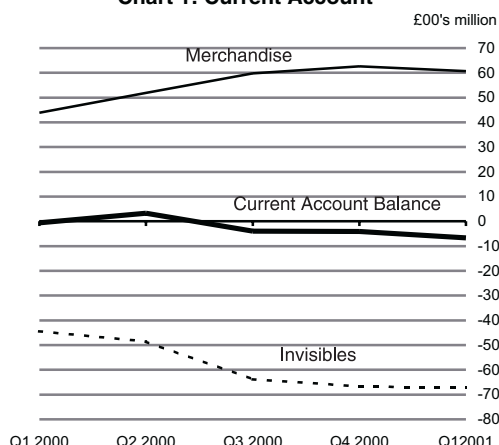




**Central Statistics Office**  
An Phríomh-Oifig Staidrimh

9 July 2001

**Chart 1: Current Account**



## Balance of International Payments Quarter 1 2001

	£ million		
	Merchandise Balance	Invisibles Balance	Current Account Balance
Q1 2001	6,066	-6,735	-669
Q1 2000	4,384	-4,438	-54
Year 2000	21,817	-22,352	-535

### Current Account deficit of £669m in the first quarter of 2001

There was a deficit of £669m (€852m) on the current account of the Balance of Payments in the first quarter of 2001. This compares with a marginal deficit of £54m (€69m) in the same period in 2000 - *see Table 1*. Combined surpluses for *merchandise* (£6,066m) and *current transfers* (£102m) were exceeded by deficits on *services* and *income* of £3,328m and £3,509m respectively. Further details on the components are given below.

#### Merchandise trade growth continues (*see Tables 1 and 2*)

The *merchandise* trade balance of £6,066m in the first quarter of this year was about £1.7 billion higher than that in the same quarter last year. Over the same period, exports rose from £14,059m to £17,477m while imports increased from £9,675m to £11,411m.

#### Services deficit increases (*see Tables 1 and 2*)

In the first quarter of this year, *services* exports amounted to £3,665m with imports at £6,993m; the corresponding flows for the same quarter in 2000 were £2,719m and £4,637m. The deficit in the first quarter of this year therefore increased from £1,918m to £3,328m. The most notable feature within *services* is the increase in imports of *business services* (mostly sales commissions and management charges) from £1,675m to £3,241m between the two quarters. *Royalties* outflows increased by about £0.5 billion to £1,925m.

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Ardee Road  
Dublin 6  
Ireland

Skehard Road  
Cork  
Ireland

LoCall: 1890 313 414

Tel: +353-1 498 4000  
Fax: +353-1 498 4020

Tel: +353-21 453 5000  
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

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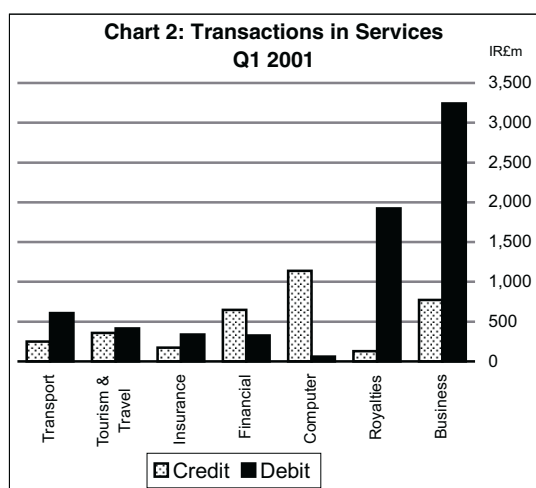
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### Revised results for 1999 and 2000

The 1999 and 2000 annual and quarterly balance of payments data published on 19 April 2001 have been revised following later returns and more up to date information generally.

As a result, the annual current account balance for 1999 now shows a surplus of £262m or €333m (previously £446m or €567m) while the corresponding balance for 2000 shows a deficit of £535m or €683m (previously £683m or €877m). The capital account balance was only marginally affected but the financial account net balances changed substantially.

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



### Net income outflows continue (see Tables 1 and 2)

Net outflows of income amounted to £3,509m in the first quarter this year compared to £2,783m in the first quarter of 2000. This arises from gross outflows of £10,272m as compared with gross inflows of £6,763m in the first quarter of 2000; the corresponding gross flows a year earlier were £7,381m and £4,598m. Direct investment income credits at £951m were over £0.3 billion higher than one year earlier while debits at £5,594m were over £1.3 billion higher. Portfolio investment income (largely on debt instruments) showed credits of £1,957m, up over £1.1 billion on the first quarter of 2000; debits amounted to £2,136m an increase of almost £0.8 billion. Other investment income (mostly on loans and deposits) showed a net credit of £1,344m, marginally up on the corresponding balance in the first quarter 2000.

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

Current transfers showed a net surplus of £102m in the first quarter of 2001 compared to one of £263m in the same period last year. The corresponding gross flows were credits of £795m and £881m and debits of £693m and £618m. As usual within these gross flows, transfers relating to IFSC non-life insurance business showed equal amount on both the credits and debits sides i.e. £376m in the latest quarter and £324m in the first quarter 2000. Non-IFSC transfers relate to EU receipts and payments.

