October 2024

Template for national reports providing information on quality, sources and methods, together with information on the statistical processes used for the compilation of the statistics underlying the MIP indicators (financial accounts)

Reporting institution*: National Statistical Service of Cyprus (CYSTAT) and the Central Bank of Cyprus (CBC).

A. INSTITUTIONAL ENVIRONMENT

A.1 CoP1 Professional Independence/ PC1 Professional Independence

A.1.1. Legal basis

The independence of CYSTAT is provided for by "The Statistics Law No 15(I) of 2000". According to Article 12 (2) of the said Law "the Statistical Service maintains its autonomy in technical matters and has exclusive responsibility for the choice of methodology, technique, definitions and procedures for the realization of the programmes of statistical activities".

The independence of the CBC is ensured by primary EU law, namely, Article 130 of the TFEU and Article 7 of the Statute of the ESCB. The CBC is governed by the *Central Bank of Cyprus Laws, 2002 – 2017* ("the Law") as amended, which ensures the independence of the CBC and compatibility with the relevant provisions both of the Treaty establishing the European Community ("the Treaty") and of the Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB).

When carrying out all the tasks required for the achievement of its objectives, including any tasks performed by central banks (*section 6 of the Law*), neither the CBC nor any member of its decision-making bodies seek or take instructions from the Community institutions or bodies, from the Government or any government of a Member State or from any other body (*section 7 of the Law*).

A.1.2 Statistics work programme

CYSTAT has an annual programme of statistical surveys and activities, which is publicly available in the following link (available only in Greek):

https://www.cystat.gov.cy/en/StaticPage?id=1026. Reference to AFA can be found in page 43.

The CBC prepares a statistical work programme on an annual basis, which is not publicly available.

The ESS statistical work programmes can be found in the following links:

https://ec.europa.eu/eurostat/web/european-statistical-system/programmes-and-activities/statistical-programmes

A.2 CoP2 Mandate for data collection/ PC2 Mandate for data collection

A.2.1 Allocation of responsibilities

CYSTAT is responsible for the production of the annual financial accounts (AFA) and the Quarterly financial accounts of the General Government (QFAGG).

The Central Bank of Cyprus (CBC) is responsible for the production of the Quarterly Financial Accounts (QFA). The CBC is also responsible for the collection and compilation of the statistics concerning the Monetary Financial Institutions sector (S.121, S.122, S.123), the Investment Fund sector (S.124), the Insurance Companies sector (S.128) the Pension Funds Sector (S.129) and the Rest of the World sector (S.2) i.e. for the balance of payments and the international investment position, in accordance with the relevant ECB and Commission legislation.

CYSTAT and the CBC cooperate and coordinate closely on methodological issues concerning the compilation of AFA and QFA and the collection and compilation of the accounts for the sectors which do not fall under the sole responsibility of one of the authorities.

A.2.2 Legal basis

The AFA and QFAGG are compiled and transmitted to Eurostat on the basis of Regulation No. 549/2013 of the European Parliament and of the Council on the European system of national and regional accounts in the European Union (ESA 2010).

The QFA are compiled and transmitted to the ECB on the basis of the ECB Guideline on the statistical reporting requirements of the ECB in the field of quarterly financial accounts (ECB 2013/24), as amended.

A Memorandum of Understanding (MoU) in the area of statistics has been signed by the CBC, CYSTAT and the Ministry of Finance. The MoU defines the responsibilities of each authority concerning the development, collection, compilation and dissemination of data in each statistical domain.

A.3 CoP6 Impartiality and objectivity/ PC7 Sound methodology

A.3.1 Advance release calendar

For AFA no advance release calendar exists, at the moment, at national level.

Concerning QFA an advance release calendar exists on the CBC website at the following link:

https://www.centralbank.cy/en/statistics/money-and-banking-statistics-and-financial-accounts/calendars/release-of-data.

A.3.2 Revision policy

AFA are transmitted by the end of September (first transmission of data for year t-1). The revision policy is in accordance with the CMFB guidelines and routine revisions may occur up to three years before the reference period (i.e. up to year t-4). Routine revisions are incorporated in the regular September transmission.

In case where QFA transmitted in October include changes for previous quarters of years t-1 to t-4, CYSTAT retransmits AFA in order to be consistent with the QFA. It should be noted that if an extraordinary/major revision occurs at any other time outside the regular AFA transmission timeframe, an updated set of AFA is transmitted to Eurostat.

As regards QFA, in principle, the revision policies of the underlying primary sources are adopted. In particular:

1. For the data of the Rest of the World sector (S.2) the revision policy is consistent with the External Statistics (Balance of Payments and International Investment Position statistics) with backward revisions occurring in Q1 and Q3 for the last 3 and 17 quarters respectively in line with the revision policy advised by the CMFB. In the case of benchmark revision (usually every five years), the revisions go further back. In cases, however, where changes in external statistics are insignificant, depth revisions in Q3 may refer to fewer quarters.
2. For the MFI sector (S.122), in practice, revisions are most likely to occur in Q2 when the previous year's annual data for MFI balance sheet statistics becomes available.
3. For the Government sector (S.13), in principle, revisions are fully in line with revisions in QFAGG statistics.
4. For the data compiled based on annual financial statements revisions are most likely to occur in Q3 when financial statements for the previous year-end become available.
5. Limited revisions on exceptional basis may be also effected in Q2 and Q4 if it is deemed necessary.

