Review of Measures of Private Sector External Debt in a Small Offshore Financial Centre

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Abstract

In the past decade Mauritius has emerged as an international financial centre, and has recently attracted global attention. Studies on the architecture of cross-border financial interconnectedness categorize Mauritius as an important node for emerging G20 countries. In response to a request of the Mauritian Authorities to adhere to the SDDS data initiative, the IMF recommended that the central bank extend the coverage of the external sector statistics to include the cross-border transactions and positions of Special Purpose Entities (SPEs) in the offshore sector. Results of the 2011 survey of global business corporations holding a category 1 license (GBC1s) domiciled in Mauritius indicate foreign assets holdings of above USD360 billion. Because GBC1s are considered residents of the Mauritian economy for statistical purposes, their foreign debt liabilities have been accounted for as private external debt of the country. However for a small country with a domestic GDP of roughly US$12 billion, having such a disproportionate private external debt ratio to GDP distorts its gross external debt indicators and overstates its external vulnerability. These entities, though they do have real activity in Mauritius, are mostly engaged in financial intermediation between non-residents. The paper shares the view that the global statistical standard-setters may have inadequately treated special purpose entities (SPEs) and understated their special role in the global financial network.

Key Words: Private sector external debt, external vulnerability, special purpose entities, external liabilities, balance sheet