

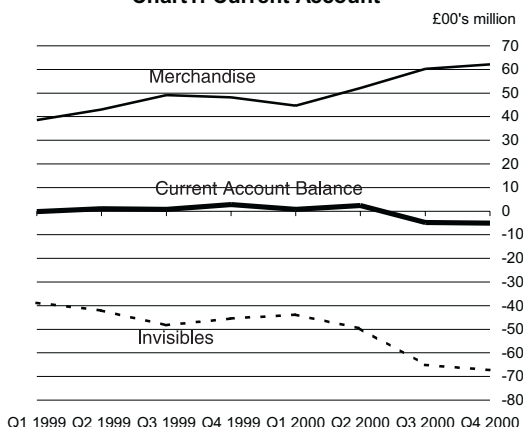


Central Statistics Office
An Phríomh-Oifig Staidrimh

19 April 2001

Balance of International Payments Quarter 4 and Year 2000

Chart1: Current Account



Q1 1999 Q2 1999 Q3 1999 Q4 1999 Q1 2000 Q2 2000 Q3 2000 Q4 2000

	£ million		
	Merchandise Balance	Invisibles Balance	Current Account Balance
Q4 2000	6,209	-6,721	-512
Q4 1999	4,824	-4,545	279
Year 2000	21,900	-22,583	-683
Year 1999	17,903	-17,457	446

Further Current Account deficit of £512m in the fourth quarter of 2000 results in an overall deficit of £683m in Year

There was a deficit of £512m (€654m) on the current account of the Balance of Payments in the fourth quarter of 2000, slightly higher than that of £486m (€620m) for the previous quarter. For the full year 2000, the current account showed a deficit of £683m (€877m) compared with a surplus of £446m (€567m) for the year 1999 - see Table 1.

The fourth quarter deficit resulted from combined surpluses for *merchandise* of £6,209m (€7,881m) and *current transfers* of £409m (€518m) being more than offset by deficits on *services* of £3,699m (€4,698m) and *income* of £3,431m (€4,355m). A similar pattern is evident for the full year, the *merchandise* and *current transfer* surpluses being £21,900m (€27,804m) and £824m (€1,039m) respectively; the *services* and *income* deficits were £11,453m (€14,549m) and £11,954m (€15,171m).

Merchandise exports growth continues (see Tables 1 and 2)

Merchandise exports continued to increase, the fourth quarter value being £17,644m; imports, which had declined somewhat in the third quarter, increased significantly in the fourth quarter to £11,435m. This resulted in exports of £62,807m and imports of £40,907m in the full year; in 1999, exports were £49,579m and imports were £31,676m.

Increasing services deficit (see Tables 1 and 2)

The overall *services* balance in the fourth quarter showed a deficit of £3,699m, up £0.7 billion on the third quarter deficit of £2,953m. *Services* exports in the quarter continued to grow and amounted to £3,900m while imports increased to £7,599m. Over the year, exports of services were £12,939m while imports stood at £24,392m. The corresponding figures for 1999 were: exports, £10,877m; imports, £19,302m. On the exports side, *tourism and travel* receipts at £2,197m in 2000 accounted for almost 17% of all *services* credits and was slightly lower than expenditure abroad by Irish residents. *Computer services* amounting to £4,243m represented almost a third of all services exported in the year and were up almost £0.5 billion on the 1999 level. Among the other items which showed continued export growth in 2000 were: *financial services*, £1,777m; *insurance*, £959m; and *royalties/licences*, £408m.

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Ardee Road Skehard Road
Dublin 6 Cork
Ireland Ireland

LoCall: 1890 313 414

Tel: +353-1 498 4000 Tel: +353-21 453 5000
Fax: +353-1 498 4020 Fax: +353-21 453 5555

Both offices may be contacted through any of these telephone numbers.

CSO on the Web: <http://www.cso.ie>

Director General: Donal Garvey

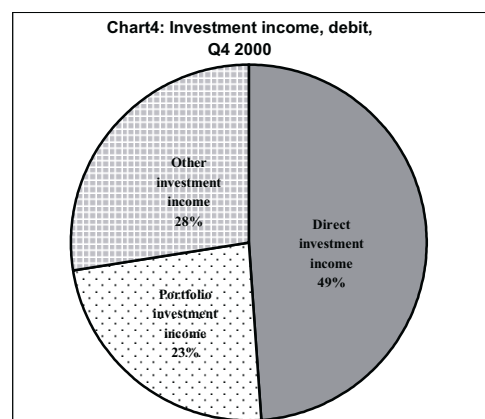
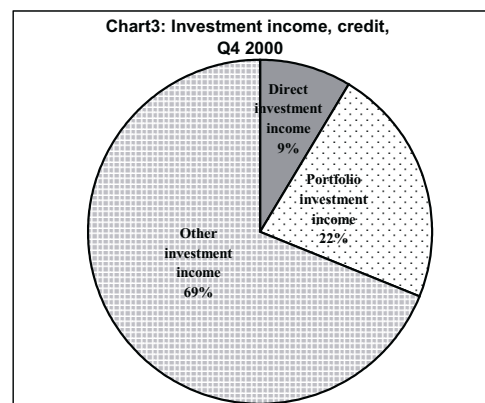
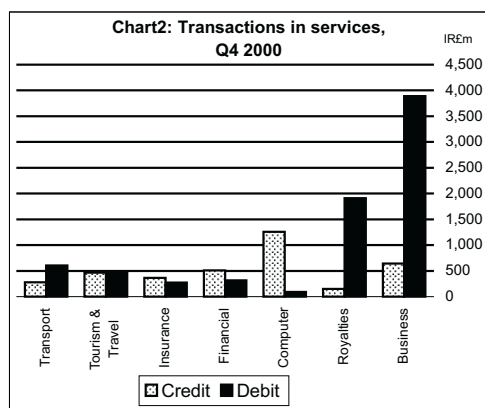
Enquiries:

BOP Statistics	BOP Section, 01-498 4047 bop@cso.ie
Queries and Sales	Information Section, ext 5032 information@cso.ie
Diskette Service	Databank, ext 5650/5499 databank@cso.ie

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For more information contact John Fitzpatrick on 01-498 4366 or Michael Connolly on 01- 498 4203.



On the imports side, the main contributors over the year 2000 were: *royalties/licences*, £6,343m, up £1.2 billion on the previous year's figure; *trade related business services*, £4,364m, up almost £1 billion on last year's level, and *miscellaneous business services* - mainly inter-affiliate management charges, £6,220m, also up over £1.6 billion on the 1999 figure.

Income outflows increase (see Tables 1 and 2)

Net outflows of income amounted to £3,431m in the fourth quarter, marginally down on the previous quarter. Income inflows in the quarter were £7,805m while income outflows stood at £11,236m, i.e. an increase over the previous quarter of around £0.5 billion in both cases. In the year 2000 income credits were £26,057m (up 40% on the 1999 level) while income debits at £38,011m were up one third on the 1999 figure. The annual increase on the credits side can be largely traced to interest receivable on *other investment* assets (loans, currencies, deposits, etc.) of £17,089m and to *portfolio investment income* of £6,025m. On the debits side, the overall increase in income outflows of £9.5 billion arose from *direct investment income*, £19,864m (up almost £3.3 billion), *portfolio investment income*, £8,506m (up £3.7 billion) and *other investment income*, £9,551m (up £2.5 billion).

Current transfers continue in surplus (see Tables 1 and 3)

Current transfers showed a significant surplus of £409m in the fourth quarter compared to a small deficit of £64m in the third quarter of 2000. Over the year, a surplus of £824m was recorded, down on the previous year's surplus of £951m. In gross terms, overall receipts in 2000 amounted to £3,695m while payments stood at £2,871m. Within these gross flows, transfers relating to IFSC non-life insurance business showed equal amounts on both the credits and debits sides i.e. £1,814m in 2000, down from the 1999 level of £2,004m. Non-IFSC transfers relate largely to EU receipts and payments referred to above.