A benchmark revision for both QFA and AFA has taken place in October 2024.

B. STATISTICAL PROCESSES

B.1 CoP7 Sound methodology/ PC7 Sound methodology

B.1.1 General remarks:

Both AFA and QFA in Cyprus are compiled in accordance with the ESA 2010 methodology.

Reference to the QFA methodology can be found on the CBC website under the link https://www.centralbank.cy/en/statistics/money-and-banking-statistics-and-financial-accounts

B.1.2 Residency and territory

The residency and territory principles for AFA and QFA are in accordance with ESA 2010.

B.1.3 Institutional unit definition

The institutional unit definition for AFA and QFA is in accordance with ESA 2010.

B.1.4 Sectorisation and sector delimitation

The sectorisation and sector delimitation for AFA and QFA are in accordance with ESA 2010. Specifically, in all primary statistics (i.e. BSI, IIP/BOP, SHS, SEC, IC) particular emphasis is given in the identification and proper classification of captive financial institutions (S.127), as well as head offices under S.11 or S.126, depending on the predominant activity of their subsidiaries. To this end, the CBC has in place a centralised procedure, where investigation and classification is done on a company-by-company basis and the outcome is shared across all statistics.

B.1.5 Instrument identification

The instrument identification for AFA and QFA is in accordance with ESA 2010.

B.1.6 Valuation, including derivation of transactions and other flows

Valuation and the method for deriving transactions in both AFA and QFA are in accordance with ESA 2010. Transactions and other flows are available in BSI, BOP/IIP, IC, PF, SHS, IF and QFAGG, whereas for the rest of the sectors/instruments they are calculated on a residual basis.

Unquoted shares on both asset and liability side are valued on the basis of information reported in the financial statements of the companies. On the liability side, unquoted shares are mostly valued at the book value of own funds. The residual is distributed in sectors where limited or no direct information is available, i.e. in NFCs and Households.

B.1.7 Time of recording (accrual accounting)

The principles concerning time of recording (accrual accounts) for AFA and QFA are in accordance with ESA 2010. In particular, the interest accrued is recorded in the financial asset or liability on which they accrue.

B.1.8 Coverage gaps

Concerning external statistics, there is room for improvement on the following:

- Assets of households' abroad, especially real estate and financial assets which are held through custodians in a non euro area country. As regards real estate, the CBC uses mirror data shared between certain European countries in combination with other estimates/ assumptions.

- Financial assets of non households abroad, when these are held through a non-resident custodian. In these cases, the CBC uses alternative sources of information to capture the required data, such as audited financial statements although depending on the resident sector, this may not be sufficiently captured.

- Regarding data on Special Purpose Entities (SPEs) sourced from financial statements, there is a time lag in collecting this information due to the delayed availability of their FS.

Moreover, for the same data, there is room for improvement in the country allocation of SPEs' assets and liabilities as the counterpart country is not always disclosed in the financial statements. It should be noted that there is an ongoing effort to expand the coverage of SPEs in a quarterly survey, which aims to improve the timeliness and completeness of this data

- Coverage of financial instruments of domestic holding companies and NFCs which are not well covered by other data sources. In particular, the current estimation method for unlisted shares and trade credits and advances of NFCs is based on an ad-hoc survey performed by CYSTAT in the mid-2000s, which was not re-conducted due to financial constraints. An extrapolation for the recent years is made on the basis of information on the number of enterprises listed under the Department of the Registrar of Companies and Official Receiver. Regarding domestic holding companies, no direct data source exist for instruments not covered by other data sources. In the context of improving the quality of the said instruments, the CBC has recently gained access into the tax forms database of the Tax Department of Cyprus from which balance sheet data will be processed for all companies in Cyprus. It is foreseen that by 2026 the CBC will be in position to provide improved estimates for both F8 and F512 for the NFC sector, as well as better estimates for the domestic holding companies sector.

- Other coverage gaps for financial accounts refer to those sectors/instruments for which no direct/indirect source exists e.g. inter-households lending, however, the importance of these gaps is minor.

B.1.9 Non-consolidation/Consolidation at sectoral level– As required under the ESA 2010 Transmission programme (Tables 6 and 7)

For AFA, information on who-to-whom breakdown of sectoral relationships exists for all instruments and thus consolidated data can be compiled for all instruments. Both transactions (tables 610 and 620) and stocks (tables 710 and 720) for AFA are compiled and transmitted by CYSTAT to Eurostat on a consolidated and on a non-consolidated basis starting from 1995. In addition, Other Volume Changes (table 621) and Revaluation (table 622) are transmitted on a non-consolidated basis starting from 2012.

For QFA, who-to-whom information is available for all financial instruments except for currency, unlisted shares, other equity, financial derivatives and trade credits and advances for which only partial information is available.

