTAT in collecting all relevant information related to the Deposit Guarantee Scheme (DGS) needed for the EDP reporting. CBC will also provide information on past and present calls on the DGS, together – where possible – with estimated recoverable amounts.<sup>19</sup>

As CYSTAT had on separate occasions indicated that “the contributions received by DGS are refundable” and then “according to information obtained from Central Bank, these are non – refundable”, Eurostat enquired on the nature of this category.

CYSTAT confirmed that the DGS contributions are non-refundable, and consequently cannot be recorded as other accounts payable (F.8) but as taxes. Moreover, the contributions to the Single Resolution Fund (SRF) are considered as other taxes on production (D.29) debits of credit institutions vis-à-vis the Single Resolution Board (SRB). CYSTAT confirmed that it is applying the proper recording since September 2018.

- **Action point 40 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will reconsider the recording of income of the Lands and Survey department. Any tax income related to transactions will be recorded within D.214b (economic function codes KS / O).<sup>20</sup>

The deadline of this action point was April 2017, but CYSTAT repeatedly declared that the requested recordings are not possible to be implemented before the benchmark revision “in order to avoid any cross domain inconsistency between ESA 2010 tables of the transmission programme”, and requested a prolongation of the deadline. Moreover, CYSTAT indicated that “this recording has no impact on B.9 (being only a reclassification) but it has a major impact in national accounts data (several transmission programme tables)”.

During the meeting, CYSTAT informed Eurostat that the analytical data for the fees (including the ones for the transfer of ownership of land) of the Lands and Survey Department exist only from 2015 onwards. CYSTAT reiterated that the reclassification as requested by Eurostat has no

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<sup>18</sup> Closed

<sup>19</sup> Closed

<sup>20</sup> During DV 2019 a new AP was opened on this subject (AP 7)



impact on EDP or GDP at market prices and no backcasted data can be provided due to the absence of any actual evidence for the past years.

Eurostat agreed that, at the next benchmark revision in September 2019, the recording of the tax income related to transactions should be recorded within D.214b (economic function codes KS / O) and any remaining amount will be recorded within D.29A starting with 2015. No revision of more historical years will be requested.

#### *Findings and conclusions*

**Action Point 7.** CYSTAT will revise the treatment of the recording of income of the Lands and Survey Department and record it as D.214b from 2015 onwards (follow-up on the Action Point 40 from the DV 2017).

*Deadline: end of September 2019*

- **Action point 46 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will verify the recording of the provisions related to ‘provident funds’ in financial and non-financial accounts (local government).<sup>21</sup>

In March 2017, CYSTAT communicated to Eurostat that the pension funds of local authorities are considered institutional units and are not part of the S.1313 subsector. The funds compile their own annual accounts and they have their own management committees. The relevant adjustments to AF.63 (pension entitlements) and F.2 (currency and deposits) have been implemented in ESA Table 27.

At the beginning of the discussions, it was clarified that this action point is referring to the pension funds and not to the provident funds<sup>22</sup>.

Answering Eurostat’s questions, CYSTAT indicated that these funds are pension funds for local government employees and are administrated independently from the government authorities. Moreover, government has no obligations towards these funds and, in case of the benefits paid by them, there is no minimum amount guaranteed by the government.

#### *Findings and conclusions*

Taking into consideration the clarifications, Eurostat considers that Action point 46 from DV 2017 is closed.

- **Action point 47 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will analyse equity positions to ensure that transactions and stocks are recorded at market value.<sup>23</sup>

In April 2017, CYSTAT informed Eurostat that the equity positions of general government include the shares of the Cooperative Central Bank (AF.512 – unquoted shares), the share capital of public corporations (i.e. Electricity Authority, Cyprus Telecommunication Authority) and the subscriptions to international organisations (AF.513 – other equity). “The market

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<sup>21</sup> Closed

<sup>22</sup> A provident fund is a saving scheme which provides cash benefits for staff in case of termination of employment, permanent incapacity for work (i.e. forced early retirement), retirement and death. Provident funds are financed by contributions from both employers and employees.

<sup>23</sup> Closed

valuation of the share capital is ensured, since its value is obtained from the economic accounts of the respective corporations.”

During the meeting, CYSTAT confirmed that is continuously analysing the equity positions and the recording of transactions and stocks are taking into account the market value as the data come from the business accounts.

#### *Findings and conclusions*

Following the discussions and clarifications, Eurostat considered this action point closed.

- **Action point 48 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will analyse the counterpart and exact nature of some flows of social benefits in cash D.62p in S.1311 related to contributions made by central government.<sup>24</sup>

In 2017, CYSTAT communicated to Eurostat that the counterpart sector for all social benefits in cash (D.62p) in S.1311 is the Household Sector and the information can be found in FIMAS under the code D62p. Even if Eurostat replied that a reallocation in COFOG was noted, CYSTAT considered this AP closed.

Eurostat asked for more information on the exact nature of these payments, and in a clarification sent after the mission CYSTAT indicated that the major payments relate to the minimum guarantee income, child’s benefit, widows and orphans, allowances to disabled people, etc. Taking into consideration the explanation, Eurostat decided to close the AP.

### **3. Analysis of the EDP tables and follow up of the April 2019 EDP notification**

#### *Introduction*

During the April 2019 EDP notification, no major problems were encountered regarding the recording of government transactions and/or adjustments to the working balance.

The main issue was the significant increase of deficit for 2018, by -7.8 percentage points of GDP compared to the October 2018 forecast (when Cyprus reported a 3% surplus). The significant change was due to the implementation, by the Cypriot authorities, of Eurostat’s advice on the recording of the transactions associated to the restructuring of the Cyprus Cooperative Bank Ltd. (CCB).

For 2018, debt was reduced by 180 mill. EUR (0.87% in relation to GDP) compared with the October 2018 forecast, due to the one-off government support for the CCB sale.

GDP was revised for 2017 and 2018, by +78 mill. EUR and -29 mill. EUR respectively.

#### *Discussion*

Eurostat appreciated the timely and complete EDP transmissions. Moreover, Eurostat acknowledged that, since April 2017, together with the EDP reporting, CYSTAT sends also a number of supplementary tables, notably the Tables 3B1 and 3B2, the table Reconciliation of deficit to debt for GG, the Table 11 – Public debt by Instrument and Lender.

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<sup>24</sup> Closed

Eurostat reiterated the importance of the explanatory note which should highlight the main changes occurred between the biannual EDP notifications, explain significant movements in the annual figures and quantify the impact (if any) of the revisions/changes in the classification of units inside/outside the government sector. Eurostat invited CYSTAT to provide such a explanatory note, explaining revisions and specific recordings, together with each EDP transmission.

#### *Findings and conclusions*

**Action Point 8.** Eurostat encourages CYSTAT to send, on a regular basis, a note explaining revisions together with the EDP tables.

*Deadline: for each transmission of EDP data*

During the meeting, the *compilation of the EDP tables* and a number of *issues* from the October 2018 and April 2019 notification periods were also discussed, as presented below.

#### Receivables and payables of local authorities

During the DV from 2017, the following action point was opened:

- **Action point 7 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will revise EDP tables and underlying government accounts to include corrected amounts for accounts receivable and accounts payable.<sup>25</sup>

Prior to this mission CYSTAT informed Eurostat that “extra-budgetary fund activities are carried out through appropriation (resource-based expenditure). Therefore, they cannot create any liabilities that cannot be met (financed) by resources granted in their annual budgets. Hence cash corresponds to accrual.”

As for the local government, there are only currency and deposits (F.2) and loans (F.4) reported in the EDP tables. Eurostat enquired whether there are debt securities (F.3) or transactions on other instruments performed by the local authorities.

CYSTAT replied that there were no F.3 and no insurance, pensions and standardised guarantee schemes (F.6) (when checked 2 years ago). Local authorities cannot purchase debt securities or equities, as they do not have enough resources (they are financed from the State budget).

As for financial transactions, CYSTAT informed that, when analysing the financial reports of local authorities, they found very small amounts of other accounts receivable/payable (F.8).

Eurostat noticed that there are very limited headings of F.8 for LG in the EDP tables and enquired on the nature of these transactions. CYSTAT explained that F.8 (if discovered) is not redistributed to F.2 or F.4. Moreover, since CYSTAT is considering that data for F.4 are of high quality, small issues related to F.2A might occur, but there should be no impact B.9.

Eurostat requested CYSTAT to investigate the nature and the amount of receivables and payables of local authorities and to allocate them accordingly in EDP tables 2 and 3 for the period covered by the next EDP notifications.

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<sup>25</sup> During DV 2019 a new AP was opened on this subject (AP 9)

### *Findings and conclusions*

**Action Point 9.** CYSTAT will investigate the nature and the amount of receivables and payables of local authorities and allocate them accordingly in EDP tables 2 and 3, for the period covered by the next EDP notifications (follow-up of the AP 7 from DV 2017).

*Deadline: end of September 2019*

### Statistical discrepancies

Eurostat underlined the importance of statistical discrepancies for illustrating the difference between the financial and non-financial accounts.

Starting from the observation that, in EDP Table 3B, the values recorded in the line “Other statistical discrepancies” are always zero, Eurostat requested an explanation. CYSTAT replied that it obtains information from supporting documents and it is allocating all discrepancies on one line, namely “Difference between capital and financial accounts”.