IFSC contribution to the current account (see Table 3)

In terms of their nominal contribution to the overall current account balance, IFSC enterprises' transactions with non-residents showed an apparent surplus of £1,967m last year compared to £1,236m in 1999. However, IFSC enterprises also interact with their resident non-IFSC affiliates, some of which are foreign owned. Care should therefore be exercised when interpreting the IFSC's contribution to the current account in an overall national context.

Geographical details of the current account (see Table 4a)

Credit transactions with EU residents in 2000 accounted for £63,288m or almost 60% of the total of current account credits; the corresponding debits amounted to £52,404m or 49% of the total. The same analysis for transactions with EMU residents shows that total credits amounted to £36,459m or over 34% of the total; EMU debit transactions totalled to £26,195m or almost 25% of all current account debits.

Capital account (see Table 1)

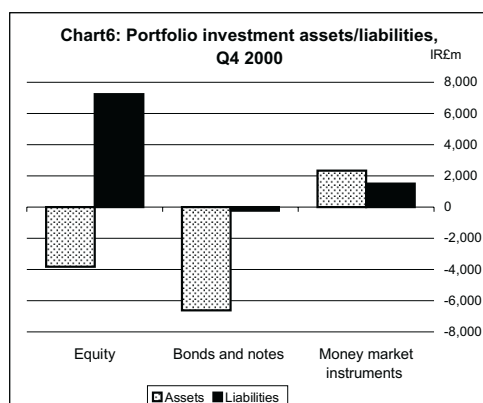
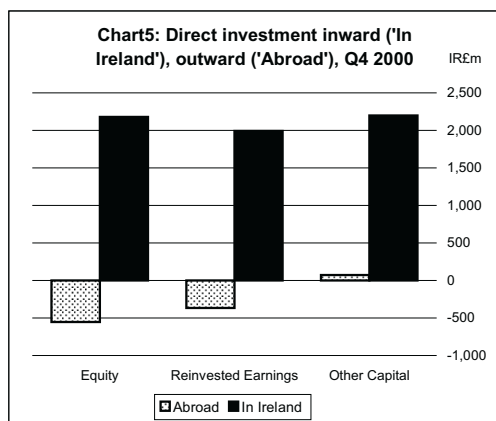
In the fourth quarter of last year there was a net credit balance of £553m (€702m) on the capital account. This was due largely to the outright sale of product rights to a non-resident which also largely accounts for the increase from £441m (€560m) in 1999 to £952m (€1,207m) in 2000 in the capital account surplus. EU capital transfer receipts influence these figures as well but to a smaller degree than before.

Financial account reflects turbulence in the financial markets (see Tables 1, 2 and 3)

The marginal deficit of £142m (€186m) on the financial account in the fourth quarter represents a change in the progression of surpluses (i.e. increases in net liabilities to non-residents) seen over the last four quarters. It reflects the increasing turbulence in the international financial markets which became evident towards the end of last year. This is particularly noticeable in the results for *portfolio investment* and for *other investment*. For the year 2000 overall, however, net overseas liabilities amounted to £5,077m (€6,439m); in 1999 such liabilities stood at a marginal £121m (€153m). In gross terms, overall net acquisitions of foreign assets amounted to £103.8 billion in 2000 while net incurrences of foreign liabilities totalled £108.9 billion. Activities of IFSC enterprises were also affected by market volatility in the fourth quarter but their foreign investment transactions continued to dominate the overall results. On the assets side, IFSC enterprises accounted for £92.7 billion or 89% of the total in 2000; on the liabilities side, these enterprises accounted for £89.9 billion or almost 83% of the total.

Geographical analysis of the financial account (see Table 4b)

The sizeable fluctuations in the fourth quarter results were evident across regions and *portfolio investment* and *other investment* transaction values with EU and non-EU residents showed some significant reductions compared to earlier quarters for both assets and liabilities. A similar outcome is evident for transactions with EMU and non-EMU residents.



Over the year 2000, increased claims on non-EMU area residents amounted to £76.9 billion or 74% of all such transactions; claims on non-EU residents accounted for 57% of the total. Liabilities to non-EMU area residents at £94.9 billion were 87% of the total while similar claims on non-EU residents accounted for just 55% of the total.

Direct investment

Inward direct investment (including reinvestment of earnings) in the fourth quarter at £6,368m was over £1 billion higher than for the previous quarter. Outward investment in the quarter at £846m was almost £400m higher than the corresponding third quarter figure. For the year 2000 overall, direct investment into Ireland was £17,714m or £3.7 billion up on the 1999 figure. In contrast, outward direct investment in 2000 at £2,269m was over £1.7 billion down on that for 1999. Inward investment into IFSC enterprises accounted for about 60% of the total. In geographical terms, non-EMU direct investors accounted for 90% of all inward direct investment. Overall, net inward direct investment in 2000 was £15.4 billion (£10.0 billion in 1999).

Portfolio investment

Inward portfolio investment (liability) transactions in each of the first three quarters of 2000 were around £19 billion. Due to international financial market instability, the fourth quarter saw a significant reduction to a liability inflow of £8.5 billion and this was essentially reflected in a major fall off in investment into IFSC collective investment institutions. Outward portfolio investment (mostly by IFSC enterprises) was consequently reduced compared to earlier quarters and amounted to £8.1 billion. In geographical terms, the bulk of the inward and outward investment relates to transactions with counterparts in non-EMU (and non-EU) countries. As regards instrument analysis on the assets side, for 2000 as a whole, *equities* accounted for about 36% of the total while *bonds and notes* accounted for almost 45% of the total. On the liabilities side, 84% of the inward investment was in *equities* (including units purchased in collective investment schemes).

Other investment

Ireland's *other investment* transactions in the fourth quarter showed an increase in net foreign assets of just over £6 billion, of which £4.8 billion was due to transactions in trade credits, financial derivatives and life insurance. For the full year 2000, acquisition of foreign assets (mostly under *loans, currencies and deposits*) totalled just over £34.5 billion and exceeded liability transactions by about £10 billion. IFSC activity accounted for £31.6 billion of the assets acquired and almost £16.5 billion of the liabilities incurred. Transactions with non-EU residents totalled almost £21 billion on the assets side and £10.5 billion in liabilities.

Reserve assets

There was a marginal net reduction in *reserve assets* in the fourth quarter and a small increase (£70m) over 2000 as a whole.

Net errors and omissions

The balancing item *net errors and omissions* shows a small credit (£101m) in the fourth quarter of 2000; over the whole year, however, this item shows a sizeable debit of just over £5 billion and should probably be viewed in the context of overall gross flows (credits plus debits) of the order of £425 billion in the year.