B.1.10 – Specific issues for instruments covered by MIP indicators

In the context of the benchmark revision of 2024 a significant improvement on the estimation of inter-NFC loans in both QFA and AFA has been effected, in line with the recommendations of the MIP mission to Cyprus in 2023. Specifically, the CBC on the basis of detailed data provided by CYSTAT in relation to the EuroGroups Register (EGR) data has identified the large local NFC groups in Cyprus whose business activity is predominantly restricted to Cyprus. For these entities, information was extracted from the balance sheet data available in the annual tax reports and further refined with information from the financial statements of the entities . By combining the data from the above sources, the CBC has established a more comprehensive source of inter-NFC loans and a more robust and repeatable process for estimating the series going forward.

Concerning the liabilities of the financial sector, it should be noted that the vast majority of the OFI sector relates to the SPEs. The main source in both AFA and QFA for SPEs is BOP/IIP statistics, since most of their positions/transactions are vis-à-vis non residents. The CBC, in collaboration with CYSTAT, are constantly working on the maintenance and further improvement of the quality of the SPE data. In this respect, both authorities intensified the efforts for obtaining access to administrative sources (i.e. tax returns).

Aiming to improve the data of the OFI sector, the CBC has also initiated a project on the identification of non-SPE captive financial institutions, in the context of a relevant project undertaken by the ECB.

B.1.11 Other major deviations not listed above

None.

B.2 CoP8 Appropriate Statistical procedures/ PC8 Appropriate Statistical procedures

B.2.1 Data source map

The compilation of both AFA and QFA is based on the same primary data sources collected by both CYSTAT and CBC. A summary of these sources can be found in the Annex. (page 10)

B.2.2 Description of procedures and methods

The compilation of both AFA and QFA relies on the following primary sources which are produced on the basis of the relevant ECB or Community legislation and are, therefore, fully compliant with ESA 2010:

- MFI balance sheet statistics (BSI) – S.121 + S.122 + S.123
- Investment fund balance sheet statistics (IF) – S.124
- Insurance statistics (IC) – S.128
- Pension funds statistics (PF) – S.129
- Securities issues statistics (SEC)
- Security Holdings statistics (SHS)
- Quarterly Financial Accounts of the General Government (QFAGG) – S.13
- International Investment Position and Balance of Payments, which follow the BPM6 principles and methodology – S.2

For the OFI sector (S.125 + S.126 + S.127), whose vast majority of assets/liabilities relate to the SPEs, the main source is quarterly BOP/IIP data. Concerning units other than SPEs, included in the OFI sector, information is derived partially from their financial statements and partially indirectly from the primary sources (i.e. BSI, SHS etc). Namely, financial statements are collected from the following entities:

1. Investment firms supervised by the Securities and Exchange Commission of Cyprus (i.e. SDDs and other) – S.125 + S.126
2. Hire Purchase companies – S.125
3. Payment institutions and EMIs– S.126

4. Ex-MFIs which lost their banking licence and are currently under liquidation and/or other legal procedures – S.125
5. Other Investment entities or special funds – S.125
6. Administrative investment fund managers and Administrative service providers – S.126
7. Insurance Intermediaries – S.126

For the Credit Acquiring Companies (CAC – S.125) quarterly reporting has been established as from 2019, covering both supervisory and statistical requirements.

For the non-financial sector information is derived from annual financial statements and mapped to the ESA 2010 instruments, to the best possible extent.

Most financial statements mentioned above usually become available 6-9 months after the end of the reference year and are incorporated in the QFA data referring to the third or fourth quarter of the following year (i.e. reference Q3/T+1 or Q4/T+1), depending on the workload needed for processing and checking the data. At this event, back data may be revised up to 8 quarters backwards.

Information from the primary sources (i.e. BSI, SHS, BOP/IIP) is also incorporated and used as the basis for the derivation of the quarterly estimates for all sectors.

For Household and NFCs, instruments F512 (unlisted shares), F81 (trade credits) and F89 (other accounts) are compiled mainly on a residual basis combining data gathered from the Department of the Registrar of Companies and Official Receiver (DRC) of Cyprus on the number of registered companies in Cyprus.

In case multiple data sources for a specific sector/instrument combination are available, checks are performed and inconsistencies are investigated. A hierarchy is applied in the different sources, in case of major inconsistencies between the different sources.

B.2.3 Estimation of missing data

Missing data are estimated on a case-by-case basis.

B.2.4 Balancing procedure

As regards the vertical consistency between QFA and the quarterly non-financial accounts Cyprus is currently exempted from the obligation of compiling quarterly non-financial accounts for sectors other than the general government sector (S.13) and the rest of the world sector (S.2) as its GDP in current prices is normally less than 1 % of the community total.[1] Thus, vertical consistency for the quarterly data applies only for the said sectors, for which the data is, to a great extent, vertically consistent. Concerning non-financial corporations (S.11), households (S.14) and NPISHs (S.15) vertical consistency is feasible only on an annual basis due to the exemption. As from the benchmark revision of 2024, QFA are fully consistent with annual non-financial accounts at Q4 for the said three sectors from 2013 onwards in line with the recommendations of the MIP mission to Cyprus in 2023. Minor

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[1] Regulation (EC) No 1161/2005 of the European Parliament and of the Council of 6 July 2005 on the compilation of quarterly non-financial accounts by institutional sector, OJ L 191, 22.7.2005, p. 22–28. of quarterly non-financial accounts by institutional sector, OJ L 191, 22.7.2005, p. 22–28.

discrepancies in S.13 and S.2 between the two sources due to timing and methodological issues are reflected in the financial sector (S.12) which in QFA is adjusted for vertical consistency on a residual basis.