Eurostat recommended that the amounts other than the difference (B.9 – B.9f) to be recorded in the line “Other statistical discrepancies”, even if the amounts are small.

### *Findings and conclusions*

**Action Point 10.** CYSTAT will split statistical discrepancies using both lines of EDP tables 3 according to the reason of the discrepancy, for the period covered by the next EDP notifications.

*Deadline: end of September 2019*

### The revision of F.2 in relation to the revision of the GG consolidated gross debt

During the October 2018 clarification rounds, one of the issues discussed concerned the different data sources used by CYSTAT for the compilation of non-financial and financial accounts.

CYSTAT justified the revision of GG debt (by 0.5 % of GDP in each of the reported years) by the revisions of local government long-term loans due to new data sources (provisional vs final).

Moreover, the underestimated stock of loans is not a recent issue, as since 2012 local government is restricted from deciding on its own financing. CYSTAT has been supplied by the National Treasury with data referring back as far as 2016. Unfortunately, CYSTAT had no information about the reasons of the revision.

The adjustment of local government loans was all attributed to currency and deposits (F.2), but there are elements, which might indicate that a (partial) redistribution to other accounts receivable/payable (F.8) could be possible. It was discussed that CYSTAT will check if the revision of F.2 was justified by analysing the local authorities' accounts, and will inform Eurostat on the outcome of this analysis.

In January 2019, Eurostat noticed that “currently, the balance sheet of local government is comprised of F.2 assets and F.4 liabilities. It is unclear whether there is any actual source on local government Maastricht liabilities and trade credit. Furthermore, there is no answer on when these revised loans were incurred. Likely the B.9f and B.9 is not correct at some point during the reported years”.

### *Discussion*

Initiating the discussions on this subject, Eurostat asked if there was any link between F.4 liabilities and F.2 liabilities.

CYSTAT replied that the non-financial transactions are more reliable and assessed that now it has also reliable data on loans AF.4 liabilities. However, the data for F.2 assets is missing, hence it is not possible to compile B.9f.

Eurostat enquired on the reason for revising data for deposits when source data were revised only for loans.

It was explained that data on F.2 assets are considered as not reliable and that, consequently, when the Ministry of Finance declared that the change in flows remained the same, CYSTAT corrected the stocks of deposits.

Eurostat also asked what the reason for the revisions of F.4 were, and if it is possible that some transactions have not been reported. CYSTAT will forward this question to the Treasury.

Eurostat recommended CYSTAT to identify the reasons for the underreporting of loan liabilities of local authorities (that happened in the past) and to crosscheck the information with other data sources for local authorities, e.g. Central Bank of Cyprus.

### *Findings and conclusions*

**Action Point 11.** Eurostat invites CYSTAT in the future to always check sizeable revisions originating from changes in the source data.

*Deadline: continuous*

**Action Point 12.** CYSTAT will check the reasons for the past underreporting of loan liabilities of local government and will cross check the information received from local authorities with the one received from the Central Bank of Cyprus derived from Money and Banking Statistics.

*Deadline: end of September 2019*

### Part C of the Supplementary Table on Government support to financial institutions

Eurostat again invited the Cypriot statistical authorities to provide data on Part C of the table on government support to financial institutions, relating to *transactions in financial assets* and *actual liabilities of general government*, as these would allow the monitoring of the consistency of parts A and B of the table.

Eurostat requested and CYSTAT agreed to provide for each EDP notification the *Supplementary Table on Government support to financial institutions*, including also the part C of the table.

### *Findings and conclusions*

**Action Point 13.** CYSTAT will provide, together with the *Supplementary Table on Government support to financial institutions*, also the part C of this table.

*Deadline: for each transmission of EDP data*

### Depreciation issue in relation to the Working balance of the municipalities of Limassol and Paphos, also in the context of the market/non-market test

In April 2018, Eurostat noticed a significant increase of the working balance (WB) in 2017 compared to previous years, and CYSTAT justified it by different values of *depreciation* taken into account for the calculation of the WB of two municipalities, namely Limassol and Paphos.

In October 2018, it appeared that, for the Municipality of Limassol, the value of the *depreciation* is three times bigger in 2015 compared to 2014. CYSTAT committed to further investigations, and during the April 2019 clarification rounds it confirmed that the revised depreciation values used for the calculation of the working balance of municipalities are correct.

During the meeting, Eurostat reiterated that this situation should be monitored, as the amounts involved are significant.

CYSTAT explained that, in calculating the working balance, the depreciation is deducted from expenses and is replaced by gross fixed capital formation (P.51). The result is a new working balance, not accrual based, but more close to the GFS requirements.

### Calculations of non-financial and financial accounts of the *Energy Conservation Fund*

In October 2018 Eurostat asked about the change of the B.9 of this entity, especially between the years 2016 and 2017 (by + 9.3 mill. EUR).

At that time, CYSTAT replied that the B.9 of this body is heavily dependent on State grants. The aim of the Energy Conservation Fund is to promote renewable energy sources, and expenditures do not appear on a yearly basis but are related to the programs initiated by the State.

#### *Discussion*

Eurostat requested more clarification on the specificity of this unit. CYSTAT informed that the Energy Conservation Fund offers financing to the general public (households) in order to encourage the production and the use of renewable energy.

When asked for more details on the structure and the functioning of this Fund as well as on its revenues and expenditures, CYSTAT explained that it will search for more information and that the issue will be analysed, as soon as possible.

#### *Findings and conclusions*

**Action Point 14.** CYSTAT will analyse the source data and accounts of the *Energy Conservation Fund*, especially for the year 2016.

*Deadline: end of September 2019*

### Payments not allocated into FIMAS codes at the end of a year

During the clarification rounds from April 2019, Eurostat enquired about the beneficiaries of the *Capital transfers (advances)* that are included in *Other accounts payable (-)*, as reported in EDP Table 2A.

CYSTAT rectified the transmission, indicating that the line in question “Capital transfers (advances)” does not refer to capital transfers, but to payments not allocated into FIMAS transaction codes at the end of the year (and the title of the line was changed to “Advanced payments”). These payments are analysed in the following accounting period (next year). Therefore, the same amount with an opposite sign appears only in the following year in addition to any new advances. In the case that there are no other advances and deposits, the amount will be the same as reported in the above-mentioned line.

During the visit, Eurostat asked for more clarification on the recording of these payments not allocated to FIMAS codes at the end of a year. The Ministry of Finance explained that, in case of lacking information on the right coding of an expenditure, it is recorded immediately as expenditure in D.9 (consequently it impacts B.9), and later on (the time lag is not known, but usually it is not big) it is corrected (by recording with the sign “-“) and rightly coded.

#### **4. Methodological issues and recording of specific government transactions**

##### **4.1. Delimitation of general government sector, application of market/non-market test in national accounts**

###### **4.1.1. Delimitation of the public sector and of the general government**

###### *Introduction*

The authority responsible for the sector classification of units in accordance with ESA 2010 is CYSTAT<sup>26</sup>

The General government sector is composed in Cyprus of three sub-sectors: S.1311, S.1313 and S.1314.

Central government covers: budgetary activities, 27 extra-budgetary funds and 22 semi-government organisations. Budgetary activities and extra-budgetary funds are part of the Cypriot national budget, while semi-government organisations were included into S.13 on the basis of ESA / MGDD criteria.

Local government covers six districts, 39 municipalities and 349 village authorities. All units are part of the national budget in Cyprus.

There are six Social security funds managed by the Ministry of Labour and Social Insurance. All units are part of the national budget in Cyprus.

There are 23 units controlled by government but classified outside S.13.

When a new unit is created and not covered by FIMAS, the information used by CYSTAT for its classification is provided by the Business Register.

If a newly created unit is covered by FIMAS, there is no need to investigate further the nature of the unit as the information on its expenditure and revenue, and legal status, is easily accessible by the National Treasury.

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<sup>26</sup> Source: [CY EDP Inventory ESA 2010](#), p.47

The Business Register is updated whenever a new unit is created. CYSTAT is informed about the establishment of a unit, and provides its expertise on whether it should be classified inside or outside the General Government sector. All relevant information on new entities is available to CYSTAT, including information about the legal framework that governs the new unit.

#### *Discussion*

In response to a question by Eurostat, CYSTAT confirmed that all units which are part of the General Budget are included in the General Government sector.

Eurostat enquired how CYSTAT decides if a unit is controlled by government. CYSTAT informed that the decision is based on the results of the market/non-market test, and explained that the number of public units is diminishing through the years. Data used for the market/non-market test are transmitted to CYSTAT directly by the companies and CYSTAT performs the market/non-market test each time it receives new information.

In the case of new units, Cystat obtains data to perform the market/non-market test from the Business Register or directly from the company, as the inclusion of business accounts can be delayed for the Business Register (which might result in a delay of the classification by 1 or 2 years).

#### *Findings and conclusions*

**Action Point 15.** CYSTAT will investigate whether Eurostat could have access to the financial Business Register of companies.