Table 1a – Summary of Current, Capital and Financial Account Net Balances

£ million

Item	1998	1999	2000	1999				2000			
	Year			Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account											
Merchandise ¹	13,996	17,903	21,900	3,861	4,304	4,914	4,824	4,466	5,206	6,019	6,209
Services	-7,089	-8,424	-11,453	-2,044	-2,095	-2,002	-2,283	-2,066	-2,735	-2,953	-3,699
Income	-7,389	-9,984	-11,954	-2,056	-2,380	-2,968	-2,579	-2,589	-2,446	-3,488	-3,431
Current Transfers	1,038	951	824	224	275	135	317	268	211	-64	409
Balance on Current Account	556	446	-683	-15	103	79	279	79	236	-486	-512
Balance on Capital Account	661	441	952	105	31	3	302	237	151	11	553
Financial Account											
Direct Investment	3,483	10,008	15,445	3,686	1,992	3,411	919	2,385	2,665	4,873	5,522
Portfolio Investment	-6,667	-11,059	38	-3,725	-4,057	-3,398	122	-4,459	8,522	-4,409	384
Other Investment ²	5,874	-203	-10,336	596	-1,122	-22	345	3,139	-9,287	1,863	-6,051
Reserve Assets	-1,796	1,375	-70	1,486	-73	10	-48	30	-43	-60	3
Balance on Financial Account	894	121	5,077	2,042	-3,260	1	1,338	1,095	1,857	2,267	-142
Net errors and omissions	-2,112	-1,008	-5,346	-2,132	3,126	-84	-1,918	-1,411	-2,244	-1,792	101

¹ Adjusted for balance of payments purposes² Including financial derivatives and trade credits

Table 1b – Summary of Current, Capital and Financial Account Net Balances (in Euro Currency)

€ million¹

Item	1998	1999	2000	1999				2000			
	Year	Year	Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account											
Merchandise ²	17,771	22,732	27,804	4,903	5,465	6,240	6,125	5,671	6,610	7,642	7,881
Services	-9,002	-10,697	-14,549	-2,596	-2,661	-2,542	-2,898	-2,625	-3,475	-3,751	-4,698
Income	-9,382	-12,677	-15,171	-2,611	-3,022	-3,769	-3,275	-3,286	-3,102	-4,428	-4,355
Current Transfers	1,319	1,208	1,039	285	349	172	402	338	266	-83	518
Balance on Current Account	706	567	-877	-19	131	101	354	98	299	-620	-654
Balance on Capital Account	840	560	1,207	133	40	4	383	300	192	13	702
Financial Account											
Direct Investment	4,422	12,707	19,607	4,680	2,529	4,332	1,167	3,027	3,383	6,187	7,010
Portfolio Investment	-8,466	-14,042	51	-4,730	-5,152	-4,314	155	-5,659	10,820	-5,597	487
Other Investment ³	7,459	-258	-13,132	756	-1,424	-28	438	3,986	-11,791	2,361	-7,688
Reserve Assets	-2,280	1,746	-87	1,887	-93	13	-61	39	-55	-76	5
Balance on Financial Account	1,135	153	6,439	2,593	-4,140	2	1,698	1,393	2,357	2,875	-186
<i>Net errors and omissions</i>	<i>-2,681</i>	<i>-1,280</i>	<i>-6,769</i>	<i>-2,707</i>	<i>3,969</i>	<i>-106</i>	<i>-2,436</i>	<i>-1,791</i>	<i>-2,848</i>	<i>-2,268</i>	<i>138</i>

¹ Converted at the European Union official exchange rate conversion factor, fixed at 0.787564, effective from 1 January 1999² Adjusted for balance of payments purposes³ Including financial derivatives and trade credits

Table 2a – Current and Capital Accounts

£ million

Item		1999	2000	1999				2000			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account											
Merchandise ¹	Cr	49,579	62,807	11,122	11,931	12,757	13,770	13,994	15,236	15,933	17,644
	Db	31,676	40,907	7,261	7,627	7,843	8,946	9,528	10,030	9,914	11,435
Services	Cr	10,877	12,939	2,225	2,813	2,875	2,965	2,529	3,076	3,434	3,900
	Db	19,302	24,392	4,269	4,908	4,877	5,248	4,595	5,811	6,387	7,599
Transport	Cr	1,019	1,192	201	261	314	243	226	311	378	277
	Db	1,761	2,133	412	429	435	485	464	534	533	602
Tourism and Travel ²	Cr	1,898	2,197	324	517	716	341	292	597	845	463
	Db	1,829	2,224	244	526	684	376	323	603	836	462
Communications	Cr	264	357	74	62	63	64	41	63	49	204
	Db	154	200	44	35	37	38	38	48	77	37
Insurance	Cr	736	959	120	197	116	304	225	206	163	365
	Db	1,050	1,150	215	212	301	322	244	389	245	272
Financial services	Cr	1,232	1,777	228	377	307	320	354	415	502	506
	Db	933	1,232	186	283	203	261	271	276	368	317
Computer services ³	Cr	3,770	4,243	749	947	909	1,164	1,052	1,028	903	1,260
	Db	230	353	61	52	59	58	64	88	109	92
Royalties/Licences	Cr	307	408	76	51	60	120	56	95	107	150
	Db	5,134	6,343	1,236	1,215	1,227	1,455	1,262	1,588	1,581	1,912
Business services	Cr	1,520	1,565	419	367	355	378	220	280	421	644
	Db	8,125	10,662	1,852	2,137	1,909	2,227	1,892	2,260	2,618	3,892
Trade related	Cr	92	220	21	20	25	26	18	17	11	174
	Db	3,498	4,364	831	1,081	694	891	790	874	1,047	1,653
Operational leasing	Cr	531	469	185	116	108	122	75	101	235	58
	Db	71	78	19	18	18	17	14	17	23	24
Misc. business services ⁴	Cr	898	876	213	232	222	231	127	162	175	412
	Db	4,557	6,220	1,002	1,038	1,197	1,319	1,088	1,369	1,548	2,215
Other services n.e.s.	Cr	132	241	33	34	34	30	63	81	66	31
	Db	85	95	19	19	21	25	37	25	20	13

Table 2a – Current and Capital Accounts - continued

£ million

Item		1999	2000	1999				2000			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account - continued											
Income	Cr	18,517	26,057	3,828	4,705	4,729	5,255	4,751	6,230	7,271	7,805
	Db	28,501	38,011	5,884	7,086	7,697	7,834	7,340	8,676	10,759	11,236
Compensation of Employees	Cr	163	160	41	41	41	41	40	40	40	40
	Db	89	90	24	15	23	28	33	31	13	13
Investment Income	Cr	18,354	25,897	3,787	4,665	4,688	5,214	4,711	6,190	7,231	7,765
	Db	28,411	37,921	5,860	7,071	7,675	7,806	7,307	8,645	10,746	11,223
Direct investment income	Cr	2,550	2,783	565	620	645	720	713	678	726	666
	Db	16,584	19,864	3,549	3,959	4,608	4,468	4,031	4,483	5,863	5,487
Income on equity	Cr	1,513	1,706	396	366	367	383	471	411	449	375
	Db	15,988	18,804	3,405	3,821	4,466	4,296	3,846	4,192	5,480	5,286
Dividends & distributed branch profits	Cr	48	402	13	16	10	9	87	83	222	10
	Db	10,221	10,598	2,425	2,008	2,373	3,415	2,371	2,393	2,539	3,295
Reinvested earnings	Cr	1,465	1,304	383	350	357	375	384	328	227	365
	Db	5,767	8,206	980	1,813	2,092	881	1,475	1,799	2,941	1,991
Income on debt	Cr	1,037	1,077	169	254	278	336	242	267	277	291
	Db	596	1,060	144	138	143	171	185	291	383	201
Portfolio investment income	Cr	4,527	6,025	886	1,160	1,183	1,298	984	1,447	1,851	1,743
	Db	4,797	8,506	1,054	1,244	1,372	1,127	1,540	2,026	2,300	2,640
Income on equity	Cr	1,018	1,130	215	359	230	213	291	326	271	242
	Db	2,530	3,906	520	748	651	611	777	934	1,144	1,051
Income on debt	Cr	3,509	4,895	671	800	953	1,085	693	1,121	1,580	1,501
	Db	2,266	4,600	534	496	721	516	763	1,092	1,156	1,589
Other investment income	Cr	11,277	17,089	2,336	2,885	2,861	3,196	3,014	4,065	4,654	5,356
	Db	7,030	9,551	1,257	1,868	1,694	2,212	1,736	2,136	2,583	3,096
Current Transfers	Cr	3,947	3,695	749	757	792	1,649	882	843	678	1,292
	Db	2,996	2,871	525	481	657	1,332	614	632	742	883
Current Account - Total	Cr	82,921	105,498	17,924	20,206	21,153	23,639	22,156	25,385	27,316	30,641
	Db	82,475	106,181	17,939	20,102	21,074	23,360	22,077	25,149	27,802	31,153
Current Account Balance		446	-683	-15	103	79	279	79	236	-486	-512
Capital Account Balance		441	952	105	31	3	302	237	151	11	553