### 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 a surplus of £288m in the first quarter of this year (compared to £348m in the same quarter of 2000). 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 the first quarter accounted for £17,533m or 61% of the total of current account credits; the corresponding debits amounted to £14,710m or 50% of the total. Using the same analysis for transactions with EMU area residents, total credits amounted to £10,604m or almost 37% of the total; EMU area debit transactions totalled to £7,620m or almost 26% of all current account debits. From the 1<sup>st</sup> January 2001 Greece became part of the Euro zone; however transactions between Ireland and Greece are relatively insignificant.

### Capital account (see Table 1)

EU capital transfer receipts largely accounted for the net balance of £190m shown for the first quarter of 2001, the corresponding figure for the same quarter last year being £236m.

### Financial account appears less turbulent than last year (see Tables 1, 2 and 3)

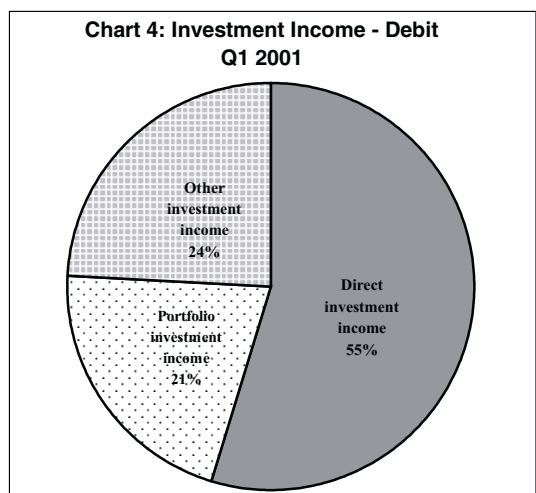
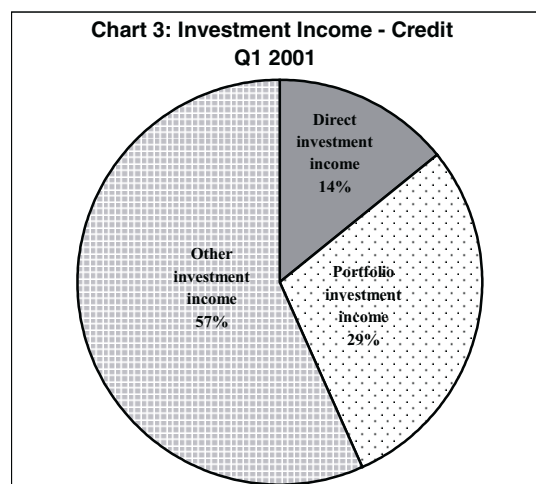
Financial account transactions in the first quarter appear to have returned to the general patterns seen up to the earlier quarters of last year, particularly for portfolio investment (see below). In overall terms, the first quarter balance of £847m represents an increase in Ireland's net liabilities to non-residents. This results from transactions in total foreign assets of £32,370m being more than offset by the transactions in total liabilities of £33,217m. On the assets side, IFSC enterprises accounted for £27,620m or 85% of the total; on the liabilities side these enterprises accounted for £26,813m or almost 81% of the total.

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

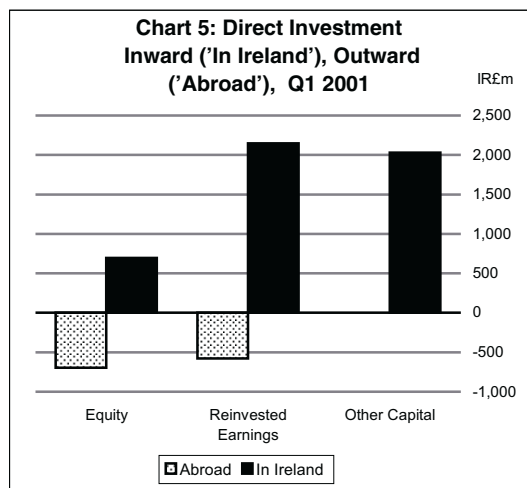
Transactions in foreign assets with EU residents amounted to £17,039m or 53% of the total; the corresponding liability transactions accounted for £15,022m or 45% of all such transactions with non-residents. Assets transactions with residents of the EMU area were valued at £5,707m or 18% of the total while liability transactions at £5,934m were also approximately 18% of all such transactions. On 1<sup>st</sup> January 2001 Greece became a member of the Euro zone but its transactions with Ireland are relatively insignificant.

### Direct investment

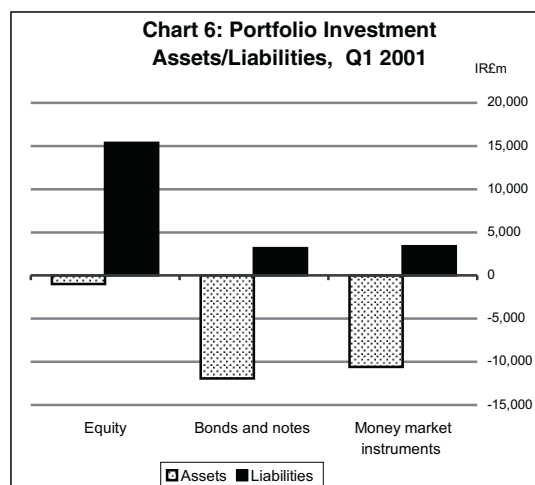
Inward direct investment (including reinvestment of earnings) at £4,874m was over £2.6 billion higher than that for the same quarter in 2000. Outward direct investment of £1,273m was also higher (by almost £400m) on the figure shown for the first quarter of last year. Net inward direct investment in the quarter was, therefore, £3,601m.



