

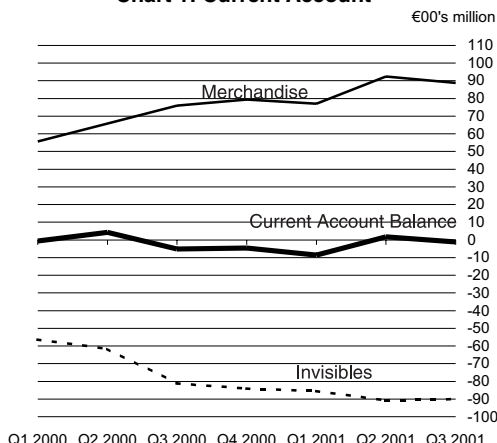


**Central Statistics Office**  
An Phríomh-Oifig Staidrimh

20 February 2002

## Balance of International Payments Quarter 3 2001

**Chart 1: Current Account**



	€ million		
	Merchandise Balance	Invisibles Balance	Current Account Balance
Q3 2001	8,884	-9,007	-123
Q3 2000	7,596	-8,109	-513
Q1-Q3 2001	25,833	-26,634	-801
Q1-Q3 2000	19,751	-19,908	-157

### Small Current Account deficit in the third Quarter of 2001

There was a small deficit of €123m (£97m) on the current account of the Balance of Payments for the third quarter of 2001 following the small surplus recorded in the second quarter. This was lower than the deficit of €513m (£404m) for the same quarter in the previous year - *see Table 1*. A reduced merchandise surplus of €8,884m (£6,997m) combined with a small deficit of €31m (£24m) on *current transfers* exceeded deficits on *services* and *income* of €4,200m (£3,308m) and €4,776m (£3,761m) respectively.

#### Reduced merchandise trade (*see Tables 1 and 2*)

The *merchandise* trade surplus of €8,884m in the third quarter was €364m down on the previous quarter's surplus of €9,248m. Compared to the third quarter in 2000, it was almost €1.3 billion higher. This reflects exports of €21,316m, which were down about €0.9 billion on the level in the previous two quarters but were up over €1.1 billion on the corresponding quarter in 2000. Imports at €12,432m were down €560m on the second quarter figure but only slightly below (€140m) the third quarter level a year earlier.

#### Increased services deficit (*see Tables 1 and 2*)

The overall *services* balance in the third quarter showed a deficit of €4,200m, up on the €3,505m deficit shown for the previous quarter and nearly €1 billion higher than the same quarter last year. Increased respondent coverage has resulted in higher estimates on both the credit and debit sides. Caution is therefore advised in making comparisons with earlier quarters for the gross flows, the figures for which will be revised to some extent when the results for the fourth quarter of 2001 are published.

*Services* exports amounted to €6,055m, up €932m on the previous quarter while imports, at €10,255m, were €1,627m up on the previous quarter. *Computer services* exports (€1,849m) accounted for almost 31% of all services exported in the quarter, up almost €400m from the previous quarter reflecting better coverage of firms in the sector. *Tourism and travel* receipts (€1,186m) also increased by nearly €400m compared to the previous quarter and, despite a reduction in the number of visitors to Ireland during the quarter, were €113m higher than the level recorded one year earlier. The main contributors to service imports were: *royalties/licences* (€2,341m), which were down slightly on the previous three quarters; *trade related services* (€2,257m), which increased by nearly €1bn compared to the previous quarter, but also reflect the availability of new data from respondents; and *miscellaneous business services* -mainly inter-affiliate

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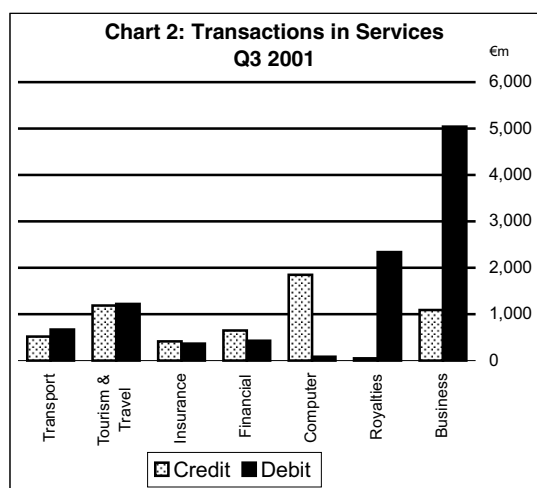
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management charges (€2,769m), which increased by €540m compared to the previous quarter.