¹ Adjusted for balance of payments purposes² Excluding passenger fare receipts³ Covers exports and imports of software that was not incorporated as part of computer hardware or physical media but separately transmitted by electronic means. The value of sales and purchases of additional software licences is also included⁴ Covers mainly inter-affiliate charges (e.g. management fees), in particular on the debit side

Table 2b – Financial Account¹

£ million

Item		1999	2000	1999				2000			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Direct Investment	Abroad	-4,005	-2,269	-883	-944	-1,250	-929	-322	-638	-463	-846
	In Ireland	14,013	17,714	4,568	2,936	4,662	1,847	2,707	3,303	5,336	6,368
Equity	Abroad	-1,735	-1,748	-298	-392	-691	-352	-235	-443	-518	-552
	In Ireland	6,209	7,988	2,240	1,540	753	1,676	1,711	1,224	2,875	2,178
Reinvested Earnings	Abroad	-1,465	-1,304	-383	-350	-357	-375	-384	-328	-227	-365
	In Ireland	5,767	8,206	980	1,813	2,092	881	1,475	1,799	2,941	1,991
Other Capital	Abroad	-806	783	-201	-201	-201	-201	297	133	282	71
	In Ireland	2,037	1,520	1,348	-417	1,816	-710	-479	280	-480	2,199
Portfolio Investment	Assets	-61,205	-66,882	-11,436	-16,787	-14,707	-18,275	-23,512	-10,907	-24,347	-8,116
	Liabilities	50,146	66,920	7,711	12,730	11,309	18,397	19,053	19,429	19,938	8,500
Equity	Assets	-26,903	-24,235	-3,939	-7,185	-9,546	-6,232	-6,299	-2,821	-11,284	-3,831
	Liabilities	38,820	56,450	4,636	9,964	10,846	13,375	13,317	16,383	19,518	7,232
Debt Instruments	Assets	-34,302	-42,647	-7,497	-9,602	-5,160	-12,043	-17,213	-8,086	-13,063	-4,285
	Liabilities	11,326	10,470	3,075	2,766	463	5,022	5,736	3,046	420	1,268
Bonds and notes	Assets	-23,313	-29,767	-7,079	-7,423	-4,105	-4,705	-10,838	-5,310	-6,999	-6,620
	Liabilities	5,705	3,394	1,205	1,715	1,765	1,019	2,625	422	584	-237
Money market instruments	Assets	-10,989	-12,880	-418	-2,178	-1,056	-7,337	-6,375	-2,776	-6,064	2,335
	Liabilities	5,621	7,076	1,870	1,050	-1,302	4,003	3,111	2,624	-164	1,505

Table 2b – Financial Account¹ - continued

£ million

Item		1999	2000	1999				2000			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Other Investment	Assets	-27,517	-34,557	-7,787	-5,332	-11,677	-2,721	-7,813	-10,811	-9,368	-6,565
	Liabilities	27,314	24,221	8,382	4,210	11,655	3,066	10,952	1,524	11,231	514
Loans, currency and deposits	Assets	-24,676	-29,954	-5,430	-5,018	-10,632	-3,597	-7,586	-9,702	-10,366	-2,300
	Liabilities	26,049	23,317	8,384	3,719	10,704	3,243	10,616	1,582	10,090	1,029
Other ²	Assets	-2,841	-4,603	-2,357	-314	-1,046	876	-227	-1,109	998	-4,265
	Liabilities	1,264	904	-1	492	951	-177	336	-58	1,141	-515
Reserve Assets		1,375	-70	1,486	-73	10	-48	30	-43	-60	3
Monetary gold		50	-1	50	-1	0	1	-1	1	0	-1
Special drawing rights		104	-8	111	-2	-2	-2	-2	-2	-2	-2
Reserve position in the IMF		110	54	14	41	43	12	0	44	9	1
Foreign exchange		1,120	-150	1,307	-113	-28	-46	33	-78	-37	-68
Other		-9	35	3	2	-2	-12	0	-8	-30	73
Balance on Financial Account		121	5,077	2,042	-3,260	1	1,338	1,095	1,857	2,267	-142
Net errors and omissions		-1,008	-5,346	-2,132	3,126	-84	-1,918	-1,411	-2,244	-1,792	101
Memorandum Item:											
Government financial transactions	Assets	-1,915	-1,235	0	0	-2,505	590	-1,622	-1,898	1,959	326
	Liabilities	274	821	56	-590	-379	1,188	1,393	1,018	-1,595	5

¹ Financial account transactions are categorised under two headings 'Assets' and 'Liabilities' for *Portfolio Investment*, *Other Investment* and *Reserve Assets*. For *Direct Investment*, a 'directional' categorisation is used: 'Abroad' indicates direct investment by Irish investors in foreign companies; direct investment into Ireland is indicated by the heading 'In Ireland'. The sign convention used is: a minus sign in the 'Abroad' and 'Assets' columns means investments or acquisitions abroad (in enterprises, foreign securities, foreign deposits, etc.) by Irish investors exceeded their disinvestments or disposals in the period, while an entry without sign (less usual) means disinvestment exceeded investment; an entry without sign in the 'In Ireland' and 'Liabilities' columns means that investment transactions into Ireland or incurrences of liabilities to foreign investors exceeded disinvestment or extinctions of liabilities in the period, while a minus sign (less usual) indicates that disinvestment exceeded investment and liability extinctions exceeded incurrences

² Including financial derivatives and trade credits

Table 3 – Current, Capital and Financial Accounts showing IFSC¹ and non-IFSC activity

£ million

Item		1999	2000	1999				2000			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account - Total	Cr	82,921	105,498	17,924	20,206	21,153	23,639	22,156	25,385	27,316	30,641
	Db	82,475	106,181	17,939	20,102	21,074	23,360	22,077	25,149	27,802	31,153
Merchandise ²	Cr	49,579	62,807	11,122	11,931	12,757	13,770	13,994	15,236	15,933	17,644
	Db	31,676	40,907	7,261	7,627	7,843	8,946	9,528	10,030	9,914	11,435
Services	Cr	10,877	12,939	2,225	2,813	2,875	2,965	2,529	3,076	3,434	3,900
	Db	19,302	24,392	4,269	4,908	4,877	5,248	4,595	5,811	6,387	7,599
- IFSC	Cr	2,598	3,020	573	710	563	753	603	681	855	881
	Db	2,146	2,441	444	497	590	615	428	595	681	737
- non IFSC	Cr	8,279	9,917	1,652	2,103	2,312	2,212	1,926	2,395	2,578	3,018
	Db	17,156	21,952	3,826	4,411	4,287	4,632	4,167	5,216	5,707	6,862
Income	Cr	18,517	26,057	3,828	4,705	4,729	5,255	4,751	6,230	7,271	7,805
	Db	28,501	38,011	5,884	7,086	7,697	7,834	7,340	8,676	10,759	11,236
- IFSC	Cr	13,823	20,940	2,629	3,562	3,642	3,991	3,485	5,006	5,932	6,517
	Db	13,039	19,552	2,337	3,437	3,524	3,742	3,311	4,573	5,650	6,018
- non IFSC	Cr	4,694	5,117	1,199	1,144	1,087	1,264	1,266	1,224	1,340	1,287
	Db	15,461	18,459	3,547	3,649	4,173	4,092	4,029	4,103	5,108	5,219
Current Transfers	Cr	3,947	3,695	749	757	792	1,649	882	843	678	1,292
	Db	2,996	2,871	525	481	657	1,332	614	632	742	883
- IFSC ³	Cr	2,004	1,814	263	283	427	1,031	324	462	451	577
	Db	2,004	1,814	263	283	427	1,031	324	462	451	577
- non IFSC	Cr	1,944	1,880	486	474	366	618	558	381	227	714
	Db	992	1,056	262	199	230	301	290	170	290	306
Balance on Current Account		446	-683	-15	103	79	279	79	236	-486	-512
Balance on Capital Account		441	952	105	31	3	302	237	151	11	553