**Chart 5: Direct Investment  
Inward ('In Ireland'), Outward  
( 'Abroad'), Q1 2001**



**Chart 6: Portfolio Investment  
Assets/Liabilities, Q1 2001**



### Portfolio investment

Inward portfolio investment (liability) transactions of £21,912m re-established the trend of quarter-on-quarter growth following the lower level of such transactions recorded in the final quarter of 2000, i.e. £8,842m. This is largely explained by an increase in units purchased in IFSC collective investment institutions. Similarly outward portfolio investment of £23,484m is also back to levels seen prior to the last quarter of 2000. The substantial investment into bonds of £11,915m and money market instruments of £10,572m compares with equity investment of £997m, reflecting the continued nervousness on the part of investors about share prices. IFSC transactions in foreign assets and liabilities dominated portfolio investment activity. Overall, net outward investment amounted to £1,572m in the first quarter of the year.

### Other investment

Ireland's *other investment* transactions in the first quarter showed an increase in net assets of £1,130m. This resulted from assets transactions of £7,561m (which showed little change compared to the same quarter last year) exceeding liability transactions of £6,431m (over £4.2 billion lower than that for the first quarter of 2000). IFSC activity resulted in reductions in holdings of both assets and liabilities over Q1 2000. Holdings of IFSC related foreign assets decreased by a relatively small amount (£98m) whereas holdings of IFSC related foreign liabilities decreased dramatically (£5.2 billion approximately). Some of this large decrease was offset by an increase in the holding of Non-IFSC related foreign liabilities (£921m). Holding of Non-IFSC related foreign assets also showed a slight decrease (£111m).

### Reserve assets

There was a marginal net increase of £52m in reserve assets in the first quarter of the year.

### Net errors and omissions

The balancing item *net errors and omissions* shows a small debit of £368m for the first quarter of 2001.

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

£ million

Item	1998	1999	2000	1999				2000				2001
	Year			Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Current Account												
Merchandise <sup>1</sup>	13,996	17,958	21,817	3,942	4,207	4,951	4,858	4,384	5,190	5,983	6,260	6,066
Services	-7,089	-8,213	-10,288	-2,048	-2,017	-2,034	-2,114	-1,918	-2,466	-2,581	-3,323	-3,328
Income	-7,389	-10,410	-12,876	-2,111	-2,331	-3,065	-2,902	-2,783	-2,597	-3,738	-3,758	-3,509
Current Transfers	1,038	927	812	218	269	128	311	263	206	-66	409	102
Balance on Current Account	556	262	-535	0	128	-19	153	-54	333	-402	-412	-669
Balance on Capital Account	661	441	950	105	32	3	302	236	151	10	553	190
Financial Account												
Direct Investment	3,483	9,160	16,311	3,398	1,569	3,063	1,130	1,377	4,636	4,752	5,546	3,601
Portfolio Investment	-6,667	-11,296	1,376	-3,784	-4,117	-3,457	63	-4,171	8,796	-4,000	751	-1,572
Other Investment <sup>2</sup>	5,874	-767	-10,372	696	-1,366	-9	-88	2,942	-9,331	2,042	-6,025	-1,130
Reserve Assets	-1,796	1,375	-113	1,486	-73	10	-48	30	-43	-30	-70	-52
Balance on Financial Account	894	-1,527	7,202	1,796	-3,987	-393	1,057	178	4,058	2,764	202	847
Net errors and omissions	-2,112	824	-7,617	-1,901	3,827	409	-1,511	-360	-4,542	-2,372	-343	-368

<sup>1</sup> Adjusted for balance of payments purposes<sup>2</sup> Including financial derivatives and trade credits

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

€ million<sup>1</sup>

Item	1998	1999	2000	1999				2000				2001
	Year			Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Current Account												
Merchandise <sup>2</sup>	17,771	22,802	27,698	5,005	5,342	6,287	6,168	5,566	6,589	7,596	7,947	7,701
Services	-9,002	-10,428	-13,064	-2,601	-2,562	-2,582	-2,684	-2,435	-3,131	-3,277	-4,221	-4,229
Income	-9,382	-13,218	-16,348	-2,681	-2,960	-3,892	-3,685	-3,534	-3,297	-4,747	-4,770	-4,453
Current Transfers	1,319	1,177	1,031	277	342	163	395	334	262	-83	518	129
Balance on Current Account	706	333	-683	0	163	-24	194	-69	423	-511	-526	-852
Balance on Capital Account	840	560	1,207	133	40	4	383	300	192	13	702	241
Financial Account												
Direct Investment	4,422	11,631	20,711	4,315	1,992	3,889	1,435	1,748	5,886	6,034	7,043	4,572
Portfolio Investment	-8,466	-14,342	1,749	-4,805	-5,227	-4,390	79	-5,295	11,168	-5,078	954	-1,998
Other Investment <sup>3</sup>	7,459	-974	-13,171	884	-1,734	-12	-112	3,736	-11,848	2,592	-7,651	-1,432
Reserve Assets	-2,280	1,746	-142	1,887	-93	13	-61	39	-55	-38	-88	-67
Balance on Financial Account	1,135	-1,939	9,147	2,281	-5,062	-499	1,342	228	5,151	3,510	258	1,075
Net errors and omissions	-2,681	1,046	-9,671	-2,414	4,859	519	-1,919	-459	-5,766	-3,012	-434	-464