The vertical consistency between AFA and the annual non-financial accounts is mainly monitored by CYSTAT, which is the primary compiler of both datasets. Any balancing adjustments that need to be effected in AFA in this respect, are communicated and discussed with CBC in order to ensure that QFA and AFA remain consistent at Q4. AFA are transmitted to Eurostat at September-end and are usually revised at mid-October in order to reflect the latest QFA data transmitted to the ECB at the beginning of October. At this time, AFA and QFA reach their maximum consistency. Full consistency, however, cannot be achieved mainly due to methodological differences. For example, QFAGG and QFA have different sources and methods for pension fund technical reserves (F63). Furthermore, in all intermediate quarters until the next AFA compilation cycle, discrepancies between the two datasets may increase as fresh data from various sources are incorporated in QFA.

For ensuring horizontal consistency between the creditor and debtor side, a rebalancing process is applied in both datasets during which any residuals are calculated per instrument and subsequently distributed to certain sectors on the basis of a map with the hierarchy of sources. The map with the hierarchy of sources is closely monitored by both CBC and CYSTAT. In principle, the rebalancing process affects trade credits and other accounts payable/receivable (F.8), unlisted shares (F.512), other equity (F.519) and to a lesser extent financial derivatives (F.7). The sectors that are mainly affected are households (S.14) and NFCs (S.11) for which no direct source of information exists for the said instruments, and to a lesser extent captive financial institutions (S.127).

B.2.5 Methods to align quarterly and annual data

Since AFA and QFA have been developed by CYSTAT and CBC, respectively, certain minor discrepancies between the two datasets might exist mainly due to timing and methodological differences. A working group comprising staff from the CYSTAT and the CBC is constantly monitoring the differences and works towards harmonising the two datasets to the best possible extent. The hierarchy of sources is applied on a national level ensuring that both compilers utilize the most reliable and comprehensive information from all available sources.

C. STATISTICAL OUTPUT

C.1 CoP11 Relevance/ PC11 Relevance

In the context of the macroeconomic imbalances procedure (MIP), the AFA are used for the computation of scoreboard indicators (private sector debt (consolidated), private sector credit flow and total financial sector liabilities (non-consolidated)) and auxiliary indicators (private sector debt (non-consolidated) and financial sector leverage). QFA are used for the quarterly monitoring of the MIP indicators.

Financial accounts are also used by the European Systemic Risk Board (ESRB) for the assessment of vulnerabilities and the interconnectedness for financial stability purposes.

The ECB uses the QFA for the production of the euro area accounts. They are also used at international level in the context of the IMF "Article IV consultations".

At national level, both AFA and QFA are used internally at the CBC for economic analysis and financial stability purposes. Academics, journalists and other analysts use the financial accounts for their own analysis.

C.2 CoP12 Accuracy and reliability/ PC12 Accuracy and reliability (including stability)

C.2.1. Accuracy and reliability

Accuracy and reliability of the AFA and the QFA are checked in every production round with respect to quality, plausibility and development over time of the data and the estimates, both for the primary sources and the financial accounts dataset. Predefined validation checks are run before every transmission of the data to the ECB or Eurostat to ensure the validity of the data. In case of large revisions or large transactions in QFA, metadata are sent to the ECB.

QFA and AFA are regularly cross checked with primary source data and any deviations are examined.

The comparison between BOP/IIP and QFA data has been formalised and monitored by the ECB and the NCBs.

C.2.2. Internal consistency

For AFA the compilation of all financial instruments is performed on a who-to-whom basis. In this respect, there are no internal inconsistencies.

For QFA, a who-to whom matrix is available for all instruments, for both stocks and flows, except for currency, unlisted shares, other equity, financial derivatives and trade credits and advances. For these instruments, in order to achieve the internal horizontal consistency of the system, any residual is allocated to sectors on the basis of a predefined distribution, which is reviewed in regular intervals. The stock/flow identity is by construction embedded in the QFA database. In this respect, both the internal horizontal consistency and the stock/flow identity of the system are ensured.

C.3 CoP13 Timeliness and punctuality/ PC13 Timeliness (including punctuality)

C.3.1 National requirements

For AFA, the publication programme of Eurostat is followed. AFA are incorporated in the publication of "National Accounts", which can be found on CYSTAT's website.

QFA are published on the CBC website at the latest three weeks after transmission to the ECB, in a more aggregated form.

C.3.2 International requirements

CYSTAT transmits AFA to Eurostat at t+9 months, as per the ESA 2010 Transmission Programme.