#### Net income outflows significantly down (see Tables 1 and 2)

Net outflows of income amounted to €4,776m in the third quarter, down over €890m on the figure of €5,666m for the previous quarter and up marginally by €27m on the figure for the corresponding quarter in 2000. On the credits side, gross *investment income* at €8,075m was up €469m on the figure of €7,606m for the previous quarter, but down over €1 billion on the figure for the third quarter 2000. This investment income credits figure arose largely from interest receivable on *other investment* assets - loans, currencies, deposits, etc. - (€4,138m) and on *portfolio investment* assets (€2,819m); the *direct investment income* credit was €1,119m in the quarter. On the debit side, gross *investment income* outflows amounted to €12,925m, down €335m on the figure of €13,260m for the previous quarter and down over €1 billion on the figure for the third quarter 2000. *Direct investment income* transactions accounted for €7,171m of this figure, down €661m on the previous quarter. *Portfolio investment* and *other investment income* debits at €3,072m and €2,681m respectively did not change as significantly compared with the second quarter. However, *Portfolio investment income on equity* increased by €472m reflecting to some extent the increased earnings from continued substantial investment into IFSC collective investment institutions.

#### Current transfers show small deficit (see Tables 1 and 3)

Current transfers showed a small net deficit of €31m in the third quarter of this year compared to a net surplus of €97m in the previous quarter and a net deficit of €83m in the same period last year. The gross flows in the quarter were credits of €1,054m and debits of €1,085m. As with previous quarters, within these gross flows, transfers relating to IFSC non-life insurance business showed equal amounts on both the credits and debits sides. Non-IFSC transfers relate largely 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 €255m in the third quarter of this year. As noted on previous occasions, 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 third quarter accounted for €22,101m or about 60% of the total of current account credits; the corresponding debits amounted to €18,354m or about 50% of the total. The same analysis for transactions with EMU residents shows that total credits amounted to €12,204m or about 33% of the total; EMU debit transactions totalled to €8,138m or about 22% of all current account debits.

#### Capital account (see Table 1)

EU capital transfer receipts largely accounted for the net balance of €13m shown for the third quarter of 2001, the same figure as in the corresponding quarter in 2000.

#### IFSC transactions very dominant in the financial account (see Tables 1, 2 and 3)

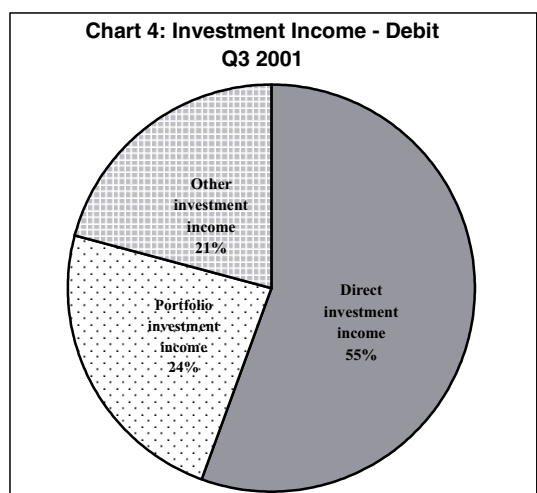
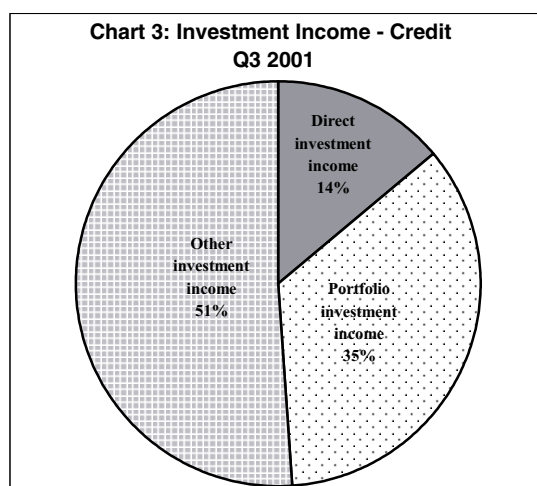
The net credit balance of €916m in the financial account in the third quarter represents a return to the trend of the periods prior to the second quarter of 2001, with an increase in the value of Ireland's foreign liabilities (net of asset transactions). This net liability balance arose because the increase in foreign liabilities of €23,859m was greater than the increase in foreign assets of €22,943m. IFSC transactions with non-residents dominated these results. On the assets side, IFSC enterprises accounted for over €19 billion or 84% of the total; on the liabilities side these enterprises accounted for over €17 billion or 73% of the total.