<sup>1</sup> Converted at the European Union official exchange rate conversion factor, fixed at 0.787564, effective from 1 January 1999<sup>2</sup> Adjusted for balance of payments purposes<sup>3</sup> Including financial derivatives and trade credits

Table 2a – Current and Capital Accounts

£ million

Item		1999	2000	2000				2001
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Current Account								
Merchandise <sup>1</sup>	Cr	50,724	62,877	14,059	15,257	15,884	17,677	17,477
	Db	32,766	41,060	9,675	10,067	9,901	11,417	11,411
Services	Cr	11,504	14,438	2,719	3,412	3,958	4,349	3,665
	Db	19,718	24,726	4,637	5,878	6,539	7,672	6,993
Transport	Cr	985	1,162	221	307	368	266	249
	Db	1,804	2,204	528	543	532	601	606
Tourism and Travel <sup>2</sup>	Cr	1,948	2,272	333	629	845	465	357
	Db	1,952	2,251	360	581	849	461	415
Communications	Cr	209	282	56	61	73	92	133
	Db	246	295	57	69	92	77	52
Insurance	Cr	736	962	224	206	162	370	174
	Db	1,054	1,245	265	413	269	298	339
Financial services	Cr	1,231	1,779	355	416	502	506	646
	Db	933	1,238	277	276	368	317	324
Computer services <sup>3</sup>	Cr	4,168	4,697	1,025	1,129	1,120	1,423	1,140
	Db	209	237	48	54	61	74	59
Royalties/Licences	Cr	309	435	59	118	110	148	128
	Db	5,436	6,772	1,414	1,753	1,626	1,979	1,925
Business services	Cr	1,676	2,577	380	476	708	1,013	772
	Db	8,001	10,429	1,675	2,174	2,728	3,852	3,241
Trade related	Cr	83	988	165	190	223	410	236
	Db	3,552	4,309	754	812	1,077	1,666	1,251
Operational leasing	Cr	538	462	61	102	238	61	191
	Db	72	80	15	17	24	24	17
Misc. business services <sup>4</sup>	Cr	1,055	1,127	154	184	247	542	345
	Db	4,377	6,040	906	1,345	1,627	2,162	1,973
Other services n.e.s.	Cr	243	272	66	70	70	66	66
	Db	83	55	13	15	14	13	32

Table 2a – Current and Capital Accounts - continued

£ million

Item		1999	2000	2000				2001
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Current Account - continued								
Income	Cr	18,116	25,782	4,598	6,217	7,368	7,599	6,763
	Db	28,526	38,658	7,381	8,814	11,106	11,357	10,272
Compensation of Employees	Cr	219	218	41	41	96	40	40
	Db	89	89	32	31	13	13	71
Investment Income	Cr	17,897	25,564	4,557	6,176	7,272	7,559	6,723
	Db	28,437	38,569	7,349	8,783	11,093	11,344	10,201
Direct investment income	Cr	2,211	2,583	635	684	790	474	951
	Db	16,920	20,803	4,261	4,694	6,177	5,671	5,594
Income on equity	Cr	1,422	1,497	391	415	510	181	640
	Db	16,312	19,781	4,085	4,412	5,804	5,480	5,251
Dividends & distributed branch profits	Cr	43	396	85	83	224	4	62
	Db	9,196	10,505	2,237	2,426	2,562	3,280	3,103
Reinvested earnings	Cr	1,379	1,101	306	332	286	177	578
	Db	7,115	9,276	1,848	1,986	3,242	2,200	2,148
Income on debt	Cr	789	1,086	244	269	280	293	311
	Db	609	1,022	176	282	373	191	343
Portfolio investment income	Cr	4,409	5,829	893	1,412	1,813	1,711	1,957
	Db	4,619	8,263	1,366	1,966	2,345	2,586	2,136
Income on equity	Cr	883	918	197	286	229	206	206
	Db	2,499	3,638	656	867	1,075	1,040	1,031
Income on debt	Cr	3,525	4,911	696	1,126	1,584	1,505	1,751
	Db	2,120	4,625	710	1,099	1,270	1,546	1,105
Other investment income	Cr	11,277	17,152	3,029	4,080	4,669	5,374	3,815
	Db	6,898	9,503	1,722	2,123	2,571	3,087	2,471
Current Transfers	Cr	3,945	3,692	881	842	677	1,292	795
	Db	3,018	2,880	618	636	743	883	693
Current Account - Total	Cr	84,289	106,789	22,257	25,728	27,887	30,917	28,700
	Db	84,027	107,324	22,311	25,395	28,289	31,329	29,369
Current Account Balance		262	-535	-54	333	-402	-412	-669
Capital Account Balance		441	950	236	151	10	553	190