*Deadline: December 2019*

## **ESTIA**

### *Introduction*

The ESTIA Scheme was created in 2018 following a government policy initiative to address a remaining challenge facing the economy, namely that of non-performing exposures. The ESTIA Scheme targets the most challenging portfolio of mortgage loans and loans with the primary residence as collateral. The scheme promotes burden sharing among the financial institutions, the household and the State. The annual fiscal impact of this measure is estimated at 0.0 percentage points of GDP in 2018 and (-) 0.1 percentage points of GDP in 2019.<sup>27</sup>

On 3 December 2018, the Commission (DG COMP) approved the “Cypriot scheme for non-performing loans collateralized with primary residences (Estia)”<sup>28</sup>.

### *Discussion*

The Central Bank of Cyprus answered Eurostat’s questions on ESTIA, and specified that the scheme is not an institutional unit and is therefore included in the General Budget. ESTIA is a frame fund and not yet operational. The scheme is open to all licensed banking institutions. However, if a licensed bank decides to participate in the scheme, it has to propose the scheme to every single eligible household/SME.

Through this scheme, the eligible borrowers (with non-performing loans at end September 2017) will receive a grant equivalent to one third of their monthly loan payment, provided that (i) their

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<sup>27</sup> Source: [Cyprus Draft Budgetary Plan 2019](#)

<sup>28</sup> [DG COMP, State Aid case number SA.49554](#)



loans are secured against their primary residence; and (ii) they resume paying the other two thirds of their monthly payment.

The government subsidises households/SMEs by paying one third of each monthly instalment and payments made by ESTIA are recorded accordingly.

#### **4.1.2. Practical implementation of the market/non-market test and of qualitative criteria**

##### *Introduction*

According to the EDP Inventory, after the introduction of ESA2010, qualitative criteria for market/non-market distinction and the legal status of relative bodies are taken into consideration for sector/subsector classification.

In certain cases, government departments have sufficient revenue derived from their operations of providing goods and services to cover more than 50% of their costs, thus satisfying the ESA 2010 market-test criterion. However, these departments are not sufficiently independent, having neither autonomy of decision nor any control or authority over their income. These bodies, namely *Civil Aviation* and *Postal Services*, are therefore deemed to be part of central government producing market output. All other bodies included in the general government sector do not meet the 50% criterion.

All organisations determined to be controlled by government in any of the forms prescribed by ESA 2010 (equity participation, management, legislation) were examined to conclude whether their revenues from sales covered more than 50% of their production costs. Out of these, 22 semi-government organisations were classified in the general government sector under the central government sub-sector as they were identified as non-market producers, controlled and mainly financed by the state budget.

##### *Discussion*

Eurostat enquired about the frequency of the market/non-market test and took note of CYSTAT performing the market/non-market test in February 2017 most recently.

Moreover, Eurostat asked what are “the other surveys”, mentioned by CYSTAT as sources for information for performing the 50% test. CYSTAT indicated that these are Structural Business Statistics surveys.

Eurostat insisted on the necessity to perform the market/non-market test regularly.

##### *Findings and conclusions*

CYSTAT will perform the market/non-market test on an ongoing basis.

#### **4.1.3. Changes in sector classification since the last EDP dialogue visit**

##### *Introduction*

Before the mission, CYSTAT transmitted the list of units recently included in the general government and of the units, which will be reclassified in 2019:

– in 2017: Office of the Commissioner of Electronic Communications & Postal Regulation; Cyprus Radiotelevision Authority; Cyprus Energy Regulatory Authority; National Betting Authority;

- in 2018: SEDIPES LTD; KEDIPES LTD;
- in 2019: Health Insurance Organisation<sup>29</sup>.

#### *Discussion*

At Eurostat's request, CYSTAT provided more information on SEDIPES: this entity is the holding company of KEDIPES, it has no staff but a Board of directors (see also section 4.3.4.1).

### **4.1.4. Government controlled entities classified outside the general government sector**

#### *Introduction*

CYSTAT sent the *Questionnaire on government controlled entities classified outside GG* on 31.12.2018, with data for 2017.

The Questionnaire included 23 units, of which four units are classified in S.12 and no unit classified in S.15 or S.2. The total liabilities for 2017 (year n-1) were not provided for half of the units.

The liabilities for the Cyprus Cooperative Bank were the ones at end September 2017 (the last public available financial statement is of 30 September 2017). There were no units with the market/non-market test result below 50%.

#### *Discussion*

Eurostat asked questions about certain units and CYSTAT provided information and details, as follows:

- the *Electricity Authority of Cyprus*: the only company responsible for the generation, transmission and distribution of electricity in Cyprus;
- the *Grain Commission*: this company manages the stocks of grains (the strategic reserves) and is foreseen to be closed by the end of 2019;
- the *Forest Industries*: the government detain a number of shares, and it will be privatized in the near future.

The existence of other public companies which might be considered as entities controlled by government, such as *public radio- and television broadcasters* (the existing company is classified in the general government), companies providing services of *public transport* (none in Cyprus), and *public Head Offices* (CYSTAT was not aware of any) was also discussed.

On the *Cyprus Airways Company*, CYSTAT informed Eurostat that it was subject of a privatisation process and the debt was assumed and paid by the government at that time. The *Fiscal Council*<sup>30</sup>, as well as the *Health Insurance Organisation*, are included in the general government sector.

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<sup>29</sup> HIO is a public legal entity with the mission to implement the General Health System (GHS). HIO is not a new created unit, is part of the National budget and thus the General Government, but was not fully operational until 2019. For the first five years of the operation of the GHS, any deficits will be covered by the national budget, therefore General Government carries the risk of its viability (Law N. 73(I)/2017 article 22).

<sup>30</sup> The Fiscal Council is an independent fiscal body created in 2014, having as mission the safeguarding of fiscal stability

## ***Development (promotional) banks or funds***

### *Introduction*

Before the mission, CYSTAT informed Eurostat that the only existing public development bank in Cyprus was the *Cyprus Development Bank Public Company Ltd.* (thereinafter named CDB Bank), classified within S.12. It is owned and controlled by private investors and it does not enjoy any government support.

CDB Bank is currently a private bank offering corporate, international and personal banking services, has lost the development bank profile that it had when it used to be under government ownership. It is no longer specializing in the financing of public development projects.

No government representation exists on the management board of the bank nor is any other sort of government involvement exercised.

However, according to the Central Bank of Cyprus, there are two other entities considered as development banks in Cyprus:

1. The *Housing Finance Corporation*, which is a credit institution (loans granted only to domestic households)
2. The *Central Agency for Equal Distribution of Burdens*, which is part of the Central Government

The *Housing Finance Corporation* (HFC)<sup>31</sup> was established in 1980, under the Housing Finance Act, 43/1980. It is a state-owned organization governed by a nine-member Board of Directors, appointed by the Council of Ministers, usually for a three-year term.

The main aim of the HFC is to provide long-term housing loans, giving priority to the lower and middle-income groups. To implement the purpose of its establishment, HFC provides a range of savings accounts to attract deposits from the public. It uses most of these funds to provide mortgage loans to families, mostly young couples, for the acquisition of their first home. HFC accounts for a substantial part of the market for housing loans in Cyprus.

As a specialized banking institution, HFC is under the supervision and control of the Central Bank of Cyprus. Its annual accounts are audited by the Auditor-General of the Republic, who submits an annual report about the affairs of the Corporation to the Minister of Finance and the House of Representatives.

The issue of the sector classification of this unit was discussed. CYSTAT explained that the unit is a financial intermediary having deposits coming mainly from units other than government, so that its classification as public financial corporation is justified. No transaction to be rerouted to the government accounts was identified. The HFC is included in the *Questionnaire on government controlled entities classified outside general government*.

The *Central Agency for Equal Distribution of Burdens* operates two Schemes<sup>32</sup>:

i) the *Scheme for the restoration of the pre-war solvency* of the owners whose immovable property in Cyprus is in the areas occupied by the Turkish occupation forces and in the areas that are inaccessible due to the Turkish occupation forces. Through this Scheme, loans and

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<sup>31</sup> <http://www.aspectsofcyprus.com/housing/>

<sup>32</sup> source: <http://www.aspectsofcyprus.com/image/social-policy/>

guarantees for loans are granted to entitled persons for specific purposes (e.g. student loans, business loans, medical treatment loans);

ii) the *Scheme for the Subsidization of Housing and Business Loans*: the Agency subsidises by a maximum of 3.5% the interest rate of housing and business loans, at any financial institution, provided that the applicants will bear the burden of a 2% minimum interest rate.

This Agency is included in the list of GG units<sup>33</sup> in NACE 64, and classified in the S.1311 subsector.

### *Discussion*

Eurostat asked CYSTAT for more details on the classification, the role and the activities of these three units.

CYSTAT confirmed that the *Cyprus Development Bank Public Company Ltd.* as well as the *Housing Finance Corporation* are classified in S.12, while the *Central Agency for Equal Distribution of Burdens* is classified in S.13.

### *Findings and conclusions*

After an analysis of their activities, Eurostat concluded that none of the three institutions is a development bank. The sector classification of the units was assessed as correct.

## **4.2. Implementation of accrual principle**

### **4.2.1. Taxes and social contributions**

#### *Introduction*

CYSTAT is using the time adjusted cash method for recording taxes. A two month time adjustment is applied for VAT and personal income tax, and one month for social contributions.

Data on taxes and social contributions is retrieved from FIMAS on a monthly basis and is used by CYSTAT to compile the EDP tables and the related questionnaires on taxes.