CBC transmit to the ECB a limited dataset of QFA series at t+85 for the compilation of the euro area accounts and the full national dataset at t+97.

C.4 CoP14 Coherence and comparability/ PC14 Consistency and comparability

C.4.1 External consistency

Minor discrepancies exist between non-financial and financial accounts (AFA). However, they are monitored and, most of the times, they do not exceed a certain percentage level of GDP. Since under the ESA 2010 Transmission Programme the tables for non-financial accounts (Table 8) and AFA (Tables 6 & 7) are transmitted to Eurostat on the same period (30 September of each year), the compilers in CYSTAT can compare the two different set of accounts and detect possible problems or errors in their data. The discrepancy between B.9 (non-financial) and B.9F (AFA) is checked for each institutional sector. Discrepancies are investigated if they exceed 4% of GDP for sectors S.11 (non-financial corporations), S.12 (financial corporations) and S.14/S.15 (households and NPISHs), 1% of GDP for S.2 (rest of the world) and 0,5% of GDP for S.13 (general government).

AFA are fully consistent with QFAGG and IIP/BOP statistics. The latter are compiled according to BPM6 methodology, which is in line with ESA 2010.

QFA are generally consistent with QFAGG, IIP/BOP and other primary source statistics. Due to different valuation principles, inconsistencies exist for certain instruments between QFA and BSI. However, for BSI loans (F4) and Deposits (F2M) full consistency is assured with QFA.

In general, it is possible that some inconsistencies exist in the case different information is provided by different sources for the same sector/instrument (in which case a hierarchy in the sources is applied) or in the case different revision policies in the relevant primary sources (e.g. it is possible that monetary statistics are revised and are not incorporated in IIP/BOP statistics due to different revision policy of the latter). Some inconsistencies may be resolved when detected, while larger or historical inconsistencies are usually resolved in the next benchmark revision.

C.4.2 "Time" and back data consistency

No back data inconsistencies exist in AFA, apart from data regarding IIP/BOP, for which data based on BPM6 are not available for years prior to 2008.

QFA under ESA 2010 are available for the reference period from 2004Q1 onwards for stocks and transactions and from 2012Q4 onwards for other volume changes (OVCs). QFA under ESA 95 are available for the reference period 2004Q1-2013Q4 for stocks and transactions.

C.4.3 Consistency across frequencies

Due to the fact that AFA and QFA are compiled by two different institutions, some discrepancies are inevitably observed. Inconsistencies are also observed due to timing and methodological issues mentioned in section B.2.4.

Generally, these discrepancies are not significant. A working group comprising staff from CYSTAT and CBC works towards minimizing the discrepancies to the lowest possible level. This working group meets at least once a year, before the September transmission of the

AFA, in order to examine whether there are significant discrepancies between the two sets of accounts. An evaluation of the different sources is made and any necessary adjustments are performed.

C.5 CoP15 Accessibility and Clarity/ CoP15 Accessibility and Clarity

C.5.1 Data

AFA are published on the Eurostat website. At national level, they are published at the following link:

https://www.cystat.gov.cy/en/KeyFiguresList?s=45&p=3

QFA are published on the ECB data warehouse. At national level, they are also published on the CBC website, in an aggregated format, at the following link:

https://www.centralbank.cy/en/publications/quarterly-financial-accounts

C.5.2 Metadata

Metadata information on AFA is available in the Eurostat website under the relevant topic.

Metadata for QFA are non-publishable.

C.5.3 Contact

Contact persons:

CYSTAT: Sofia Panayidou, Email: spanayidou@cystat.mof.gov.cy

CBC: George Mardas, Email: georgemardas@centralbank

Annex to CoP8: Data source map for Annual and Quarterly financial accounts of Cyprus