<sup>1</sup> Adjusted for balance of payments purposes<sup>2</sup> Excluding passenger fare receipts<sup>3</sup> 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 included<sup>4</sup> Covers mainly inter-affiliate charges (e.g. management fees), in particular on the debit side

Table 2b – Financial Account<sup>1</sup>

£ million

Item		1999	2000	2000				2001
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
<b>Direct Investment</b>	<b>Abroad</b>	<b>-4,516</b>	<b>-3,396</b>	<b>-892</b>	<b>-838</b>	<b>-765</b>	<b>-901</b>	<b>-1,273</b>
	<b>In Ireland</b>	<b>13,676</b>	<b>19,707</b>	<b>2,269</b>	<b>5,474</b>	<b>5,517</b>	<b>6,447</b>	<b>4,874</b>
Equity	Abroad	-3,537	-2,782	-686	-606	-728	-762	-697
	In Ireland	5,640	10,381	1,763	3,392	2,954	2,272	695
Reinvested Earnings	Abroad	-1,379	-1,101	-306	-332	-286	-177	-578
	In Ireland	7,115	9,276	1,848	1,986	3,242	2,200	2,148
Other Capital	Abroad	400	487	100	100	249	38	2
	In Ireland	921	50	-1,342	96	-679	1,975	2,031
<b>Portfolio Investment</b>	<b>Assets</b>	<b>-61,445</b>	<b>-66,500</b>	<b>-23,154</b>	<b>-10,975</b>	<b>-24,280</b>	<b>-8,091</b>	<b>-23,484</b>
	<b>Liabilities</b>	<b>50,150</b>	<b>67,876</b>	<b>18,983</b>	<b>19,771</b>	<b>20,280</b>	<b>8,842</b>	<b>21,912</b>
Equity	Assets	-27,036	-24,042	-5,978	-2,864	-11,354	-3,846	-997
	Liabilities	38,835	57,366	13,273	16,703	19,838	7,552	15,369
Debt Instruments	Assets	-34,409	-42,458	-17,176	-8,111	-12,926	-4,245	-22,487
	Liabilities	11,315	10,510	5,710	3,068	442	1,290	6,543
Bonds and notes	Assets	-23,420	-29,525	-10,801	-5,335	-6,863	-6,526	-11,915
	Liabilities	5,814	3,434	2,599	444	606	-215	3,152
Money market instruments	Assets	-10,989	-12,933	-6,375	-2,776	-6,063	2,281	-10,572
	Liabilities	5,501	7,076	3,111	2,624	-164	1,505	3,391



Table 2b – Financial Account<sup>1</sup> - continued

£ million

Item		1999	2000	2000				2001
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
<b>Other Investment</b>	<b>Assets</b>	<b>-28,395</b>	<b>-34,891</b>	<b>-7,769</b>	<b>-10,892</b>	<b>-9,572</b>	<b>-6,658</b>	<b>-7,561</b>
	<b>Liabilities</b>	<b>27,629</b>	<b>24,519</b>	<b>10,711</b>	<b>1,561</b>	<b>11,614</b>	<b>633</b>	<b>6,431</b>
Loans, currency and deposits	Assets	-25,117	-29,923	-7,542	-9,699	-10,376	-2,306	-4,961
	Liabilities	26,191	23,460	10,597	1,636	10,144	1,083	5,630
Other <sup>2</sup>	Assets	-3,278	-4,968	-227	-1,193	804	-4,352	-2,600
	Liabilities	1,437	1,059	114	-75	1,470	-450	801
<b>Reserve Assets</b>		<b>1,375</b>	<b>-113</b>	<b>30</b>	<b>-43</b>	<b>-30</b>	<b>-70</b>	<b>-52</b>
Monetary gold		50	-1	-1	1	0	-1	0
Special drawing rights		104	-8	-2	-2	-2	-2	-2
Reserve position in the IMF		110	54	0	44	9	1	-2
Foreign exchange		1,120	-193	33	-78	-7	-141	-48
Other		-9	35	0	-8	-30	73	0
<b>Balance on Financial Account</b>		<b>-1,527</b>	<b>7,202</b>	<b>178</b>	<b>4,058</b>	<b>2,764</b>	<b>202</b>	<b>847</b>
<i>Net errors and omissions</i>		<i>824</i>	<i>-7,617</i>	<i>-360</i>	<i>-4,542</i>	<i>-2,372</i>	<i>-343</i>	<i>-368</i>
<b>Memorandum Item:</b>								
Government financial transactions	Assets	-1,915	-1,235	-1,622	-1,898	1,959	326	-438
	Liabilities	274	821	1,393	1,018	-1,595	5	-301

<sup>1</sup> 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.