Table 3 – Current, Capital and Financial Accounts showing IFSC¹ and non-IFSC activity - continued

£ million

Item		1999	2000	1999				2000			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Financial Account ⁴											
Direct investment	Abroad	-4,005	-2,269	-883	-944	-1,250	-929	-322	-638	-463	-846
	In Ireland	14,013	17,714	4,568	2,936	4,662	1,847	2,707	3,303	5,336	6,368
- IFSC	Abroad	0	0	0	0	0	0	0	0	0	0
	In Ireland	9,230	10,766	3,676	1,671	2,963	919	928	2,048	3,172	4,618
- non IFSC	Abroad	-4,005	-2,269	-883	-944	-1,250	-929	-322	-638	-463	-846
	In Ireland	4,783	6,946	892	1,264	1,698	928	1,778	1,255	2,164	1,749
Portfolio investment	Assets	-61,205	-66,882	-11,436	-16,787	-14,707	-18,275	-23,512	-10,907	-24,347	-8,116
	Liabilities	50,146	66,920	7,711	12,730	11,309	18,397	19,053	19,429	19,938	8,500
- IFSC	Assets	-52,792	-61,109	-8,024	-14,645	-13,154	-16,970	-21,143	-11,503	-22,139	-6,324
	Liabilities	47,216	62,697	7,063	12,721	10,798	16,634	16,647	17,314	20,501	8,235
- non IFSC	Assets	-8,413	-5,773	-3,412	-2,142	-1,553	-1,305	-2,369	596	-2,208	-1,792
	Liabilities	2,931	4,225	648	9	511	1,762	2,406	2,116	-563	266
Other investment ⁵	Assets	-27,517	-34,557	-7,787	-5,332	-11,677	-2,721	-7,813	-10,811	-9,368	-6,565
	Liabilities	27,314	24,221	8,382	4,210	11,655	3,066	10,952	1,524	11,231	514
- IFSC	Assets	-19,652	-31,584	-4,066	-5,169	-8,180	-2,237	-6,691	-9,404	-7,134	-8,355
	Liabilities	17,456	16,484	3,330	4,584	6,902	2,640	8,500	1,096	6,752	136
- non IFSC	Assets	-7,865	-3,502	-3,721	-163	-3,498	-484	-1,122	-1,406	-2,234	1,260
	Liabilities	9,858	7,734	5,052	-373	4,753	426	2,452	427	4,477	378
Reserve Assets		1,375	-70	1,486	-73	10	-48	30	-43	-60	3
Balance on Financial Account		121	5,077	2,042	-3,260	1	1,338	1,095	1,857	2,267	-142
Net errors and omissions											
		-1,008	-5,346	-2,132	3,126	-84	-1,918	-1,411	-2,244	-1,792	101

¹ From the start of 2000 new international financial service projects are no longer subject to the earlier certification and licensing procedures in operation for location in the IFSC and such projects can, therefore, locate anywhere in Ireland. Additions to existing IFSC projects, however, are still subject to the formal procedures. For statistical analysis purposes this table still shows the 'IFSC/non-IFSC' breakdown and the activities of all international financial service enterprises are covered under the IFSC heading

² Adjusted for balance of payments purposes

³ Current transfers to and from IFSC enterprises relate solely to non-life insurance transactions (see Background Notes)

⁴ See footnote 1 on Table 2b

⁵ Including financial derivatives and trade credits

Table 4a – Current and Capital Accounts showing geographical¹ detail

£ million

Item		1999	2000	1999				2000			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account - Total	Cr	82,921	105,498	17,924	20,206	21,153	23,639	22,156	25,385	27,316	30,641
	Db	82,475	106,181	17,939	20,102	21,074	23,360	22,077	25,149	27,802	31,153
Merchandise ²	Cr	49,579	62,807	11,122	11,931	12,757	13,770	13,994	15,236	15,933	17,644
	Db	31,676	40,907	7,261	7,627	7,843	8,946	9,528	10,030	9,914	11,435
- EMU	Cr	19,337	22,113	4,362	4,823	4,626	5,526	5,189	5,255	5,340	6,329
	Db	6,209	8,178	1,422	1,562	1,480	1,746	1,990	2,177	1,727	2,284
- non EMU	Cr	30,243	40,692	6,760	7,107	8,132	8,244	8,804	9,981	10,593	11,314
	Db	25,467	32,730	5,839	6,065	6,363	7,200	7,538	7,853	8,187	9,152
- EU	Cr	31,383	37,492	7,233	7,608	7,633	8,909	8,926	8,910	9,035	10,621
	Db	17,123	22,052	3,907	4,155	4,121	4,940	5,538	5,385	4,960	6,169
- non EU	Cr	18,196	25,313	3,889	4,323	5,124	4,861	5,067	6,326	6,898	7,022
	Db	14,553	18,855	3,354	3,472	3,722	4,006	3,990	4,645	4,954	5,266
Services	Cr	10,877	12,939	2,225	2,813	2,875	2,965	2,529	3,076	3,434	3,900
	Db	19,302	24,392	4,269	4,908	4,877	5,248	4,595	5,811	6,387	7,599
- EMU	Cr	3,619	4,327	691	932	999	998	795	983	1,268	1,281
	Db	4,254	4,949	928	1,095	1,094	1,137	909	1,286	1,237	1,517
- non EMU	Cr	7,258	8,614	1,534	1,881	1,876	1,968	1,734	2,093	2,166	2,621
	Db	15,048	19,442	3,341	3,814	3,782	4,111	3,686	4,525	5,150	6,081
- EU	Cr	7,230	8,712	1,415	1,880	1,897	2,039	1,660	2,097	2,334	2,621
	Db	8,506	9,809	1,889	2,155	2,184	2,278	1,841	2,478	2,585	2,905
- non EU	Cr	3,647	4,228	810	933	978	927	869	979	1,100	1,280
	Db	10,796	14,582	2,380	2,754	2,693	2,969	2,754	3,333	3,802	4,693
Income	Cr	18,517	26,057	3,828	4,705	4,729	5,255	4,751	6,230	7,271	7,805
	Db	28,501	38,011	5,884	7,086	7,697	7,834	7,340	8,676	10,759	11,236
- EMU	Cr	6,402	8,501	1,371	1,548	1,498	1,985	1,655	2,266	2,331	2,249
	Db	9,369	12,111	1,875	2,205	2,556	2,733	2,484	2,883	3,181	3,563
- non EMU	Cr	12,115	17,556	2,457	3,158	3,231	3,269	3,096	3,964	4,939	5,557
	Db	19,132	25,899	4,009	4,881	5,141	5,101	4,856	5,793	7,578	7,672
- EU	Cr	10,176	14,173	2,058	2,617	2,603	2,898	2,628	3,409	3,903	4,233
	Db	13,824	18,716	2,872	3,291	3,670	3,992	3,522	4,710	4,915	5,569
- non EU	Cr	8,340	11,887	1,770	2,089	2,126	2,356	2,123	2,821	3,368	3,575
	Db	14,676	19,296	3,012	3,795	4,027	3,842	3,818	3,966	5,844	5,668
Current Transfers	Cr	3,947	3,695	749	757	792	1,649	882	843	678	1,292
	Db	2,996	2,871	525	481	657	1,332	614	632	742	883
- EMU	Cr	286	1,518	47	36	47	156	49	458	187	824
	Db	239	957	35	28	31	146	37	251	251	418
- non EMU	Cr	3,662	2,177	702	721	746	1,493	833	385	491	468
	Db	2,757	1,914	490	454	626	1,186	577	381	491	465
- EU	Cr	3,294	2,911	660	610	660	1,364	767	788	442	914
	Db	2,209	1,827	408	313	506	982	483	377	484	483
- non EU	Cr	653	784	90	147	132	285	115	55	236	378
	Db	787	1,044	117	169	151	350	131	255	258	400
Balance on Current Account		446	-683	-15	103	79	279	79	236	-486	-512
Balance on Capital Account		441	952	105	31	3	302	237	151	11	553