VAT repayments are not adjusted, as they are attributed to the month when they are paid, i.e. they are recorded on cash basis.

Final data on taxes are available after the second EDP notification round of each calendar year.

During the DV 2017, the reporting of the stock of receivables for social contributions (D.613cs) and taxes in the EDP Questionnaire Table 5 and in the ESA Table 27 were also discussed. The following action point was opened:

- **Action point 29 from DV 2017:** In the EDP Questionnaire Table 5, the Statistical Service of Cyprus (CYSTAT) will report stocks of receivables for social contributions (D.613cs) and taxes. CYSTAT will also report such stocks in ESA Table 27, including on a quarterly basis (using an appropriate interpolation method). In general, the accrual of VAT, income taxes and D.613cs should be carried out on a quarterly basis.<sup>34</sup>

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<sup>33</sup> See [Annex I to the Cyprus EDP Inventory of data sources and methods](#)

<sup>34</sup> Closed

## *Discussion*

CYSTAT explained that the recording of the stocks of receivables for social contributions (D.613cs) and taxes was done, up to 2017, on a quarterly basis. CYSTAT will check the modality of recording for 2018 and will communicate to Eurostat the results of its investigation.

Eurostat asked about the source of stocks recorded in the EDP Questionnaire Table 5 and CYSTAT indicated that these are the cash movements between 2 months of the year (t+1).

Eurostat had noticed that the amounts of receivables were always increasing, while there were no payables reported in the table. CYSTAT justified the absence of these data by the fact that the data is on cash basis.

As regards the recording of corporate income tax revenues, Eurostat recalled that in line with the EDP Inventory of Cyprus, the recording is performed 3 times per year, when the tax installments are paid by corporations (i.e. on cash basis). CYSTAT confirmed that companies are prepaying their corporate income tax liability 3 times during the reference year and that a final tax settlement (called “tax clearance”) is performed no later than 15 months after the end of the reference year. At that time the final amount of income tax due is calculated and settled. CYSTAT confirmed that any difference at clearance is recorded in the year when it is settled (i.e. on cash basis) and agreed to amend the EDP Inventory to include this explanation.

## *Findings and conclusions*

Taking note of the information provided and following the discussions, Eurostat considers AP 29 from 2017 to be closed.

## **VAT repayments**

### *Introduction*

During the DV 2017 the following action point was opened on this issue:

- **Action point 19 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will investigate the (unpaid) tax refunds of personal income and VAT taxes (including arrears), stocks and flows, in order to record them correctly as payables in EDP Table 2A.<sup>35</sup>

In February 2018 CYSTAT indicated that “the difficulty is not for CYSTAT to adopt the above mentioned proposal, but for the institutions involved to provide the necessary information and this concerns the unpaid tax refund not recorded in FIMAS. Tax refunds become a liability of the state when the amounts are validated by tax authorities. At the time of the validation then, the tax authorities automatically credit companies with the refund amount for the subsequent year tax obligation”.

During the April 2018 EDP notification, Eurostat enquired on the growth rate of indirect taxes, which was much more dynamic than GDP growth, for 2016 and 2017. CYSTAT explained this trend by a more dynamic increase of VAT, originating from more GFCF (“the exceptionally high construction activity that took place in 2017”) and consumption.

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<sup>35</sup> Closed

In October 2018 Eurostat requested an update on the VAT calculation, but CYSTAT declared that these data are still verified by the tax authorities. Eurostat enquired on the different trends in VAT repayments for January-March 2018 compared with the other years: repayments in January 2018 were much lower than in the same month of the previous years, while repayments in March 2018 were much higher. CYSTAT explained that there is no consistency and comparability among monthly and annual figures, and there is no consistency between corresponding periods, as the obligation to pay is different from year to year and from month to month. CYSTAT repeatedly stated that “the VAT service confirmed on several occasions the FIMAS amounts.”

In April 2019 this subject was discussed again. When analysing the monthly VAT data (revenues including composition of the tax and repayments) for the period January 2015 - February 2019, Eurostat noticed that in 2018 there were significant repayments compared to 2017, with a maximum in August 2018.

CYSTAT justified these repayments by the fact that “in 2018 the tax authorities received an increased amount of repayment claims. In August 2018 the level of repayments was indeed much higher compared to the other months, because during that period more repayments were verified and reimbursed by tax authorities.”

#### *Discussion*

Eurostat requested clarification on the unusual high values of VAT repayments in 2018, especially in August. CYSTAT replied that it was a one-off event; moreover, this refund issue is monitored also by DG ECFIN. They confirmed the correctness of the VAT data.

Eurostat underlined the necessity of regular checks concerning tax reimbursements, in order to identify the causes and to follow the abnormal variations.

#### *Findings and conclusions*

**Action Point 16.** Eurostat encourages CYSTAT to regularly check the series of monthly data concerning tax reimbursements in order to detect possible exceptional events affecting the normal pattern of tax reimbursements.

*Deadline: continuous*

### ***Deferred taxes***

#### *Introduction*

CYSTAT briefly presented the accounting treatment of Deferred Tax Assets (DTAs) in Cyprus, due to the fact that on 1 March 2019 a tax law amendment was passed, effectively allowing the conversion of certain DTAs into Deferred Tax Credits (DTCs).

#### *Discussion*

The Central Bank of Cyprus made a presentation on the history of the treatment of deferred taxes in Cyprus. In essence, under previous national legislation, banks in Cyprus were allowed to convert a part of their accumulated tax losses into deferred tax assets and, if later they became profitable, to offset their future tax base with such assets, at the applicable corporate income tax rate. In March 2019 these provisions were amended, and it was stipulated that deferred tax assets relating to losses acquired following the resolution of a credit institution can be converted

into deferred tax credits and be used to offset future tax liabilities. The unused part of these deferred tax credits can be transformed into receivables against government.

Eurostat emphasized that the main issue is whether the DTAs can be assimilated to payable or to non-payable tax credits. Depending on this, they could improve the capital adequacy of the bank for regulatory reporting purposes. Moreover, if assimilated to payable tax credits (in case of existence of an unconditional claim on government), the government would have to record a corresponding expenditure and liability.

Eurostat recommended CYSTAT to follow the relevant provisions of the MGDD (section II.2.2. paragraphs 19-28).

#### *Findings and conclusions*

**Action Point 17.** CYSTAT will check whether the recent law amendment, which converted Deferred Tax Assets (DTAs) into Deferred Tax Credit (DTCs) had the effect of transforming non-payable tax credits into payable tax credits, and report on the accounting consequences of this.

*Deadline: October 2019*

#### ***Contributions, fees, taxes***

The nature of contributions from employees (in case of the Restructuring/Recapitalization Fund) or of licenses (in case of the Game Fund) and whether they should be assimilated to fees or to taxes was also discussed.

It was agreed that the contributions from employees are taxes, while the payments for hunting licenses are not a tax.

Eurostat enquired on the nature of the fishing licenses (both commercial and recreational) and CYSTAT informed that they are managed by the Fisheries Department, which is classified in general government. The revenue from the fishing licenses is currently treated as a fee, but Eurostat asked for further investigations on their treatment.

#### *Findings and conclusions*

**Action Point 18.** CYSTAT will consider whether payments for fishing licences should be treated as taxes rather than fees, as is currently done, from 2018 onwards.

*Deadline: end of September 2019*

### **4.2.2. Interest and consolidated interest**

#### *Introduction*

According to the EDP Inventory<sup>36</sup>, data sources for interest revenue are FIMAS, the Ministry of Finance and the financial accounts, while the interest expenditure data is received from the National Treasury.

Data on interest is on accrual basis for deposits (for CG, LG and SSF) and for debt securities (for SSF), and on cash/accrual basis for debt securities (for CG) and for loans (for CG, LG and SSF). Data for the CG sector refers also to other government units.

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<sup>36</sup> Source: [CY EDP Inventory ESA 2010](#), p.55-56

Interest is recorded as accruing continuously over time to the creditor on the amount of principal outstanding. The interest accruing in each accounting period must be recorded whether or not it is actually paid or added to the principal outstanding. The source information for the interest accrual is the Ministry of Finance.

As a general practice, amounts for accrual adjustment on interest are the same in EDP table 2A and 3B. Related accrual adjustments are recorded in EDP Table 2A on the row “*Difference between interest paid (+) and accrued (D.41) (-)*”.

As regards consolidation, interest paid from the CG to the SSF subsector is consolidated at GG level. Source data come from FIMAS and consolidation is applied for all subsectors. There is no impact of consolidation on B.9 as the amounts involved are netted out.

### ***Transactions in bonds and loans***

During the DV 2017 the recording of transactions in bonds was discussed: Eurostat requested that the amounts of discounts (as well as premiums) be spread over the maturity of a bond and reported accordingly in EDP tables 2A and 3B, and an action point was agreed:

- ***Action point 32 from DV 2017:*** The Statistical Service of Cyprus (CYSTAT) will send to Eurostat a table on adjustments for accrued interest/ coupons on loans (i.e. instruments other than bonds).<sup>37</sup>

### ***Discussion***

CYSTAT provided a detailed table on the calculation of accrued interest at issuance for bonds, whether domestic or EMTN and loans. CYSTAT provided this table for each EDP notification since 2017.