<sup>2</sup> Including financial derivatives and trade credits

**Table 3 – Current, Capital and Financial Accounts showing IFSC<sup>1</sup> and non-IFSC activity**

£ million

Item		1999	2000	2000				2001
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
<b>Current Account - Total</b>	<b>Cr</b>	<b>84,289</b>	<b>106,789</b>	<b>22,257</b>	<b>25,728</b>	<b>27,887</b>	<b>30,917</b>	<b>28,700</b>
	<b>Db</b>	<b>84,027</b>	<b>107,324</b>	<b>22,311</b>	<b>25,395</b>	<b>28,289</b>	<b>31,329</b>	<b>29,369</b>
Merchandise <sup>2</sup>	Cr	50,724	62,877	14,059	15,257	15,884	17,677	17,477
	Db	32,766	41,060	9,675	10,067	9,901	11,417	11,411
Services	Cr	11,504	14,438	2,719	3,412	3,958	4,349	3,665
	Db	19,718	24,726	4,637	5,878	6,539	7,672	6,993
- IFSC	Cr	2,598	3,025	602	682	855	886	957
	Db	2,146	2,443	428	596	681	738	778
- non IFSC	Cr	8,906	11,414	2,117	2,730	3,104	3,463	2,709
	Db	17,572	22,286	4,211	5,282	5,858	6,935	6,215
Income	Cr	18,116	25,782	4,598	6,217	7,368	7,599	6,763
	Db	28,526	38,658	7,381	8,814	11,106	11,357	10,272
- IFSC	Cr	13,823	20,946	3,485	5,006	5,932	6,523	5,262
	Db	13,039	19,559	3,311	4,574	5,650	6,024	5,159
- non IFSC	Cr	4,292	4,835	1,113	1,211	1,436	1,075	1,502
	Db	15,486	19,100	4,072	4,240	5,455	5,333	5,112
Current Transfers	Cr	3,945	3,692	881	842	677	1,292	795
	Db	3,018	2,880	618	636	743	883	693
- IFSC <sup>3</sup>	Cr	2,004	1,814	324	462	451	577	376
	Db	2,004	1,814	324	462	451	577	376
- non IFSC	Cr	1,941	1,877	557	380	226	714	419
	Db	1,014	1,065	294	174	291	306	318
<b>Balance on Current Account</b>		<b>262</b>	<b>-535</b>	<b>-54</b>	<b>333</b>	<b>-402</b>	<b>-412</b>	<b>-669</b>
<b>Balance on Capital Account</b>		<b>441</b>	<b>950</b>	<b>236</b>	<b>151</b>	<b>10</b>	<b>553</b>	<b>190</b>

Table 3 – Current, Capital and Financial Accounts showing IFSC<sup>1</sup> and non-IFSC activity - continued

£ million

Item		1999	2000	2000				2001
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Financial Account <sup>4</sup>								
Direct investment	Abroad	-4,516	-3,396	-892	-838	-765	-901	-1,273
	In Ireland	13,676	19,707	2,269	5,474	5,517	6,447	4,874
- IFSC	Abroad	0	0	0	0	0	0	38
	In Ireland	9,230	10,696	929	2,047	3,141	4,579	3,131
- non IFSC	Abroad	-4,516	-3,396	-892	-838	-765	-901	-1,311
	In Ireland	4,446	9,012	1,340	3,427	2,376	1,869	1,742
Portfolio investment	Assets	-61,445	-66,500	-23,154	-10,975	-24,280	-8,091	-23,484
	Liabilities	50,150	67,876	18,983	19,771	20,280	8,842	21,912
- IFSC	Assets	-52,792	-60,880	-21,142	-11,503	-22,004	-6,231	-21,066
	Liabilities	47,216	62,697	16,649	17,313	20,500	8,235	20,385
- non IFSC	Assets	-8,653	-5,618	-2,010	528	-2,275	-1,861	-2,418
	Liabilities	2,934	5,178	2,334	2,457	-220	607	1,526
Other investment <sup>5</sup>	Assets	-28,395	-34,891	-7,769	-10,892	-9,572	-6,658	-7,561
	Liabilities	27,629	24,519	10,711	1,561	11,614	633	6,431
- IFSC	Assets	-19,652	-31,179	-6,690	-9,403	-7,253	-7,833	-6,592
	Liabilities	17,456	16,750	8,500	1,095	7,018	137	3,297
- non IFSC	Assets	-8,743	-3,712	-1,079	-1,489	-2,319	1,175	-968
	Liabilities	10,173	7,769	2,211	466	4,595	497	3,132
Reserve Assets		1,375	-113	30	-43	-30	-70	-52
Balance on Financial Account		-1,527	7,202	178	4,058	2,764	202	847
Net errors and omissions								
		824	-7,617	-360	-4,542	-2,372	-343	-368