ASSETS

		S11 NFC	S12K MFI	S121 CBC	S124 IF	S125 OFI	S126 FA	S127 CFI&ML	S128 IC	S129 PF	S13 GOV	S14 + S15 HH+NPISH	S2 RoW
F11	Monetary gold		MFI/BOP	CBC							0		BOP/MFI
F12	SDRs		MFI/BOP	CBC/BOP							0		BOP/MFI
F21	Currency	MFI/e^^	MFI	CBC	IF	MFI/BOP/OFI/FS	MFI/BOP/FS	MFI/BOP/FS	IC	PF/MFI	QFAGG/MFI/BOP	MFI/e^^	BOP/MFI
F22	Deposits, transferable	MFI/BOP	MFI/QFAGG/BOP	CBC/QFAGG	IF/MFI/BOP	MFI/BOP/OFI/FS	MFI/BOP/FS	MFI/BOP/FS	MFI/IC/BOP	MFI/PF	QFAGG/MFI/BOP	MFI/BOP	BOP/MFI
F29	Deposits, other	MFI/BOP	MFI/QFAGG/BOP	CBC	IF/MFI/BOP	MFI/BOP/OFI/FS	MFI/BOP/FS	MFI/BOP/FS	MFI/IC/BOP	MFI/PF	QFAGG/MFI/BOP	MFI/BOP	BOP/MFI
F3	Debt securities	SHS/BOP/QFAGG	MFI/SHS/QFAGG	CBC	SHS/QFAGG	SHS/BOP/OFI/FS/QFAGG	SHS/BOP/QFAGG/FS	SHS/BOP/QFAGG/FS	SHS/IC/BOP/QFAGG	PF/SHS/QFAGG	QFAGG	SHS/BOP/QFAGG	BOP/SEC/QFAGG
F4	Loans	BOP/FS/CTD	MFI/BOP	CBC	IF/BOP	BOP/OFI/FS	BOP/FS	BOP/FS	IC/BOP	PF	QFAGG	0	BOP
F511	Listed Shares	SHS/FS/BOP	SHS	CBC	SHS	SHS/BOP/FS	SHS/BOP/FS	SHS/BOP/FS	SHS/IC/BOP	PF/SHS	QFAGG	SHS	BOP/SEC
F512	Unlisted Shares	SHS/FS/BOP/e^^	MFI/BOP/SHS	CBC	SHS	SHS/BOP/OFI/FS	SHS/BOP/FS	SHS/BOP/FS	SHS/IC/BOP	PF/SHS	QFAGG	DCR/e^^	BOP
F519	Other Equity	SHS/FS/BOP/e^^	MFI/BOP/SHS	CBC	IF	SHS/BOP/OFI/FS	SHS/BOP/FS	SHS/BOP/FS	SHS/IC/BOP	PF/SHS	QFAGG	e^^	BOP
F52	Investment fund shares/units	SHS/FS/BOP	SHS/MFI	CBC	SHS	SHS/BOP/OFI/FS	SHS/BOP/FS	SHS/BOP/FS	SHS/IC/BOP	PF/SHS	QFAGG	SHS/IF	BOP/IF
F61	Non-life insurance techn. Res.	IC/FS	MFI/IC	CBC	IF/IC	IC/BOP/OFI/FS	IC/BOP/FS	IC/BOP/FS	IC/BOP	0		IC	BOP/IC
F62	Life insurance and annuities								IC/BOP			IC/BOP	BOP/IC
F63-F65	Pension entitlements	FS/PF	MFI	CBC	IF	FS/PF/OFI	FS/PF	FS/PF	IC	PF		PF	BOP/PF
F66	Standardised guarantees	0	0	0	0	0/OFI	0	0	IC	0	0	0	0
F7	Financial derivatives	FS/BOP	MFI/BOP	CBC	IF	BOP/FS/OFI	BOP/FS	BOP/FS	IC	PF	QFAGG	BOP	BOP
F81	Trade credits and advances	FS/BOP/DCR/e^^	MFI	CBC	IF	FS/BOP/OFI	FS/BOP	FS/BOP	IC	PF	QFAGG	e^^	BOP
F89	Other accounts excl. F81	FS/BOP/DCR/e^^	MFI	CBC	IF	FS/BOP/OFI	FS/BOP	FS/BOP	IC	PF	QFAGG	e^^	BOP

LIABILITIES

		S11 NFC	S12K MFI	S121 CBC	S124 IF	S125 OFI	S126 FA	S127 CFI&ML	S128 IC	S129 PF	S13 GOV	S14 + S15 HH+NPISH	S2 RoW
F11	Monetary gold		MFI	CBC									0
F12	SDRs		MFI/BOP	CBC/BOP									BOP/MFI
F21	Currency		MFI	CBC							QFAGG		BOP/MFI
F22	Deposits, transferable		MFI	CBC							QFAGG		BOP
F29	Deposits, other		MFI	CBC							QFAGG		BOP
F3	Debt securities	SEC/BOP	SEC/MFI	CBC	IF/BOP	SEC/BOP/OFI	SEC/BOP/FS	SEC/BOP/FS	SEC/IC	0	QFAGG/SEC/BOP		SHS/BOP
F4	Loans	MFI/BOP/CTD	MFI	CBC	IF/MFI/BOP	MFI/BOP/FS/OFI	MFI/BOP/FS	MFI/BOP/FS	MFI/IC/BOP	MFI/PF	QFAGG/MFI	MFI/BOP/IC/PF/OFI	MFI/BOP
F511	Listed Shares	SEC/BOP	SEC/MFI	CBC	0	SEC/BOP/OFI	SEC/BOP/FS	SEC/BOP/FS	SEC/IC	NA	QFAGG/SEC		SHS/BOP
F512	Unlisted Shares	FS/BOP/DCR	MFI	CBC	0	BOP/FS/OFI	BOP/FS	BOP/FS	IC/BOP	NA	QFAGG		SHS/BOP
F519	Other Equity	FS/BOP/DCR	MFI	CBC	0	BOP/FS/OFI	BOP/FS	BOP/FS	IC/BOP	NA	QFAGG		SHS/BOP
F52	Investment fund shares/units				IF					NA	0		SHS/BOP
F61	Non-life insurance techn. Res.	IC/FS				IC/FS/OFI	IC/FS	IC/FS	IC/BOP		0	IC	BOP/IC
F62	Life insurance and annuities								IC/BOP		0	IC	BOP/IC
F63-F65	Pension entitlements	FS	MFI	CBC		FS/OFI	FS	FS	IC/BOP	PF	0	PF	BOP/PF
F66	Standardised guarantees	0	0	0		0	0	0	IC	0	0	0	0
F7	Financial derivatives	FS/BOP	MFI	CBC	IF	FS/BOP/OFI	FS/BOP/FS	FS/BOP/FS	IC	PF	QFAGG		BOP
F81	Trade credits and advances	FS/BOP/DCR/e^^	MFI	CBC	IF	FS/BOP/OFI	FS/BOP/FS	FS/BOP/FS	IC	PF	QFAGG	e^^	BOP
F89	Other accounts excl. F81	FS/BOP/DCR/e^^	MFI	CBC	IF	FS/BOP/OFI	FS/BOP/FS	FS/BOP/FS	IC	PF	QFAGG	e^^	BOP