Bonds issued by the Republic of Cyprus bear fixed rate interest. The Ministry of Finance accrues premiums and discounts over the lifetime of the bonds as well as interest payments. However, when bonds are redeemed early, the redemption amounts are not split between the nominal value of the bond and other economic flows to take into account the not yet amortised premiums and discounts.

In addition to bond issuance, Cypriot debt includes also some floating rate loans with long maturities. Although the Ministry of Finance calculates the accrual amount on the first year, apparently the accrual amount is not adjusted to the annually changed interest rate.

During this meeting, Eurostat commented on the table and raised the question of active trading of bonds including the repurchase of bonds and the subsequent resale of the same bond by the treasury. The Ministry of Finance explained that there was no active trading of such bonds. However, the Ministry of Finance explained that one bond issuance might be sold in the market on different dates and that bonds can be redeemed before maturity for debt management reasons.

The review of the accrual recording might lead to revisions in EDP tables 2 and 3 (see also the discussion on the table on interest below).

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<sup>37</sup> In progress



### *Findings and conclusions*

Eurostat proposed a bilateral analysis by choosing a bond and then comparing the results. The Action point 32 from DV 2017 remains open until a final decision on the recording of accrued interest as well as premiums and discounts is adopted.

### ***Table on interest***

#### *Discussion*

Eurostat underlined the importance of this table which was requested on several occasions, including as preparatory document for this DV.

On this occasion, the Ministry of Finance raised the question on the logic and the calculation of the different components of the additional table on interest included in the EDP notification package. Eurostat commented and explained briefly this table and it was agreed to choose two bond issuances and to realise the analysis bilaterally.

Following the discussions, Eurostat requested CYSTAT to provide the *Table on interest* before the next EDP transmission.

#### *Findings and conclusions*

**Action point 19.** CYSTAT will provide to Eurostat the additional *Table on interest*.

*Deadline: end of September 2019*

### ***Revisions of the Consolidated Interest D.41 uses***

In the October 2018 EDP notification a revision (negative for all years) was noted in *Consolidated Interest D.41 uses*, due to the revision of recording interest expenditure related to the recording of FISIM on various loans. These revisions primarily relate to the calculation of FISIM (i.e. financial intermediation services indirectly measured) on ESM loans, on IMF loans as well as on bilateral loans from Russia, following a discussion in the competent statistical working group and the advice given by Eurostat.

During the meeting, CYSTAT confirmed that they recalculated FISIM due to the exclusion of IMF loans and of Russian loans.

For the April 2019 notification, the *Consolidated Interest D.41 uses* was revised only for 2018 by +31 mill. EUR.

CYSTAT explained that this change, compared to October 2018 reporting, is due to the issuance of bonds dated 2018.

### **4.2.3. Other transactions**

#### *Introduction*

In a note sent before the mission, CYSTAT informed that “a mixed accounting basis is used for WB, B.9 and B.9f, however the accounting basis for all budgetary activity is on a cash basis since the data are extracted from FIMAS”. Moreover, the National Treasury is in process of implementing the IPSAS in 2020-2021 in order to harmonise accrual based accounting standards.

## Discussion

A number of action points from the previous dialogue visit were discussed during the meeting. Namely:

- **Action point 11 from DV 2017:** Eurostat (with possible assistance from the EDPS WG) and CYSTAT will determine jointly how to record cash and cheques in transit, and notably whether government cheques issued but not yet cashed represent a liability in currency and deposits (F.2) or in other accounts, payable (F.8).<sup>38</sup>

During the follow-up of the DV 2017, CYSTAT declared that the government no longer issues cheques but it still receives cheques as means of payments; all payments by the State are transferred immediately to the recipients' IBAN account. The reconciliation report from the National Treasury includes all pending cheques in account 56, which is part of F.8.

Before the mission, CYSTAT informed Eurostat that “all payments including those not cleared are recorded in the relevant expenditure categories and reflected in the B.9 balance. The Reconciliation Report from the National Treasury includes all pending cheques in Account 44, which is part of F.8.” and “the practice is not to issue cheques any more but only in exceptional cases.”

During the meeting, CYSTAT confirmed that Cyprus is not anymore issuing cheques. The pending ones are recorded as F.8 and the payables are visible in the Account 44.

Following these clarifications, Eurostat considers this action point to be closed.

- **Action point 14 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will screen FIMAS account group 44. Those amounts that are expenditure not yet paid (payables impacting B.9) should be separated from those that are F.2 liabilities (consignments).<sup>39</sup>

CYSTAT repeatedly expressed its disagreement on the separation of expenditures as requested by Eurostat, due to the nature of the consignment: FIMAS account group 44 is recorded as F.8 payable, and in case of consignments, the relevant value is recorded as F.2 assets and F.8 liabilities. Before this mission, CYSTAT declared that the amounts that are expenditure not yet paid and the F.2 liabilities included in the Account 44 “are treated solely as F.8 liabilities”.

During the meeting, Eurostat requested clarifications on consignments and their relation to F.8L. CYSTAT replied that the consignments are recorded as F.2A and F.8L.

When Eurostat noticed that in the account group 44 there is no F.2L, CYSTAT explained that under F.2L are registered the money/amounts to be paid following a Court decision which are deposited in a government account: this account is an escrow one, not belonging to the government. Moreover, even if there are many such cases, the involved amounts are small and there is no impact on B.9.

CYSTAT agreed to investigate if it is possible for the government to open a separate account for the amounts to be paid following the Court decisions.

Eurostat expressed its disagreement with the recording of consignments as F.2L, mainly because this results in the double recording of some F.2L amounts in the economy.

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<sup>38</sup> Closed

<sup>39</sup> In progress

As this issue needs more clarifications and analysis, Eurostat will keep this action point open.

### **4.3. Recording of specific government transactions**

#### **4.3.1. EU flows**

##### *Introduction*

During the DV 2017, the subject of the recording of EU flows was discussed in detail, and four action points were opened (APs 15-18).

During the follow-up discussions, CYSTAT informed that the manager of the EU flows account (Account 44) is the Accountant General of the National Treasury, which is part of S.13. The Accountant General is permitted to use the account but is not its owner (the owner is the EU). In addition, the Accountant General only manages the account and any authorization to use the EU account is based on certain preconditions for the transfer of funds.

As for the EU accounts, CYSTAT explained in October 2017 that they are already included in the central government S.1311, but apparently the inclusion of EU funds' bank account to S.13 is still not accomplished.

All the EU flows are considered as deposits of a third party at the Treasury.

##### *Discussion*

The recording of the accrual of the EU flows (not observed in the EDP Questionnaire tables 4 or 6) was discussed. CYSTAT indicated that the EU funds are not in the working balance. The government has an account at the Central Bank of Cyprus and the funds received from the EU (cash inflows) are recorded as currency and deposit assets (F.2A) against a corresponding liability (F.8L) in FIMAS account 44; these funds are reported in EDP table 3 for EDP purposes.

At Eurostat's request, CYSTAT described the procedure it uses for the recording of revenue from the EU flows. The accounting treatment of several different cases was discussed (e.g. the recording of advance payments received from the EU, the recording of advance payments made by the national government on behalf of the EU and their later reimbursement by the EU). Based on CYSTAT's explanations, Eurostat considered that there may be an issue with the correct neutralisation of expenditure and revenue relating to the EU flows (i.e. that some expenditure and revenue items are recorded in different reference periods).

Eurostat took note that the Treasury of Cyprus keeps a separate account for each project co-financed by the EU, which facilitates the tracking of cash differences between the end and the beginning of a year.

CYSTAT further clarified that in those cases where a final beneficiary of the EU flows is classified outside government and where the funds from the EU are transiting government accounts, these amounts are also recorded as revenue and expenditure. Eurostat observed that while these amounts should only be recorded as financial transactions (in line with MGDD rules), given that they are seemingly impacting non-financial accounts, they could also be contributing to the time of recording issue (neutralisation happening only with a time lag extending over different reference periods) as explained above.

The action points from the DV 2017 in relation to the EU flows were discussed:

- **Action point 16 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will consider including statistically the EU Funds' special bank account at the Central Bank of Cyprus in the Government sector in national accounts.<sup>40</sup>
- **Action point 17 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will verify what was recorded in F.2 and in the Working Balance in relation to the temporary use of EU Funds for Government liquidity purposes, in 2011 and 2012, in EDP Tables (Table 2A), and ensure a proper statistical treatment.<sup>41</sup>

CYSTAT informed that, in case of expenditures using the State's resources, the EU reimbursement arrives shortly (almost immediately) after Cyprus sends the claim; hence no need to record a loan from EU. Consequently, no impact on B.9 is visible.

Eurostat acknowledge this way of recording and considers the Action point 17 from DV 2017 as being accomplished.

- **Action point 18 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will record EU Funds transactions as F.8 (claims towards EU budget) where appropriate and not in F.2.<sup>42</sup>

Eurostat noticed that in the EDP Questionnaire Table 6 there are still no figures in the lines *Other accounts receivable* and recommended recording EU Funds transactions as F.8 (claims towards EU budget). The Treasury of Cyprus indicated that this recording will be adopted in the year 2021, as for the time being data are on cash basis. CYSTAT mentioned that they do not have enough information at this moment to determine the *Other accounts receivable*, but the Treasury will provide the necessary information by the end of the year.