<sup>1</sup> 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

<sup>2</sup> Adjusted for balance of payments purposes

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

<sup>4</sup> See footnote 1 on Table 2b

<sup>5</sup> Including financial derivatives and trade credits

Table 4a – Current and Capital Accounts showing geographical<sup>1</sup> detail

£ million

Item		1999	2000	2000				2001
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
<b>Current Account - Total</b>	<b>Cr</b>	<b>84,289</b>	<b>106,789</b>	<b>22,257</b>	<b>25,728</b>	<b>27,887</b>	<b>30,917</b>	<b>28,700</b>
	<b>Db</b>	<b>84,027</b>	<b>107,324</b>	<b>22,311</b>	<b>25,395</b>	<b>28,289</b>	<b>31,329</b>	<b>29,369</b>
<b>Merchandise <sup>2</sup></b>	<b>Cr</b>	<b>50,724</b>	<b>62,877</b>	<b>14,059</b>	<b>15,257</b>	<b>15,884</b>	<b>17,677</b>	<b>17,477</b>
	<b>Db</b>	<b>32,766</b>	<b>41,060</b>	<b>9,675</b>	<b>10,067</b>	<b>9,901</b>	<b>11,417</b>	<b>11,411</b>
- EMU	Cr	20,321	23,381	5,605	5,692	5,758	6,326	6,683
	Db	6,273	8,195	2,023	2,191	1,736	2,245	2,358
- non EMU	Cr	30,403	39,494	8,454	9,565	10,126	11,349	10,793
	Db	26,493	32,865	7,651	7,876	8,165	9,173	9,054
- EU	Cr	32,926	38,800	9,177	9,481	9,526	10,616	10,717
	Db	17,703	21,970	5,327	5,478	4,990	6,175	6,059
- non EU	Cr	17,797	24,074	4,882	5,775	6,357	7,060	6,759
	Db	15,063	19,092	4,348	4,589	4,912	5,243	5,352
<b>Services</b>	<b>Cr</b>	<b>11,504</b>	<b>14,438</b>	<b>2,719</b>	<b>3,412</b>	<b>3,958</b>	<b>4,349</b>	<b>3,665</b>
	<b>Db</b>	<b>19,718</b>	<b>24,726</b>	<b>4,637</b>	<b>5,878</b>	<b>6,539</b>	<b>7,672</b>	<b>6,993</b>
- EMU	Cr	3,335	4,834	916	1,073	1,367	1,478	1,050
	Db	4,803	5,288	1,032	1,339	1,333	1,584	1,648
- non EMU	Cr	8,169	9,604	1,802	2,339	2,591	2,872	2,612
	Db	14,915	19,431	3,601	4,537	5,206	6,087	5,347
- EU	Cr	6,997	9,593	1,832	2,257	2,580	2,924	1,990
	Db	8,938	10,359	2,051	2,556	2,785	2,967	3,061
- non EU	Cr	4,508	4,840	887	1,153	1,376	1,424	1,674
	Db	10,780	14,367	2,589	3,320	3,751	4,707	3,932
<b>Income</b>	<b>Cr</b>	<b>18,116</b>	<b>25,782</b>	<b>4,598</b>	<b>6,217</b>	<b>7,368</b>	<b>7,599</b>	<b>6,763</b>
	<b>Db</b>	<b>28,526</b>	<b>38,658</b>	<b>7,381</b>	<b>8,814</b>	<b>11,106</b>	<b>11,357</b>	<b>10,272</b>
- EMU	Cr	6,396	8,506	1,652	2,295	2,374	2,185	2,449
	Db	9,991	12,503	2,522	3,002	3,326	3,653	3,295
- non EMU	Cr	11,720	17,278	2,946	3,923	4,993	5,416	4,314
	Db	18,535	26,155	4,860	5,812	7,779	7,704	6,978
- EU	Cr	10,154	14,179	2,618	3,455	3,976	4,130	4,244
	Db	14,665	18,996	3,513	4,771	5,082	5,630	5,133
- non EU	Cr	7,962	11,605	1,981	2,764	3,391	3,469	2,520
	Db	13,861	19,669	3,871	4,044	6,026	5,728	5,136
<b>Current Transfers</b>	<b>Cr</b>	<b>3,945</b>	<b>3,692</b>	<b>881</b>	<b>842</b>	<b>677</b>	<b>1,292</b>	<b>795</b>
	<b>Db</b>	<b>3,018</b>	<b>2,880</b>	<b>618</b>	<b>636</b>	<b>743</b>	<b>883</b>	<b>693</b>
- EMU	Cr	1,878	1,999	521	458	196	824	419
	Db	937	1,171	252	250	251	418	323
- non EMU	Cr	2,067	1,693	360	384	481	468	376
	Db	2,081	1,707	366	385	491	465	370
- EU	Cr	3,294	2,911	771	774	452	914	578
	Db	2,231	1,835	487	380	485	483	460
- non EU	Cr	651	781	111	67	225	378	216
	Db	787	1,044	131	255	258	400	233
<b>Balance on Current Account</b>		<b>262</b>	<b>-535</b>	<b>-54</b>	<b>333</b>	<b>-402</b>	<b>-412</b>	<b>-669</b>
<b>Balance on Capital Account</b>		<b>441</b>	<b>950</b>	<b>236</b>	<b>151</b>	<b>10</b>	<b>553</b>	<b>190</b>

<sup>1</sup> 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 and up to 31 December 2000. From 1 January 2001 the 'EMU' area was expanded to include Greece.