¹ The term 'EMU' means the area represented by the 11 Member States participating in Monetary Union since the introduction of the Euro currency on 1 January 1999

² Adjusted for balance of payments purposes

Table 4b – Financial Account¹ showing geographical² detail

£ million

Item		1999	2000	1999				2000			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Direct Investment	Abroad	-4,005	-2,269	-883	-944	-1,250	-929	-322	-638	-463	-846
	In Ireland	14,013	17,714	4,568	2,936	4,662	1,847	2,707	3,303	5,336	6,368
- EMU	Abroad	-478	480	-124	-109	-122	-124	158	105	105	112
	In Ireland	3,764	1,700	1,381	797	1,961	-376	-540	-506	1,945	801
- non EMU	Abroad	-3,527	-2,749	-759	-835	-1,129	-805	-480	-743	-567	-959
	In Ireland	10,249	16,012	3,187	2,139	2,701	2,223	3,246	3,809	3,391	5,566
- EU	Abroad	-1,189	634	-286	-351	-252	-300	57	51	553	-27
	In Ireland	4,767	4,132	1,975	544	2,186	62	-274	1,385	2,941	80
- non EU	Abroad	-2,817	-2,905	-597	-593	-998	-629	-379	-689	-1,016	-821
	In Ireland	9,246	13,581	2,594	2,391	2,475	1,785	2,981	1,918	2,395	6,287
Portfolio Investment	Assets	-61,205	-66,882	-11,436	-16,787	-14,707	-18,275	-23,512	-10,907	-24,347	-8,116
	Liabilities	50,146	66,920	7,711	12,730	11,309	18,397	19,053	19,429	19,938	8,500
- EMU	Assets	-17,964	-22,351	-3,726	-3,235	-5,203	-5,801	-11,957	-362	-7,277	-2,755
	Liabilities	8,143	7,987	867	2,488	1,395	3,393	6,462	1,043	1,543	-1,061
- non EMU	Assets	-43,241	-44,531	-7,710	-13,552	-9,504	-12,474	-11,555	-10,545	-17,070	-5,361
	Liabilities	42,004	58,933	6,844	10,242	9,914	15,004	12,591	18,386	18,395	9,561
- EU	Assets	-23,261	-31,175	-7,803	-7,932	-5,481	-2,044	-16,048	154	-12,208	-3,073
	Liabilities	15,087	23,621	3,627	4,789	617	6,053	17,093	3,838	1,614	1,076
- non EU	Assets	-37,944	-35,708	-3,633	-8,855	-9,226	-16,231	-7,464	-11,061	-12,139	-5,044
	Liabilities	35,060	43,300	4,084	7,941	10,692	12,343	1,960	15,591	18,324	7,425
Other Investment ³	Assets	-27,517	-34,557	-7,787	-5,332	-11,677	-2,721	-7,813	-10,811	-9,368	-6,565
	Liabilities	27,314	24,221	8,382	4,210	11,655	3,066	10,952	1,524	11,231	514
- EMU	Assets	-11,360	-5,029	-3,603	-2,050	-2,807	-2,900	2,308	-1,297	-3,752	-2,288
	Liabilities	7,795	4,233	3,877	841	1,981	1,097	-744	25	3,115	1,837
- non EMU	Assets	-16,158	-29,529	-4,184	-3,282	-8,870	179	-10,121	-9,514	-5,616	-4,278
	Liabilities	19,518	19,988	4,506	3,370	9,674	1,969	11,696	1,499	8,116	-1,323
- EU	Assets	-17,681	-13,590	-3,602	-2,478	-7,614	-3,987	-1,458	-4,477	-3,919	-3,736
	Liabilities	14,950	13,714	4,035	2,284	6,396	2,234	3,607	1,625	6,481	2,001
- non EU	Assets	-9,836	-20,969	-4,185	-2,854	-4,063	1,266	-6,355	-6,334	-5,450	-2,830
	Liabilities	12,364	10,508	4,347	1,926	5,258	832	7,345	-101	4,750	-1,486
Reserve Assets		1,375	-70	1,486	-73	10	-48	30	-43	-60	3
Balance on Financial Account		121	5,077	2,042	-3,260	1	1,338	1,095	1,857	2,267	-142
<i>Net errors and omissions</i>		<i>-1,008</i>	<i>-5,346</i>	<i>-2,132</i>	<i>3,126</i>	<i>-84</i>	<i>-1,918</i>	<i>-1,411</i>	<i>-2,244</i>	<i>-1,792</i>	<i>101</i>

¹ See footnote 1 on Table 2b² The term 'EMU' means the area represented by the 11 Member States participating in Monetary Union since the introduction of the Euro currency on 1 January 1999³ Including financial derivatives and trade credits

Background Notes *(updated July 2000)*

Introduction Ireland's balance of payments (BOP) quarterly statistical compilation system was recently revamped to strengthen sectoral and enterprise coverage in basic data collection, to adopt best international methodological standards, to conform more closely with international presentation formats, and to provide for geographical analysis of the results. The resulting improvements facilitate the production of data required by the European Central Bank (ECB) and the EU Commission (EUROSTAT) to compile balance of payments statistics for the EMU and EU areas. The needs of other international organisations (such as IMF and OECD) as well as those of national users have also been catered for.

A description of the methodology is given below. It follows as far as possible the recommendations of the IMF's Balance of Payments Manual - 5th Edition (BPM5) published in 1993, but with certain modifications approved internationally since then (concerning, for example, the treatment of financial derivatives).

The publication earlier this year of these new results for 1998 and 1999 essentially completed the programme started some years ago to compile the BOP statistics on the basis of the most up to date international recommendations. These results form the basis of new quarterly and annual series.

Data collection BOP data collection is statutory and surveys or other data collection arrangements are conducted under the Statistics (Balance of Payments) Order, 1996 made under the Statistics Act, 1993.

A number of new quarterly surveys were introduced in 1998. These were directed to financial service enterprises not formerly surveyed, in particular to enterprises operating from the International Financial Services Centre (IFSC) in Dublin. Some of the information now being collected directly from these enterprises was formerly implicitly incorporated from other sources in the published results. In addition to the new surveys existing surveys were redesigned.

The financial enterprise surveys cover banking, insurance, asset financing, treasury, institutional investment, activities of mutual funds, unit trusts and similar collective investment operations, broking and other service provision. Respondents are required to make quarterly returns using either paper or electronic media. Exhaustive coverage is aimed at but, in order to reduce reporting burden, companies with low activity volumes may, on approval from the CSO, provide annual data. Overall, about 3,000 entities are surveyed.