Key for data sources and calculation/estimations

MFI	MFI balance sheet statistics
CBC	Central Bank balance sheet statistics
IF	Investment fund statistics
OFI	Other financial institution statistics (MFS Guideline)
IC	Insurance corporations statistics
PF	Pension fund statistics
QFAGG	Quarterly financial accounts for general government
BOP	Balance of payments and international investment position.
SEC	Securities issues statistics
SHS	Securities holdings statistics
FS	Annual financial statements
DCR	Department of the Registrar of Companies and Official Receiver
0	known to be zero
e^^	Estimated on a residual basis
CTD	The Cyprus Tax Department

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Documenting reconciliation approaches on vertical consistency

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Template on national reconciliation practices for the financial and non-financial accounts by institutional sector

For completion by 16 January 2023

The EG SA and the WG FGS Members discussed the draft template in their June 2022 meeting and agreed on the proposed way forward. The EG SA, the WG FGS and the TF AFA member were invited to provide joint comments to the draft template. The comments received have been incorporated.[1]

The WG FGS, the EG SA and the TF AFA member are requested to jointly complete the final template included in this document.

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[1] The note assessing the comments received is sent as an attachment (For WG FGS members from NCBs this is available in Darwin: Assessment of comments).

Template on national reconciliation practices for the financial and non-financial accounts by institutional sector

As a follow-up of the publication of the report on developing a common approach to improve vertical consistency[2], the ECB and Eurostat, in collaboration with the WG FGS, the EG SA and the TF AFA, developed a template for a harmonised summary presentation to users of national reconciliation practices in sector accounts for all countries.

The template in this note was slightly amended after the discussions in the ECB/Eurostat Expert Group on Sector Accounts (EG SA) and the ESCB Working Group on Financial Accounts and Government Finance Statistics (WG FGS) at their meetings in June 2022. Moreover, the final template incorporates the written comments received in the written procedure sent to the EG SA, WG FGS and the TF AFA by the financial and non-financial compilers (quarterly and annual) of the country.

The completed templates for all countries will be shared with the three groups together with a proposal for their publication. The objective is that countries publish the final version of the national templates at their websites, and include them in their national "level 3" self-assessment reports for financial accounts. A summary table of the templates' entries of countries and for the reconciliation practice for the euro area will be published, after countries' agreement, for users by the ECB and Eurostat.

The draft entries for the euro area are included as an example in the annex of this note.

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[2] https://www.ecb.europa.eu/stats/pdf/Recommendations_on_Vertical_consistency.en.pdf
https://ec.europa.eu/eurostat/documents/499359/499434/Recommendations on Vertical consistency.pdf. In particular, Recommendation XVII on transparency reads: *"Ensure clear documentation on the automated and manual balancing"*. In particular, as one of three proposed actions the recommendation requires that the *"ECB and Eurostat, with the support of national compilers, should produce information to help users understand the common and different features of national reconciliation approaches, and the approach for reconciling European aggregates."*

Country: Cyprus (2024)

1. **Do you apply any balancing method during the compilation of your accounts to improve vertical consistency?**

Do you apply manual[*] adjustments?	No
Do you apply automated adjustments? If so, could you give a brief explanation?	The automated adjustments in both AFA and QFA adhere to the principle that the lower quality instruments should be adjusted more. These are F512, F81 and F89.

[*The decisions taken by the experts in manual balancing should be 'informed', meaning that all available information has been considered, assumptions and limitations have been clearly identified and results reflect the economic reality.]

2. **To which sectors and/or transaction do you apply the largest adjustments?[*]**

Sectors: please provide a brief explanation which sectors are subject to the largest adjustments. [Please specify if the adjustment is done to the financial accounts or to the non-financial accounts, or both]	QFAGG and BOP/IIP are generally consistent with ASA and QSA for sectors S.13 and S.2 respectively. QFA is relatively consistent with both QFAGG and BOP/IIP, hence no adjustments need to be made in QFA since vertical consistency is largely guaranteed from the source data. Sectors S.11, S.14 and S.15 are adjusted in QFA on an annual basis for reaching full consistency with ASA. S.12 is adjusted in QFA on a residual basis accommodating minor inconsistencies and errors and omission that may exist between financial and non-financial accounts for sectors S.13 and S.2. AFA uses QFA as their main source so vertical consistency for S.11, S.14, S.13 and S.2 is largely guaranteed from the source data. S.12 is adjusted separately in AFA due to different sources for pension fund reserves (F6) compared to QFA.
Transactions: please provide a brief explanation which transactions are subject to the largest adjustments. [Please specify the financial instrument and/or the non-financial accounts transaction]	In QFA all adjustments are made in OVCs, so transactions are affected only indirectly. The instruments adjusted are F512, F81 and F89 based on a certain weight distribution. The same holds for AFA which rely on QFA as their main source.