<sup>2</sup> Adjusted for balance of payments purposes

Table 4b – Financial Account<sup>1</sup> showing geographical<sup>2</sup> detail

£ million

Item		1999	2000	2000				2001
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
<b>Direct Investment</b>	<b>Abroad</b>	<b>-4,516</b>	<b>-3,396</b>	<b>-892</b>	<b>-838</b>	<b>-765</b>	<b>-901</b>	<b>-1,273</b>
	<b>In Ireland</b>	<b>13,676</b>	<b>19,707</b>	<b>2,269</b>	<b>5,474</b>	<b>5,517</b>	<b>6,447</b>	<b>4,874</b>
- EMU	Abroad	-172	-178	-55	-79	-69	25	-119
	In Ireland	4,911	2,010	-423	-452	2,057	828	2,499
- non EMU	Abroad	-4,344	-3,215	-835	-759	-696	-925	-1,153
	In Ireland	8,765	17,697	2,691	5,926	3,460	5,620	2,374
- EU	Abroad	-648	34	-61	-173	351	-83	-407
	In Ireland	4,968	4,088	-258	1,343	2,973	30	3,242
- non EU	Abroad	-3,868	-3,432	-831	-666	-1,117	-818	-866
	In Ireland	8,709	15,620	2,527	4,131	2,544	6,418	1,631
<b>Portfolio Investment</b>	<b>Assets</b>	<b>-61,445</b>	<b>-66,500</b>	<b>-23,154</b>	<b>-10,975</b>	<b>-24,280</b>	<b>-8,091</b>	<b>-23,484</b>
	<b>Liabilities</b>	<b>50,150</b>	<b>67,876</b>	<b>18,983</b>	<b>19,771</b>	<b>20,280</b>	<b>8,842</b>	<b>21,912</b>
- EMU	Assets	-17,963	-22,194	-11,956	-362	-7,124	-2,752	-6,702
	Liabilities	8,099	7,989	6,462	1,044	1,544	-1,061	1,735
- non EMU	Assets	-43,482	-44,304	-11,197	-10,613	-17,155	-5,339	-16,781
	Liabilities	42,050	59,886	12,521	18,727	18,736	9,902	20,175
- EU	Assets	-23,269	-30,887	-15,944	152	-12,047	-3,048	-11,798
	Liabilities	15,146	23,928	17,092	3,942	1,717	1,177	8,390
- non EU	Assets	-38,176	-35,611	-7,208	-11,127	-12,234	-5,042	-11,685
	Liabilities	35,003	43,950	1,891	15,829	18,564	7,666	13,521
<b>Other Investment <sup>3</sup></b>	<b>Assets</b>	<b>-28,395</b>	<b>-34,891</b>	<b>-7,769</b>	<b>-10,892</b>	<b>-9,572</b>	<b>-6,658</b>	<b>-7,561</b>
	<b>Liabilities</b>	<b>27,629</b>	<b>24,519</b>	<b>10,711</b>	<b>1,561</b>	<b>11,614</b>	<b>633</b>	<b>6,431</b>
- EMU	Assets	-11,602	-5,006	2,348	-1,298	-3,760	-2,296	1,114
	Liabilities	7,845	4,358	-813	-21	3,333	1,859	1,700
- non EMU	Assets	-16,793	-29,883	-10,117	-9,592	-5,811	-4,363	-8,672
	Liabilities	19,783	20,162	11,525	1,582	8,281	-1,226	4,731
- EU	Assets	-18,168	-13,565	-1,388	-4,480	-3,948	-3,749	-4,834
	Liabilities	15,131	14,069	3,600	1,629	6,764	2,076	3,390
- non EU	Assets	-10,228	-21,325	-6,381	-6,412	-5,624	-2,908	-2,731
	Liabilities	12,498	10,450	7,112	-67	4,849	-1,444	3,041
<b>Reserve Assets</b>		<b>1,375</b>	<b>-113</b>	<b>30</b>	<b>-43</b>	<b>-30</b>	<b>-70</b>	<b>-52</b>
<b>Balance on Financial Account</b>		<b>-1,527</b>	<b>7,202</b>	<b>178</b>	<b>4,058</b>	<b>2,764</b>	<b>202</b>	<b>847</b>
<i>Net errors and omissions</i>		<i>824</i>	<i>-7,617</i>	<i>-360</i>	<i>-4,542</i>	<i>-2,372</i>	<i>-343</i>	<i>-368</i>

<sup>1</sup> See footnote 1 on Table 2b<sup>2</sup> 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 and up to 31 December 2000. From 1 January 2001 the 'EMU' area was expanded to include Greece.<sup>3</sup> 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 - 5<sup>th</sup> Edition (BPM5) published in 1993, but with certain modifications approved internationally since then (concerning, for example, the treatment of financial derivatives).

**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.

<b>Structure of the Balance of Payments accounts</b>	<p>The balance of payments presentation consists of three tables or accounts, the <i>Current Account</i>, the <i>Capital Account</i> and the <i>Financial Account</i>. 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.</p>
<b>Sign convention and symbols</b>	<p>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.</p> <p>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 <i>credit – debit</i>.</p> <p>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 <i>net change in assets + net change in liabilities</i>. In the case of direct investment, the asset/liability presentation is replaced by the so-called 'directional' one, i.e. <i>direct investment abroad</i> (which approximates to the assets concept) and <i>direct investment in Ireland</i> (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.</p> <p>Amounts are shown in millions of Irish Pounds and, in <i>Table 1b</i>, 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.</p>
<b>Net errors and omissions</b>	<p>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 <i>net errors and omissions</i> is inserted to balance the overall account.</p>
<b>Valuation</b>	<p>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.</p>
<b>Residence</b>	<p>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.</p>
<b>Geographical allocation principle</b>	<p>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).</p>

**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) *merchandising and other trade-related services*, (b) *operational leasing* and (c) *miscellaneous business services*.

*Merchandising* 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 account<sup>1</sup> 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.

<sup>1</sup> 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.