Manufacturing and non-financial service enterprises have been reporting their BOP transactions to CSO for a number of years. The surveys directed towards these enterprises were re-designed to meet the new conceptual and geographical requirements. Coverage is on a sample selection basis, those surveyed being selected on the basis of statistical register information concerning transactions with non-residents. About 500 companies make quarterly and/or annual returns.

The information collected for all types of enterprises covers transactions with non-residents concerning purchases and sales of services, income flows, and acquisitions and disposals of foreign assets or liabilities.

Apart from survey data, administrative sources also provide information on non-resident transactions (e.g. the National Treasury Management Agency, on flows associated with Ireland's foreign debt and other transactions; the Department of Defence, concerning Ireland's UN military peace-keeping activity; the Department of Foreign Affairs, on expenditure incurred in maintaining Ireland's embassies and consulates abroad; the Central Bank of Ireland, on reserve assets and other assets/liabilities and associated income flows). In addition, information on merchandise exports and imports and on tourism expenditure and receipts is obtained from other CSO inquiries.

Structure of the Balance of Payments accounts

The balance of payments presentation consists of three tables or accounts, the *Current Account*, the *Capital Account* and the *Financial Account*. The current account consists of trade in merchandise and services, income inflows and outflows and current transfers. The capital account covers capital transfers and the acquisition and disposal of non-produced, non-financial assets. The financial account is concerned with transactions in foreign financial assets and liabilities, distinguishing the functional type of investment i.e. direct, portfolio and other investment and reserve assets.

Sign convention and symbols

The BOP presentation follows the standard double entry accounting treatment for a transaction i.e. in principle, every credit entry is matched by a corresponding debit entry elsewhere in the system.

In the current account, credit items are exports of merchandise and services, income inflows and current transfer receivables while debit items are imports, income outflows and transfer payables. In the capital account, capital transfer receivables are recorded as credits and payables as debits. Both credit (denoted by the symbol 'Cr') and debit (denoted by 'Db') items are shown as positive numbers and the net balances are calculated as *credit – debit*.

The transactions in the financial account are implicitly recorded on a credit/debit basis but are presented on an assets/liabilities basis. Increases in foreign assets or reductions in foreign liabilities are shown with a – (minus) sign, i.e. implicitly as a debit amount, while decreases in assets or increases in liabilities are unsigned i.e. shown as positive numbers (credits). The net balances are calculated as *net change in assets + net change in liabilities*. In the case of direct investment, the asset/liability presentation is replaced by the so-called 'directional' one, i.e. *direct investment abroad* (which approximates to the assets concept) and *direct investment in Ireland* (which closely equates to liabilities). The difference between the two approaches centres on the treatment of reverse investment by a direct investment enterprise in its parent (direct investor); these transactions are generally relatively small.

Amounts are shown in millions of Irish Pounds and, in *Table 1b*, in millions of Euro. '0' means amounts of less than 500,000 units of currency; '-' means 'not relevant'. Cell entries may not add to totals due to rounding.

Net errors and omissions

Given the double entry accounting procedure described above, the sum of the credit entries should in principle equal the sum of the debit entries over all three accounts. In practice because of differences in coverage, valuation and timing, this does not occur and a balancing item *net errors and omissions* is inserted to balance the overall account.

Valuation

BOP transactions, in principle, should be recorded on an accruals basis using market valuation. In practice, the collection system is designed to adhere to this approach and, for the most part, the valuations reported are either market values or a close approximation. In certain cases, income (interest) flows on debt securities are currently reported on a cash basis but accruals reporting is intended ultimately.

Residence

BOP transactions occur between residents of Ireland and non-residents. The term 'resident' covers (a) individuals, including foreign nationals, living in Ireland for at least one year as well as Irish embassy staff and military staff located abroad, (b) Irish government enclaves located abroad (embassies, consulates, etc.), and (c) corporate bodies who have a centre of economic interest located here, including branches of foreign-registered companies. It is important to note that transactions in foreign assets and liabilities can occur between residents and should be recorded in the financial account.

Geographical allocation principle

Current and capital account transactions are allocated to the country of residence of the counterpart. Financial account transactions are allocated on the basis of the debtor/creditor principle; assets are geographically assigned to the country of the debtor (i.e. the issuer) of the assets, while liabilities are assigned to the country of the creditor (i.e. the holder).

Current account *Merchandise* exports and imports are valued f.o.b. (*free on board*) for BOP purposes (imports are valued c.i.f. [*cost, insurance and freight*] in the official external trade statistics and this valuation was formerly used in the BOP). Some adjustments are also made to the official merchandise trade statistics to conform to the BOP change of ownership and market valuation principles. In addition, certain exports sales of software licences which were formerly included in merchandise exports are now recorded as service exports.

Services exports and imports are now given in more detail than before. Nine categories are distinguished: *transport, tourism and travel, communications, insurance services, financial services, computer services, royalties and licences, business services* and *other services not elsewhere specified*. Some specific points of note are:

- (i) Because of the presentation of merchandise imports on a f.o.b. basis (rather than c.i.f. as before), the freight element of the c.i.f. to f.o.b. adjustment is now included in *transport*.
- (ii) The value of *insurance services* provided to non-residents by resident insurers (credit) is estimated as the value of direct and supplementary premiums earned less the value of claims payable less increases in the actuarial element of insurance technical reserves. Supplementary premiums consist of investment income earned on investing the insurance technical reserves. For BOP purposes, this income is attributed to the policy holders and also treated as being paid back to the insurance company by them. To obtain the value of insurance services purchased from non-resident insurers (debit), the ratio of the estimated service charge to total premiums for insurance exports is applied to the total premiums payable to non-resident insurers. In relation to merchandise imports, the freight insurance element of the c.i.f. to f.o.b. adjustment referred to above under *merchandise* is recorded under *insurance*.
- (iii) *Financial services* covers non-interest receivables and payables in respect of financial intermediary and auxiliary services (other than those of insurance enterprises and pension funds).
- (iv) Exports and imports of computer software which is embedded in hardware or carried on other physical media are not included in *computer services* but under *merchandise*. Sales and purchases of software transmitted electronically as well as exports of certain software licences are now recorded under *computer services* (formerly, the value of such licences was included under *merchandise*).
- (v) *Business services* covers receivables and payables for (a) *merchanting and other trade-related services*, (b) *operational leasing* and (c) *miscellaneous business services*.

Merchanting consists of the sales net of purchases by Irish merchants of foreign goods bought from and sold to non-residents without entering or leaving Ireland. *Other trade-related services* consist of commissions earned by resident agents or paid to non-resident agents in connection with imports or exports. *Operational leasing* covers rental receivables and payables in respect of leasing (other than financial leasing) and charter without operators of aircraft, ships and other transport or other equipment and plant. *Miscellaneous business services* covers legal, accounting, management consulting, public relations, advertising and marketing, research and development and other professional and technical services. It also covers inter-affiliate management fees.

- (vi) *Other services not elsewhere specified* covers construction services, personal and cultural services (e.g. fees and royalties for film, television and musical recordings and performances), educational services and government services (e.g. non-labour expenditures incurred in the host country in the provision of embassy and consular services and receipts in respect of collection of Ireland's budgetary contributions to the EU).