The Action point 18 from DV 2017 remains open until CYSTAT and the Treasury will provide more clarifications.

When analysing the table on the EU flows, which was sent by CYSTAT before the meeting, Eurostat noticed that some of its lines do not coincide with the EDP transmission for the corresponding years. CYSTAT agreed to check the table and to send Eurostat updated information.

#### *Findings and conclusions*

**Action Point 20.** The Treasury will provide CYSTAT with the necessary information to apply rules on the EU grants' recording (in order to book receivables for government for money spent by government on behalf of the EU). At present, expenditure carried out by government on behalf of the EU, where the final beneficiary is either government or a third party, does not appear to be neutralised at inception but only following a time lag.

*Deadline: end of September 2019*

**Action Point 21.** CYSTAT will send to Eurostat a note clarifying the discrepancies of the EU funds recording that were observed between the EU flows recording table and EDP Questionnaire Table 6.

*Deadline: end of September 2019*

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<sup>40</sup> In progress, during DV 2019 a new AP was opened on EU flows (AP 20)

<sup>41</sup> Closed

<sup>42</sup> In progress, during DV 2019 a new AP was opened on EU flows (AP 20)

### 4.3.2. Gross Fixed Capital Formation (GFCF) and Consumption of Fixed Capital (CFC)

#### *Introduction*

Before the mission, CYSTAT transmitted following information on GFCF and CFC.

*Gross fixed capital formation expenditure for work in progress* for buildings is extracted from FIMAS for the budget, extra-budgetary funds and social insurance. For the other categories of fixed assets (e.g. machinery, vehicles) the amounts are recorded when the asset is acquired/bought. The respective amounts for local government and semi-government organisations are included in the monthly revenue-expenditure reports collected by the National Treasury and transmitted to CYSTAT, but they are also double-checked with the annual financial reports of these organisations.

*Consumption of Fixed Capital* is estimated using the Perpetual Inventory Method (PIM). In order to be able to calculate the depreciation of a given asset (i.e. buildings, machinery, vehicles), a number of inputs are needed, such as the time series of GFCF in current and constant prices and their price index, as well as the depreciation profile and the average lifetime by asset. The information on the average lifetime of an asset is based on Eurostat recommendations (for buildings), specialists' knowledge (for machinery), analytical examination of data (for ships), ad-hoc surveys on specific types of capital equipment etc. CYSTAT indicated also the average life for some asset categories in a note provided to Eurostat.

#### *Discussion*

Eurostat requested CYSTAT to confirm that they calculate centrally the PIM for all S.13 subsectors and the answer was positive. When a new unit is created, it is included in the procedure.

CYSTAT indicated that they are using the geometric depreciation patterns for calculating the consumption of fixed capital for assets (of S.13): by institutional subsector, by branch and by type of asset, and that this is described in the GNI Inventory. CYSTAT also confirmed that the GFCF is determined as described in previous communications to Eurostat.

### 4.3.3. Changes in inventories

#### *Introduction*

During the DV 2017, one action point was opened on this subject:

- **Action point 45 from DV 2017:** The Statistical Service of Cyprus (CYSTAT) will examine the recording of changes in inventories, notably for the military supplies as well as stocks of oil and gas. Changes in inventories should be recorded in the relevant ESA Tables).<sup>43</sup>

There are two units included in S.13, which deal with strategic reserves: *Cyprus Organisation for Storage and Management of Oil Stocks* (COSMOS) and *Cyprus Petroleum Storage Company*. Stocks of oil and gas have been identified in the annual reports of COSMOS, but there are no changes in inventories of oil and gas.

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<sup>43</sup> Closed

As regards military supplies, in the EDP notifications that followed the DV 2017, as well as part of the follow-up of this action point, CYSTAT informed Eurostat that, for the years 2013-2015, due to the absence of funds, no military orders and deliveries were observed. Moreover, the military supplies have been verified and are already included in the EDP and ESA tables.

According to the EDP Inventory<sup>44</sup>, the main data sources for public expenditure on military equipment are the Trade Statistics (imports of military equipment) and the Ministry of Defence, as well as all expenditures concerning purchases of defence equipment in the local market. The level of defence expenditures as reported in the national budget is ignored.

The difference between the total value of imports along with capital formation and the total expenditure, which appears in the National Budget under the heading “Defence Expenditure”, is classified as *prepayments for military equipment not yet delivered*, and is recorded as *other accounts receivable* under the ESA2010 transmission code TRF71AS.

There are no borderline cases, as all goods are considered consumables except for those also used for civil purposes. For the recording in national accounts, the delivery approach is used.

#### *Discussion*

Eurostat requested more clarifications on the data reported on April 2019 in the EDP Questionnaire Table 7 and in ESA Table 2. CYSTAT confirmed their accuracy and indicated the Ministry of Finance as data source.

#### *Findings and conclusions*

Following the discussions, Eurostat considered that the Action point 45 from DV 2017 is accomplished.

### **4.3.4. Government transactions in the context of the financial crisis**

#### **4.3.4.1. Cyprus Cooperative Bank Ltd. (CCB)**

##### *Introduction*

Cyprus Cooperative Bank (until 2017 it was named *Cooperative Central Bank of Cyprus*) was the second-largest bank in Cyprus, 77.35% of which owned by the Cypriot government. Since several years, CCB was struggling with difficulties and tried to put in practice different strategies to cover its capital shortfall.

In 2014 and 2015, CCB received two consecutive capital injections from the Cypriot government, 1.675 mill EUR in total (1,500 mill. EUR and 175 mill. EUR respectively).

On 4 April 2018, the Cypriot Ministry of Finance announced that: "proceeding with a decision of the Council of Ministers, today it made a 2.5 bn. EUR deposit on behalf of the Republic of Cyprus to the Cyprus Co-operative Bank".

With this, the Cypriot government secured (among others) all the NPLs from the CCB portfolio. The total nominal value of collateral is approx. 7.6 bn. EUR.

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<sup>44</sup> Source: [CY EDP Inventory ESA 2010](#), p.53-54

Of the total of 2.5 bn. EUR (which represents 12.06% of the GDP for 2018), 2.35 bn. EUR were in the form of a series of bonds issued by the Cypriot government and acquired by the CCB. Furthermore, 2.5 bn. EUR cash were deposited in the accounts that the Cypriot government has at CCB. The remaining 150 mill. EUR comes from the government's cash reserves.

On 25 June 2018, the CCB (actually the Cypriot government in its position as shareholder of CCB) reached an agreement with Hellenic Bank for its acquisition of the state-owned CCB's operations (the "Transaction"). The parties also agreed on the final form of the Asset Protection Scheme (the "APS") covering part of the transferred assets.

The balance sheet of the transaction comprises:

- assets, with a total value of approx. 10.3 bn. EUR: cash (1.6 bn. EUR), government bonds, real estate assets, other financial assets, performing loans, money market placements;
- liabilities, with a total value of approx. 9.8 bn. EUR: CCB's non-governmental deposit base (9.7 bn. EUR) and other liabilities (66 mill. EUR).

Hellenic Bank paid 74.2 mill. EUR in cash.

The sale of part of the assets and liabilities of the CCB to Hellenic Bank resulted in the establishment of two new entities: the Cooperative Asset Management Company Ltd (Sedipes) and the Cyprus Asset Management Company Ltd (Kedipes), which received assets with a book value of 8.34 bn. EUR in return for a liability of 3.54 bn. EUR.

### ***Recording of government interventions and the fiscal impact***

Discussions were held between Eurostat and CYSTAT on the recording of the government interventions and their impact on B.9 and on debt for 2018.

After analysing all available documents and information concerning transactions connected with the sale and winding down of the CCB, Eurostat estimated the likely impact on the general government deficit and debt and communicated to CYSTAT the result of the analysis:

- the real economic value (REV) of non-performing loans and estimates made by an independent body were used: Eurostat considers that the most accurate independent evaluation to be used is the one which was done in the context of the State Aid process initiated by DG COMP. According to that evaluation, the real economic value of the non-performing loans equaled 20.94% of their nominal value;
- operations should be recorded on a net impact basis, i. e. the estimated impact on the government B.9, at the time of government intervention, should reflect the difference between the expected outflows (purchase of securities, cash transfers, costs of guarantees) and the expected inflows (recoveries from good and bad financial assets, sale of non-financial assets, guarantee fee to be received from the Hellenic Bank);
- according to Eurostat's calculations, the debt impact (direct and indirect) at inception would be 3.541 bn. EUR, and the net impact on B.9 would amount to 1.49 bn. EUR in 2018.

CYSTAT accepted EUROSTAT's calculations and recorded the impact on B.9, amounting to 1.5 bn. EUR, in the 3<sup>rd</sup> quarter of 2018.

The reporting of B.9 for Kedipes in 2018, an amount of -1.659 mill. EUR, was the main contributor to the increase of B.9 of the State for 2018. This value was due to the operations

related to the establishment of Kedipes in September 2018 and to the operations performed by this unit in 2018 (September – December).

### *Discussion*

The discussion focused on the fiscal impact of the government interventions before selling CCB and of the operations that occurred after the selling.

Starting from data reported in April 2019, Eurostat raised questions and requested more clarifications on different issues.

