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**Release of Revised Quarterly Balance of Payments, International Investment Position and Gross Direct Investment Flows - 2011 & 2012**

The Bank of Mauritius (the Bank) is today releasing revised Balance of Payments (BOP) and International Investment Position (IIP) data for 2011 and 2012 as well as revised estimates for 2013. Both the BOP and the IIP form part of the External Sector Statistics (ESS). The background for the data revisions is provided below.

**Progress Made in the Compilation of External Sector Statistics: 2007 - 2014**

In November 2006, the Bank initiated a process to review the data quality of the BOP in order to address the relatively large net errors and omissions. The technical assistance (TA) of the International Monetary Fund (IMF) was sought and a first mission visited the Bank in March 2007.

The main findings and recommendations of the March 2007 TA mission were, *inter alia*:

1. Since the suspension of exchange control in 1994, the Bank had relied primarily on an International Transactions Reporting System (ITRS), which collects customers' cross-border cash transactions that are settled through the domestic banking system, for the compilation of BOP statistics. Banks submit ITRS returns on a monthly basis.
2. The main advantage of using the ITRS is its timeliness and frequency. However, in a liberalised environment, the ITRS tends to be limited in scope. For example, cross-border transactions which can take place without a cash exchange and through customers' deposit accounts held with non-resident banks would not be captured within the ITRS framework. Moreover, cross-border transactions between affiliated enterprises cannot be identified.

3. The exclusion of Global Business Corporations (GBCs) in the coverage of the ESS meant that transactions in the external liabilities of the GBCs were not captured. However, their foreign currency deposits with the banking system were indirectly recorded because the counterpart entry to these deposits was reflected in banks' external assets. As a result, the BOP was showing substantial increases in banks' foreign assets without corresponding "offsetting" increases in external liabilities.
4. The Bank was releasing a partial IIP statement, as the existing data sources for the compilation of ESS were to some extent adequate for transactions<sup>1</sup> data but not for positions<sup>2</sup> data. In order to compensate for the lack of position data on external assets and liabilities, available transactions data were used to derive, by summation over time, position data for some components within the IIP. This practice was not considered as an "international best practice" as the summation of flows did not reflect fair valuation of the external assets and liabilities.
5. The Mission recommended among others, that the Bank undertake surveys of all private corporations', including GBCs, cross-border financial transactions and positions. Additionally, the IMF agreed to provide regular technical assistance to the Bank. The Mission also laid down a pre-condition for Mauritius to subscribe to the IMF's Special Data Dissemination Standards and requested that the Bank should compile a full IIP, which would have to include the external position data of the GBCs.

### **Technical Assistance Missions**

To implement the findings of the March 2007 Mission and to improve on the quality of ESS, the Bank initiated a survey-based approach, which would consist of designing appropriate questionnaires, identifying a survey frame and deciding on a methodology. The Bank began work on two major surveys concurrently: (a) The Foreign Assets and Liabilities Survey (FALS) and (b) the GBCs Survey.

For the FALS, the Bank benefited from the joint IMF-United Kingdom's Department for International Development (DFID) project initiative, whose objective was to provide technical expertise to a group of African countries to undertake foreign assets and liabilities

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<sup>1</sup> Transactions are flows

<sup>2</sup> Positions are stock

surveys and build IIP statistics. This project was completed in May 2009. A follow-up initiative was favourably considered by the United Kingdom authorities and a new joint IMF-DFID project, the “Enhanced Data Dissemination Initiative” (EDDI), with the same group of countries was set up to continue the work. Under the current EDDI project, which would end in 2015, an IMF-designated ESS expert visits the Bank every year. Thus, since 2009, there have been five EDDI TA missions with the most recent one currently visiting the Bank.

In addition to the DFID initiative, the IMF Statistics Department simultaneously provided TA to the Bank to start a similar project for the GBCs. In early 2008, the Bank started preparatory work with the Financial Services Commission (FSC), which regulates the GBC sector. Due to the complexity and challenges involved for the GBCs survey, it was decided to adopt a phased approach whereby the survey would initially target GBCs with a type 1 licence (GBC1s) and later on, the coverage would be extended to include GBCs with a type 2 licence (GBC2s). Three TA missions were conducted in this respect with the first one occurring in May 2009 followed by two other missions in September 2010 and September 2011 respectively. The implementation of these TA missions’ recommendations eventually allowed the country to graduate to the IMF Special Data Dissemination Standards in February 2012.