Income covers (a) *compensation of employees*, which relates to the earnings of persons working outside their country of residence for less than one year and earnings of local staff working in embassies and consulates, and (b) *investment income*, which covers earnings arising from foreign investors' investments in Ireland and Irish investors' investment abroad. Investment income excludes realised and unrealised capital and exchange gains or losses. It is subdivided into three categories:

- (i) *Direct investment income* covers income accruing to an Irish or foreign direct investor from ownership of (correspondingly) a direct investment enterprise located abroad or in Ireland (*see definition of direct investment in the financial account section below*). It is split into income on equity and income on debt. *Direct investment income on equity* may be called the 'entrepreneurial income' of the enterprise which, in principle, is its net operating surplus plus investment income receivable less investment income payable. It is calculated net of corporation taxes. In company accounting terms, direct investment income on equity can be equated or approximated to an enterprise's consolidated profit (or loss) after interest, tax and minority interests and excluding capital and exchange gains (or losses) and other unusual provisions and write-offs. This income item is further subdivided into *dividends and distributed branch profits* and *reinvested earnings*. Dividends are recorded at the time they become due for payment while distributed branch profits are recorded when receipt or payment occurs. Amounts recorded under *reinvested earnings* represent the difference between the enterprise's entrepreneurial income and the distributions (dividends, etc.) made. As it is an income flow in the BOP current account but without a counterpart cash flow in the financial account, an offset of equal magnitude is recorded under *direct investment* in the latter. *Direct investment income on debt* covers income (mainly interest) on non-equity inter-affiliate assets and liabilities (mainly loans).
- (ii) *Portfolio investment income* covers income receivable and payable to non-direct investors on their holdings of equity and long and short-term debt securities (*see definition of portfolio investment below*). Income on equity consists of dividends actually received/paid. Income on debt securities refers to coupon or interest payments on bonds and notes and interest on money market instruments. In principle, the income should be recorded on an accruals basis using market valuations. In practice, some respondents currently report on a cash basis. Discounts and premiums (i.e. differences between the nominal value and the issue value) are treated as income or negative income respectively and spread (accrued) over the life of the instrument.
- (iii) *Other investment income* covers interest on loans and deposits and also the income generated from the holdings of external reserve assets of the Central Bank of Ireland. The flows recorded under this item relate largely to interest flows of credit institutions.

Current transfers covers unrequited receipts and payments. Important components are subsidies and other current transfers receivable from and taxes payable to the European Union, payments under Third World aid programmes operated by non-governmental organisations and transfers related to non-life insurance business. As regards the latter, for resident insurers the transfer credit is calculated as the gross insurance premiums earned (i.e. premiums earned plus supplementary premiums) less the insurance service charge; the debit is the amount of claims payable to non-resident policy holders adjusted by the change in the actuarial element of insurance technical reserves. For resident holders of policies issued by non-resident insurers, credits represent claims receivable and debits represent the insurance premiums less the estimated insurance service charge (*see also the note above on 'insurance' item under 'services'*).

Current account balance is the total of all current account credits less the total of all current account debits.

Capital account

The capital account largely covers capital transfers, in particular amounts receivable under the EU Regional Development Fund and the Cohesion Fund and all other transfers intended for capital purposes. Estimates of migrants' transfers (i.e. the transfer of the net worth of immigrants and emigrants) are included but they are not well based. In addition, acquisitions and disposals of non-produced, non-financial assets (patents, copyrights, etc.) are also covered here, but the amounts involved are very small. Because of certain data limitations only the net flows are shown.

Financial account

The financial account covers transactions in foreign financial assets (i.e. claims on non-residents) and foreign liabilities (i.e. obligations to non-residents). The four categories of functional investment which are distinguished (i.e. *direct investment*, *portfolio investment*, *other investment* and *reserve assets*) are based primarily on the relationship between the parties and secondly on the nature of the instrument involved.

Direct investment is a category of international investment that, based on an equity ownership of at least 10%, reflects a lasting interest by a resident in one economy (the direct investor) in an enterprise resident in another economy (the direct investment enterprise). Using this criterion, a direct investment relationship can exist between a number of affiliated enterprises whether the linkage involves a single chain or a number of chains. It can extend to a direct investment enterprise's subsidiaries, sub-subsidiaries and associates. Once the direct investment relationship is established, all subsequent financial flows between the related entities are recorded as direct investment transactions, regardless of the type of financial instrument used in the financing arrangement (except for financial intermediary affiliates among which direct investment transactions are limited to those involving equity and permanent debt). The components of direct investment transactions are *equity capital*, *reinvested earnings*, and *other capital*. *Equity capital* comprises investment in branches, shares in subsidiaries and associates (except non-participating preferred shares that are treated as debt securities) and other capital contributions. *Reinvested earnings* consists of the off-setting entry to the corresponding current account income item: it is the direct investor's share of the undistributed earnings of its branches, subsidiaries and associates. *Other capital* covers all other inter-affiliate financial transactions (borrowing and lending of funds), including debt securities and suppliers' credits (i.e. trade credits). Following the recommendations of the IMF, ECB, EUROSTAT and OECD, direct investment flows are recorded on a '*directional basis*' rather than the more usual assets/liabilities basis. *Direct investment abroad* covers *net* investment by parent companies resident in Ireland in their foreign branches, subsidiaries and associated companies. *Direct investment in Ireland* covers the *net* investment by foreign companies in their affiliates located in Ireland.

Portfolio investment covers the acquisition and disposal of equity and debt securities which cannot be classified under direct investment or reserve assets transactions. The securities involved are traded (or tradable) in organised and other financial markets. *Debt securities* cover *bonds and notes* which have an original maturity term of more than one year and *money market instruments* with original maturity of one year or less. Transactions are valued at market value inclusive of accrued income.

Other investment covers assets and liabilities other than those classifiable to direct investment, portfolio investment or reserve assets. It comprises loans, currency and deposits, short and long-term trade credits, financial derivatives and other accounts receivable and payable. Derivatives cover over-the-counter (OTC) and exchange-traded contracts and include options, futures, swaps, forwards, etc. For BOP purposes, all receipts and payments connected to financial derivative contracts (other than the values of transactions in the underlying commodities or financial instruments) are recorded in the financial account¹ i.e. there are no entries in the current account other than related fees and service charges (not always identifiable). In principle, other investment transactions are valued at market valuation inclusive of accrued income. For loans, book values are accepted as a proxy for market values.

Reserve assets at national level in the context of EMU have been defined by the European Central Bank from 1 January 1999, the date of introduction of the euro currency, as: (a) qualifying assets which are under the effective control of the national monetary authority (i.e. the Central Bank of Ireland), and (b) consisting of highly liquid, marketable and credit-worthy foreign (non-euro) currency denominated claims on non euro-area residents together with gold, special drawing rights (SDRs) and the reserve position in the IMF.

Up to 31 December 1998, together with gold, SDRs and the reserve position in the IMF, the definition covered all foreign currency (non Irish Pound) denominated claims on non-residents of Ireland. Therefore, all claims on euro-area residents as well as euro-denominated claims on non euro-area residents, which prior to 1999 would have been classified as reserve assets, are from 1999 onwards classified to *portfolio investment* or *other investment* as appropriate.

Comparison with previous series

1998 is the only year for which balance of payments figures are available for both the new series and the old series. Because of the greater enterprise coverage and the radically different compilation methodology underpinning the new series, the CSO regards the two sets of results for 1998 as not readily comparable in any meaningful sense. In overall terms, the net balances for all of the BOP accounts are the differences between gross flows and, for the current and financial accounts, these gross flows are very large and the resulting balances tend to be quite volatile. However, in preparing the National Income and Expenditure estimates for 1999 (published in July 2000) CSO incorporated some provisional pre-1998 retrospective estimates on the new basis. These estimates are for the main components of the current account of the BOP only. It is intended that these will be further refined at a later date.

¹ The inclusion of these receipts and payments in the financial account anticipates the impending changes to the IMF's Balance of Payments Manual (5th Edition, 1993). In the Manual as published, interest payments on interest rate swaps and cross-currency interest rate swaps were to have been recorded in the current account as income.