Regarding the source of revision of GFCF, CYSTAT indicated that the revision resulted from the classification of assets received and/or the re-classification of certain assets from the portfolio (e.g., part of shares was reclassified as GFCF). CYSTAT explained also how they calculated the capital transfer payable and detailed the recording of transactions related to the Voluntary Redundancy Scheme (VRS)<sup>45</sup>.

CYSTAT requested Eurostat guidance on the future recording/reporting of transactions related to the non-performing loans and Eurostat presented some possible solutions, which depend on the nature of changes and their timing.

Eurostat underlined the necessity of having access to the financial statements of Kedipes, and the Central Bank of Cyprus replied that Kedipes will provide the accounts for 2019 in June/July 2020.

Eurostat concluded that further analysis is needed for determining the fiscal impact of the operations involving Kedipes and Sedipes.

### *Findings and conclusions*

**Action Point 22.** Eurostat and CYSTAT will examine the accounting implications of the operations involving Kedipes and Sedipes in order to ensure a correct recording in government accounts.

*Deadline: October 2019*

## **4.3.5. Guarantees**

### *Introduction*

In the 2017 EDP visit, CYSTAT confirmed that there have been no standardised guarantees granted by general government in 2016<sup>46</sup>. However, for the guarantees granted in previous years, CYSTAT clarified that provisions (payables) are recorded in national accounts. Likewise for non-performing loans guaranteed by the State, it was confirmed that they are recorded as payable when called. An action point (AP 37) was opened, which was completed within the deadline.

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<sup>45</sup> The Voluntary Redundancy Scheme (VRS) is an early retirement compensation for ex-CCB employees. Employees of the ex-CCB not willing to work for Hellenic or KEDIPES were offered a lump sum amount as compensation. This compensation is a one-off payment (133.3 mill. EUR) paid in 3 instalments: the first instalment was paid in 2018 (49.5 mill. EUR), and the two other instalments will be paid in 2019 (89.8 mill. EUR). According to the accrual principle, however, it was decided to include the whole amount in 2018. Thus no obligations were transferred to government. This is not a pension scheme.

<sup>46</sup> See [Final findings of the EDP dialogue visit to Cyprus, 24-25 September 2014](#), p.20.



### *Discussion*

The CYSTAT requested for guidance regarding the reporting of a stock of 30 mill. EUR, which represents a guarantee for a unit that does not exist anymore. This amount will never be payed and is not a liability. Eurostat assessed it as not anymore being a standardised guarantee. It should be recorded as an *Other change in volume*.

### **4.3.6. Debt assumptions, debt cancellations and debt write-offs, government claims**

#### *Introduction*

In the 2017 EDP visit the KA Finanz case<sup>47</sup> was rediscussed and two action points were opened (AP 42 and AP 43), both of which have been completed.

Before the 2019 EDP visit, CYSTAT informed Eurostat that no debt assumptions, debt cancellations or debt write-offs occurred during the 2015-2018 period.

#### *Discussion*

CYSTAT confirmed that, presently there are no cases of debt assumptions, debt cancellations or debt write-offs.

During the meeting, CYSTAT raised the issue of the recording of a special arrangement from 2018, when a guarantee for a Local government' loan was paid by the Central government and as a counterpart this extra-payment/amount will be deducted from the annual contribution of the CG to the LG. CYSTAT asked Eurostat to clarify if this operation should be considered as a debt assumption.

Eurostat made an analysis of the operation and concluded that a debt assumption should be recorded for the debt of Local government assumed in 2018 by Central government at the moment when the government took the decision. The operation will have no impact on consolidated general government B.9.

#### *Findings and conclusions*

**Action Point 23.** A debt assumption will be recorded for the debt of Local government assumed in 2018 by Central government.

*Deadline: end of September 2019*

### **4.3.7. Capital injections in public corporations**

#### *Introduction*

Prior to the visit, the Cypriot authorities communicated to Eurostat the capital injections, their beneficiary and their treatment in national accounts. These capital injections were also reported in the EDP Questionnaire Table 10.2:

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<sup>47</sup> DV 2014: this concerns only one case of debt assumption, loans of around EUR 100 million in total provided by KA Finanz AG of Austria to Cypriot municipalities and sewerage boards with government guarantee.

DV 2017: the Government of Cyprus arranged to pay creditors on behalf of the original debtors (local government) according to their original repayment schedule. Local authorities did not fulfil the terms and KA Finanz initiated accelerated repayment. Central Government assumed the debt in May 2014, paid off the debt to KA Finanz in 2016, and local government (the original debtors) will pay their debt to central government according to their original repayment schedule.

- in 2015: 175.0 mill. EUR to S.12 (Cooperative Central Bank Ltd) – Capital transfer D.99;
- in 2018: 1,018.8 mill. EUR to S.12 (ex CCB – KEDIPES) – Capital transfer D.99.

#### *Discussion*

CYSTAT confirmed that in the last few years it recorded only insignificant amounts of capital injections as transactions in equity.

No action point was identified.

### **4.3.8. Dividends, super dividends**

#### *Introduction*

According to the EDP Inventory<sup>48</sup>, “the data source on dividends received by the government is FIMAS. Every time dividends are received, CYSTAT carries out the superdividend test and interim dividends are recorded as D.42 – Property Income Receivable.”

During the October 2018 EDP notification, CYSTAT confirmed that the super-dividend test was performed for all public corporations classified outside general government.

#### *Discussion*

Eurostat asked how CYSTAT undertakes the super dividend test, as the annual reports of a number (majority) of companies are not available. CYSTAT indicated that very limited number of companies is paying dividends to government.

For undertaking the super dividend test, CYSTAT uses data from the annual reports of the companies and it compares the dividends paid out in year  $t+1$  with the annual after tax profit for year  $t$ . The same procedure is used to perform the super-dividend test for the Central Bank of Cyprus.

CYSTAT confirmed that there were no cases of interim payments of dividends, and in FIMAS there is no dedicated account, due to the fact that the payments are made regularly, at almost the same date in every year.

As an example, the super-dividend test of the *Cyprus Ports Authority* was analysed and discussed in detail.

No action point was identified.

### **4.3.9. PPPs, Concessions and Energy Performance Contracts (EPCs)**

#### ***Public Private Partnerships (PPPs)***

#### *Introduction*

According to the EDP Inventory<sup>49</sup>, a detailed description for each PPP project is provided to CYSTAT by the National Treasury. A mechanism between CYSTAT, the Directorate General

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<sup>48</sup> Source: [CY EDP Inventory ESA 2010](#), p.60

<sup>49</sup> Source: [CY EDP Inventory ESA 2010](#), p.61

for European Programmes, Coordination and Development, the Ministry of Finance and the National Treasury exists in order to monitor these projects.

The Cypriot statistical authorities currently report in the EDP Questionnaire Table 11 the biggest five PPP contracts. All of them are with the CG sector and are recorded off government balance sheet.

#### *Discussion*

CYSTAT confirmed that there are no other PPPs than the ones reported in the EDP Questionnaire Table 11 and committed to transmit more detailed information for each project, in English. All projects have been started some time ago and their classification was subject to discussions with Eurostat.

#### *Concessions*

In Cyprus there are four ongoing concession contracts undertaken by government: *Larnaca and Paphos Airport, Limassol Port, Limassol Marina and Ayia Napa Marina*. The characteristics of all these contracts are as follows:

- revenue collected by these concessions are classified as output (P.1);
- the concession companies are classified in S.11 - Non-financial corporations;
- the final users are paying for the use of the underlying asset;
- the concessionaires are paying fees to the government.

During the mission, CYSTAT informed Eurostat about the privatization of the operations of the *Larnaca Port*.

The process consisted in “giving” the right to perform CPA’ operations to a private company, for a fee (it was not a sale of shares). CPA did not receive a lump sum at the inception, and that is why there is no reported amount for privatization in the EDP Questionnaire Table 10.2. The operation is a concession not involving the government, for 25 years.

The private company will modernise the port, will provide services and will pay an annual instalment (27 mill. EUR) to the government. CPA will not receive any payment from the private investor. The managed port originated most of the revenues of CPA. As the concession contract creates a revenue shortfall for CPA and leading to losses, the Government compensates the shortfall by paying subsidies to CPA.

#### *Energy Performance Contracts (EPCs)*

Prior to the visit, the Cypriot authorities informed Eurostat that no EPCs have been observed.

#### *Discussion*

Eurostat asked if there is any change in the status of EPCs and CYSTAT restated that no EPC has been observed in the public accounting framework.

Moreover, the Cypriot statistical authorities maintain a regular exchange of information on this subject with the Ministry of Energy, Trade and Commerce and/or with the Ministry of Finance, but have no information on future plans of the State regarding EPCs.

Eurostat recommended CYSTAT to monitor the existence of Energy Performance Contracts for all subsectors of General government.

#### *Findings and conclusions*

**Action Point 24.** CYSTAT will regularly monitor the existence of *Energy Performance Contracts* for all subsectors of General government.

*Deadline: continuous*

### **4.3.10. Emission trading permits**

#### *Introduction*

Cyprus sells emission permits. For national accounts and EDP tables, only cash payments are considered, as the amounts involved are small.

During the 2017 EDP visit, CYSTAT pointed out that the amounts (revenue) involved are negligible, and therefore they are currently not recorded. However, CYSTAT confirmed that they monitor the situation and that the amounts will be recorded if they become significant.