### **Foreign Assets and Liabilities Survey**

The Bank undertook an exploratory FALS in 2007 targeting 132 private entities. The exploratory survey enabled the Bank to test the questionnaire from feedbacks received and some significant changes were brought to the survey approach.

In April 2010, a second FALS exercise (FALS 2010) was launched targeting 195 enterprises, other than banks and real estate firms. They were to report transactions and positions data on their external assets and liabilities for calendar years 2008 and 2009. The response rate of 68 per cent for FALS 2010 was a big improvement on the 2007 survey (55 per cent response rate), but was still insufficient by internationally acceptable standards. The outcome was an under-measurement of foreign direct investment (FDI) and other investment flows.

In its assessment of the FALS 2010 and FALS 2011 results, the IMF TA mission of October 2011 highlighted the underreporting of investment flows relative to the ITRS and recommended that all enterprise groups with subsidiaries/affiliates abroad would have to report on an unconsolidated basis. The survey sample would need to be expanded to better reflect the importance of key sectors in the economy. However, despite these shortcomings,

both FALS 2010 and FALS 2011 survey exercises enabled the Bank to come up with preliminary hard data on reinvested earnings, trade credit, and private external debt, among others, which the current ITRS reporting system was unable to identify, and fill in data gaps in the IIP.

The November 2012 TA mission noted that notwithstanding efforts made by the Bank to expand the FALS survey sample to 310 enterprises and steps taken to ensure that all enterprises report on an unconsolidated basis, there still remained substantial direct investment inflows reported in the ITRS that were not reported in the FALS.

To improve on the quality of transactions, the November 2012 mission recommended that staff of the Bank visit enterprises for which substantial direct investment was reported in the ITRS. In addition the sample for the FALS had to be expanded to cover the non-bank financial sector. These recommendations were taken on board for the fourth survey launched in February 2013 (FALS 2013), which sought to collect cross-border financial account BOP transactions and IIP positions data for 2011 and 2012.

For this exercise, the Bank enlisted the support of the FSC to survey the Other Financial Corporations (OFCs) – other than GBCs and the deposit-taking financial institutions. The Bank surveyed a sample of 409 entities while the FSC surveyed 216 entities. The overall response rate reached 82 per cent. Data collection for the FALS 2013 was completed by end-August 2013 and the survey results were processed and finalised by mid-November 2013. Staff of the Bank visited several corporate entities and assisted them in filling in the survey questionnaires. As a result, there was a noted improvement in the data quality.

### **Survey of Global Business Companies with a Type 1 Licence**

The first GBC1s survey was carried out in 2009 for which the FSC targeted 12 Management Companies (MCs), which accounted for 75 per cent of total GBC1 assets. A separate IMF mission in July 2010 examined the survey results and concluded that the exercise should be considered **exploratory**. A similar exercise was carried out in 2011 targeting the same 12 MCs and requesting cross-border transactions and position data for 2010. After a thorough validation assessment by an IMF TA mission in September 2011, the results of the second survey were found to be more meaningful and were hence incorporated in the 2010 BOP statistics and the 2009 and 2010 IIP statistics.

The Bank together with the FSC pursued efforts to improve the coverage of both the survey sample and the type of transactions. As against 12 MCs in 2011, the FSC targeted 22 MCs for the GBC1 survey conducted in 2012. In addition, the Bank redesigned the survey questionnaire with a view to reducing MCs' reporting burden and providing consistency between transactions and positions data. Further, the Bank teamed up with Statistics Mauritius, which added a one-page questionnaire to the survey form on the GBC1s' income and expenditure. For the 2013 GBC1s survey conducted last year for 2012 data, the FSC recommended a sample of 24 MCs, which represented 96 per cent of the total population of the GBC1s. The data collection was completed towards end-August 2013. Preliminary survey results were incorporated in the provisional 2012 IIP released on the Bank's website end-September 2013. Final editing was completed towards end of November 2013. The actual consolidated transactions data were apportioned for the four quarters of 2012 and included in the quarterly BOP statistics to replace staff's estimates.

### **Incorporation of the Surveys' Results in the BOP Statistics**

The results of the FALS 2013 and the GBC1s Survey 2013 have now been incorporated in the BOP statistics for release today. There have been substantial revisions in the BOP statistics for the years 2011 and 2012 regarding *income*, *direct investment* and *private external debt* in the *other investment* category mainly and to a lesser extent in *portfolio investment*. The Bank is also releasing revised gross direct investment flows (excluding GBC1s) both into and from Mauritius for 2011 and 2012 to reflect the FALS 2013 results. It should be understood that such revisions are not uncommon elsewhere when countries rely on ITRS which are supplemented by surveys. It should also be noted that 2013 *direct investment* flows released today are preliminary and will be subject to revision once the FALS 2014 results are finalised. The main revisions for 2011 and 2012 are highlighted hereunder.