[*You may indicate how the sectors and transactions subject to adjustments are selected (see Annex for an example (euro area)). It is suggested that at most the three sectors and transactions that are subject to the largest adjustments are indicated.]

3. **Please indicate the balancing targets[*] for specific sectors that you use in your country.[1]**

	Target for individual quarters	Target for four-quarter sums and/or annual data
Non-financial corporations (S.11)		AFA: 1.5% of GDP
Financial corporations (S.12)		AFA: 1% of GDP
Households and NPISH (S.1M)		AFA: 1.5% of GDP
Rest of the world (S.2)		AFA 1.5%-2% of GDP

[* Please indicate the target as currently defined, e.g. in EUR (or national currency) or as a percentage of quarterly or annual GDP. Please indicate whether targets are for individual quarters and/or for four-quarters sums (see Annex for an example (euro area)).]

[1] For the government sector, the prevalence of sector specific guidance is acknowledged, and reference is made to the Manual on quarterly financial accounts for general government in its current edition (part 1.c, page 34).

4. **Please specify whether you balance the accounts each quarter or less frequently (e.g. once a year). Please differentiate if there are different practices for annual and quarterly sector accounts.**

The Statistical Service Institute compiles AFA and reconciles these with the ASA, once a year.

The Central Bank of Cyprus compiles only the QFA data. Quarterly reconciliation between financial and non-financial accounts is only feasible for sectors S.13 and S.2 as Cyprus is currently exempted from the obligation to compile quarterly non-financial accounts for sectors S.11, S.12 and S.1M. Concerning the latter three sectors, vertical reconciliation is only feasible to a certain extent and only once a year in October when annual financial and non-financial accounts become available. In the subsequent quarters the consistency may break due to backward revisions effected only in QFA due to source data updates.

5. **Would you like to add any additional information relevant to users?**

ANNEX – Example using the compilation of euro area accounts:

Country: Quarterly euro area sector accounts

1. **Do you apply any balancing method during the compilation of your accounts to improve vertical consistency?**

Do you apply manual adjustments?	Manual adjustments to quarterly euro area financial accounts transactions are based on different sources of information together with expert knowledge. No manual adjustments are done on the side of the non-financial accounts.
Do you apply automated adjustments? If so, could you give a brief explanation?	In addition to the manual adjustments, an algorithmic procedure is applied for the euro area quarterly financial accounts to further reduce discrepancies. The algorithm minimizes the sum of squared differences adjusting for the relative reliability/accuracy of the underlying data sources. Sector/instrument combinations with known relatively low quality are adjusted more (see targets specified in question 3).

2. **To which sectors and/or transactions do you apply the largest adjustments?**

Sectors: please provide a brief explanation which sectors are adjusted? *[Please specify if the adjustment is done to the financial accounts or to the non-financial accounts, or both]*	Adjustments for the quarterly financial accounts are based on the relative quality of the sector-instrument combination (see question 1). For several instruments data on households and non-financial corporation have, in comparison to other sectors, lower quality.
Transactions: please provide a brief explanation? *[Please specify the financial instrument and/or the non-financial accounts transaction]*	Adjustments for the quarterly financial accounts are based on the relative quality of the sector-instrument combination (see question 1). Financial instruments which have relative low quality for most sectors are other equity, trade credits and other accounts payable other than trade credits.

3. **Please indicate the balancing targets for specific sectors that you use in your country.**

	Targets for individual quarters	Target for four-quarter sums
Non-financial corporations (S.11)	< 50 EUR bn	< 1% of GDP

Financial corporations (S.12)	< 8 EUR bn	< 1% of GDP
Households and NPISH (S.1M)	< 50 EUR bn	< 1% of GDP
Rest of the world (S.2)	< 30 EUR bn, aligned with the vertical discrepancy (net error and omissions) in balance of payments	< 1% of GDP

4. **Please specify whether you balance the accounts each quarter or less frequently (e.g. once a year). Please differentiate if there are different practices for annual and quarterly sector accounts.**

The ECB compiles quarterly financial accounts only and reconciles these with the quarterly non-financial accounts in every quarterly compilation round. Users who prefer to analyse financial accounts data without seasonal variation or for whom the quarterly data is too volatile are advised to use four-quarter sums.

5. **Would you like to add any additional information relevant to users?**

Euro area quarterly sector accounts and balance of payment data are fully consistent for financial transactions due to the alignment of data sources and the introduction of a common balancing mechanism for periods from Q1 2013 onwards.