The agreed action point on this subject (AP 39) was completed: CYSTAT communicated in March 2017 that the Emission Trading Permits are reported under D.29FA.

#### *Discussion*

The Cypriot statistical authorities informed that Cyprus is continuously trading emission permits, and since 2012/2013 they are using auctions in the process.

Eurostat and CYSTAT reviewed the recording of emission permits and data availability.

The data source for information on EPCs is the Environmental department. The government is receiving the money; in 2016 and 2017 the cash received from sales had a sharper increase compared to the previous years. CYSTAT discussed the issue with the national authorities, in order to determine how to perform the accrual adjustment. Finally, CYSTAT decided to record the income from auctions on cash basis.

CYSTAT is *stricto sensu* not following the MGDD, but as there is no homogeneity among Member States on ETS recording, Eurostat acknowledged CYSTAT's efforts in finding a solution and the issue being work-in-progress.

### **4.3.11. Others: Privatisation, sale and leaseback operations, UMTS, securitisation**

#### *Privatisation*

No privatisations have occurred in Cyprus and no privatisation proceeds have been included as revenues in GFS data.

#### *Sale and leaseback operations, Securitisation*

CYSTAT declared that according to their information, no such operations take place in Cyprus but at Eurostat' request they agreed to check the local government accounts on the existence/recording of any Sale and Lease-back operations.

## *Findings and conclusions*

**Action point 25.** CYSTAT will regularly monitor the existence of Sale and Lease-back operation for all subsectors of General government.

*Deadline: continuously*

## **UMTS**

### *Introduction*

According to the EDP Inventory<sup>50</sup>, UMTS licences were recorded in 2004, they have been considered as a sale of non-financial non-produced assets and have been recorded in the year of the occurrence of the sale as per Eurostat's guidance note. CYSTAT explained that a further extension of 3G and 4G licenses took place in 2016. For the moment, no 5G licence has been auctioned.

### *Discussion*

Eurostat recalled the recording of mobile phone licenses as revenues to be spread over the lifetime of the licence and requested revising the current recording.

CYSTAT agreed with Eurostat's analysis, agreed to revise the current recording and to implement the new recording together with the September 2019 benchmark revision.

## **4.4. Other relevant issues**

### **4.4.1. Court cases**

#### *Introduction*

In January 2019, an "unusually large transaction" of 328 mill. EUR in 2018Q3 was reported in the ESA tables 27 and 28. CYSTAT informed Eurostat that this recording is mainly due to the Account 44 which impacts AF.8L: more specifically, a Credit Note was received from the Central Bank with respect to a Judicial Guarantee. The State acted as an intermediary between the two parties that had a conflict (there was a dispute between a Russian and a Cypriot company with the latter winning the case). However, the final ruling is still pending. The District Court of Lemesos ordered that the Russian company has to constitute a guarantee deposit. The latter transferred the amount on a government account held with the Central Bank.

#### *Discussion*

CYSTAT detailed the recording of the amounts deposited in the account of the Central Bank of Cyprus and stated that the current recording in the reconciliation accounts (AF.2 assets Account 62 - AF.8 liabilities Account 44) ensures that there is no actual impact on B.9. Moreover, this transaction is not connected with the deposit protection scheme and is recorded as F.8L (other accounts payable) rather than F.2L since there is a timing difference between the financial transactions.

The Treasury explained that, according to their policy based on IPSAS rules, they are doing assessments on how the court cases could end.

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<sup>50</sup> source: [CY EDP Inventory ESA 2010](#), p.64

Eurostat pointed out that this provision approach should not be used, and that the Treasury should wait for the final court decisions. In the future, when the new system based on IPSAS will be introduced (the *Enterprise Resource Planning System*), the Treasury should transmit supplementary information to CYSTAT.

On the Russian case, Eurostat enquired on the legal basis for the existence of the dedicated account at the Central Bank of Cyprus. CYSTAT explained that there were no specific regulations for such court cases and the recording of the related transactions.

It was agreed that both Eurostat and CYSTAT will reflect on the recording of the amounts stipulated in the court decisions following court cases not involving government but only third parties.

#### *Findings and conclusions*

**Action Point 26.** Eurostat and CYSTAT will reflect on the recording of the amounts deposited into an account of government at the Central Bank of Cyprus, which are the result of court cases not involving government but only third parties.

*Deadline: end of September 2019*

#### **4.4.2. The Oncology Center of the Bank of Cyprus**

CYSTAT mentioned the case of one concession: the *Oncology Center of the Bank of Cyprus*, which is classified in government now. At the time of construction, the Bank of Cyprus built the hospital on government land (this was recorded as a gift).

The organisation is controlled by the government and currently the government is paying the cost of medical interventions and of current expenditures.

Eurostat enquired in which sector the GFCF was imputed, and indicated how the recording should be done depending on the sector (S.12 or S.13). In both cases, the impact on B.9 is zero, as the legal and economic owner is the government.

CYSTAT agreed to ask for more information and to check the recording of the GFCF.

### **5. Any other business**

#### **5.1. ESA2010 Transmission Programme relating to the GFS tables**

Apart from the issues that have already been discussed in the chapters above, more clarifications were requested on the following subjects:

##### ***Public transport***

###### ***Introduction***

In Cyprus there are no public operators for public transport. There are five private companies, which are providing the service of public transport by bus, and they are all classified in S.11 (non-financial corporations).

### *Discussion*

CYSTAT informed that no purchases of transport services by government are recorded and the State is not providing grants to these private operators. The operations in relation to the GG or LG are recorded as subsidies on products (D.31). CYSTAT is not performing the market/non-market test for the public transport operators.

When asked about the existence of D.92/D.99 amounts reported in COFOG, CYSTAT committed to checking the tables.

### *Findings and conclusions*

**Action Point 27.** CYSTAT will check the nature of the D.92 and D.99 flows provided to private transport operators by government.

*Deadline: end of September 2019*

## ***The purchase of water by the Water Development Department***

### *Introduction*

Following the analysis of ESA TP Table 11, Eurostat inquired on the increase, in 2017, of the amount for water supply (85 mill. EUR in 2017 compared to 64 mill. EUR in 2016) recorded as P.2 (intermediate consumption).

CYSTAT answered that the high values are visible on a unique code in FIMAS, which concerns the purchase of water by the Water Development Department.

### *Discussion*

CYSTAT informed that the purchase of water was made from a private corporation, the Desalination Plant.

On the recording, CYSTAT admitted that the amount was misclassified, as the amounts paid for buying small quantities of water (and pharmaceutical products) are recorded as intermediate consumption. In 2018, due to shortage in water, big quantities were bought and the amounts should have been recorded as changes in inventories.

Eurostat recommended, and CYSTAT agreed, to reclassify the 2018 exceptional payments for purchasing water and pharmaceutical products as changes in inventories instead of as intermediate consumption.

### *Findings and conclusions*

**Action Point 28.** The 2018 exceptional payments to purchase water and pharmaceutical products will be reclassified as changes in inventories instead of as intermediate consumption.

*Deadline: end of September 2019*

## Annex 1. Agenda

### **1. Statistical institutional issues**

#### **1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation**

1.1.1. Institutional cooperation and EDP processes

1.1.2. Quality management framework

1.1.3. Audit and internal control arrangements

#### **1.2. Data sources and revision policy, EDP inventory**

1.2.1. Changes in data sources and revision policy

1.2.2. Compliance with the Council Directive 2011/85

1.2.3. EDP Inventory

### **2. Follow-up of the previous EDP dialogue visit of 15 - 17 February 2017**

### **3. Analysis of the EDP tables – follow up of the April 2019 EDP notification**

### **4. Methodological issues and recording of specific government transactions**

#### **4.1. Delimitation of general government sector, application of market/non-market test in national accounts**

4.1.1. Delimitation of the public sector and of the general government

4.1.2. Practical implementation of the market/non-market test and of qualitative criteria

4.1.3. Changes in sector classification since the last EDP dialogue visit

4.1.4. Government controlled entities classified outside the general government sector

#### **4.2. Implementation of accrual principle**

4.2.1. Taxes and social contributions

4.2.2. Interest and consolidated interest

4.2.3. Other transactions

#### **4.3. Recording of specific government transactions**

4.3.1. EU flows

4.3.2. Gross Fixed Capital Formation and Consumption of Fixed Capital

4.3.3. Changes in inventories

4.3.4. Government transactions in the context of the financial crisis

4.3.4.1. Cyprus Cooperative Bank Ltd.

4.3.5. Guarantees

4.3.6. Debt assumptions, debt cancellations and debt write-offs, government claims

4.3.7. Capital injections in public corporations

4.3.8. Dividends, super dividends

4.3.9. PPPs, concessions and energy performance contracts

4.3.10. Emission trading permits

4.3.11. Others: privatization, sale and leaseback operations, UMTS, securitisation

#### **4.4. Other relevant issues**

4.4.1. Court cases

4.4.2. The *Oncology Center of the Bank of Cyprus*

### **5. Any other business**

#### **5.1. ESA2010 Transmission Programme relating to the GFS tables**



## **Annex 2. List of participants in the EDP dialogue visit to Cyprus on 23 – 24 May 2019**

### ***Eurostat***

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