- For the year 2011, the main revisions to the BOP data take into account the FALS 2013 results and are reflected in the '*income*' account, '*direct investment*' and '*other investment*'. Excluding GBC1s, *direct investment income* has recorded higher net outflows of Rs6,333 million from Rs4,789 million, reported initially. Within the financial account, gross *direct investment inflows*, excluding GBC1s have been revised upward from Rs9,456 million to Rs12,894 million. Gross *direct investment outflows*, excluding GBC1s, have been revised to Rs6,101 million from an initial amount of Rs2,545 million. Long-term liabilities, excluding those of GBC1s, in

‘Other Investment’, have been reviewed upward from an initial Rs3,507 million to Rs4,482 million.

**Table 1: FALS 2013 Outcome for 2011 Transactions**

*Rs million*

	2011 Released data	2011 Revised data
Direct Investment Income	-4,789	-6,333
Direct Investment, gross inflows	9,456	12,894
<i>o/w Equity</i>	9,456	9,842
<i>o/w Retained Earnings</i>	<i>n.a</i>	1,881
<i>o/w Shareholders' Loan</i>	<i>n.a</i>	1,171
Direct Investment, gross outflows	2,545	6,101
<i>o/w Equity</i>	2,545	4,315
<i>o/w Retained Earnings</i>	<i>n.a</i>	288
<i>o/w Shareholders' Loan</i>	<i>n.a</i>	1,498
Other Investment, other sector, long-term liabilities	3,507	4,482

*n.a: not available*

- The revisions to the BOP statistics in 2012 reflect supplementary information culled from FALS 2013. Further, staff estimates of GBC1s 2012 cross-border transactions have been replaced by actual data collected from the GBC1s survey 2013 results. The main changes are in the ‘income’ account and within the financial account ‘direct investment’, ‘portfolio investment’ and ‘other investment’. The main changes are highlighted in Tables 2 and 3:

**Table 2: FALS 2013 Outcome for 2012 Transactions**

*Rs million*

	2012 Released data	2012 Revised data
Direct Investment Income	-3,199	-5,743
Direct Investment, gross inflows	12,669	20,373
<i>o/w Equity</i>	12,669	14,811
<i>o/w Retained Earnings</i>	<i>n.a</i>	3,815
<i>o/w Shareholders' Loan</i>	<i>n.a</i>	1,747
Direct Investment, gross outflows	2,659	5,549
<i>o/w Equity</i>	2,659	2,478
<i>o/w Retained Earnings</i>	<i>n.a</i>	612
<i>o/w Shareholders' Loan</i>	<i>n.a</i>	2,459
Other Investment, other sector, long-term liabilities	-1,020	-1,802

*n.a: not available*

**Table 3: GBC1s 2013 Outcome for 2012 Transactions**

*Rs million*

	<b>2012 Released data</b>	<b>2012 Revised data</b>
Direct Investment Income	6,692	-3,241
Portfolio Investment Income	-8,029	11,846
Other Investment Income	-1,290	2,669
Direct Investment, Net	-25,504	157,924
Portfolio Investment, Net	301,136	37,954
Other Investment, Net	-227,574	-153,628

- The gross *direct investment* flows into and from Mauritius for 2011 and 2012 not only include data on equity but also “flows” associated with changes in retained earnings positions and loans between affiliated entities better known as intra-company loans. It is worth noting that information on retained or reinvested earnings can only be collected through surveys and financial statements of firms.

### **Future work agenda**

With a view to further improve the data quality of the ESS, the Bank intends, with the assistance of the FSC, to extend the coverage of its statistics to include GBC2s cross-border transactions and positions data.

The Bank takes this opportunity to thank all stakeholders who have participated in the FALS 2013 and the GBC1s Survey 2013, and look forward to their continuous involvement in forthcoming surveys. The Bank underscores the fact that statistics are estimates and are bound to change as new and better data sources become available.

For any additional information on the BOP and IIP data revisions, please contact the Statistics Division of the Bank of Mauritius at [statistics.division@bom.mu](mailto:statistics.division@bom.mu).

**Statistics Division**

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