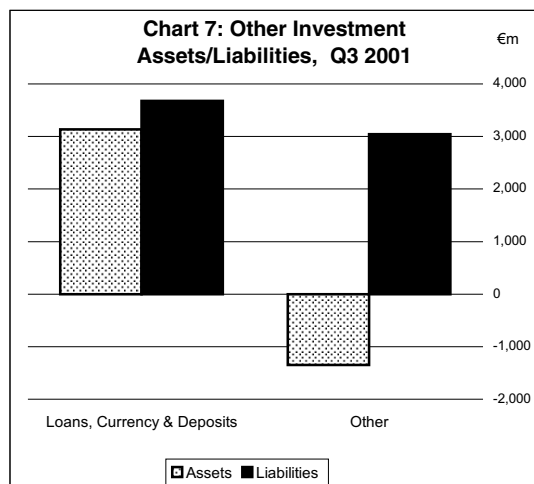
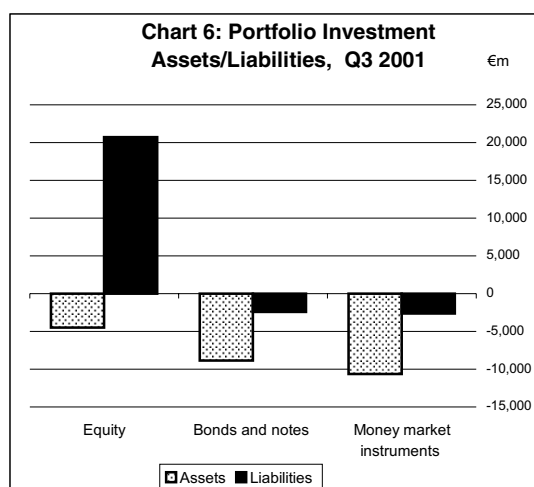
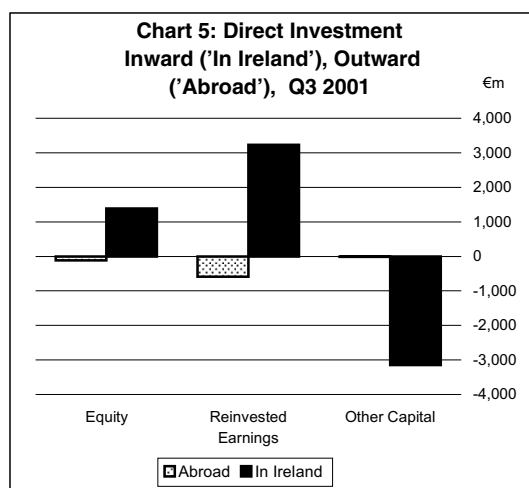
#### Geographical analysis of the financial account (see Table 4b)

Transactions in foreign assets with EU residents amounted to €20,268m in the third quarter, or 88% of the total; the corresponding liability transactions accounted for €18,311m or 77% of all such transactions with non-residents. Asset transactions with members of the EMU area were valued at €17,116m or 75% of the total while liability transactions at €5,511m account for 23% of the total.

#### Direct investment – corporate restructuring impacts on figures

Inward direct investment (including reinvestment of earnings) in the third quarter was €1,469m, down over €2 billion from the figure of €3,691m in the previous quarter. Equity investment at €1,385m was up compared to the figure of €975m in the previous quarters. The increase in *reinvested earnings* at €3,232m was offset





by a reduction in liabilities under *other capital* of €3,148m. This was largely explained by corporate restructuring in an IFSC company which resulted in foreign liabilities being replaced with Irish liabilities. EMU investors increased their overall inward direct investment by €2,116m and EU investors by €4,525m. In contrast to previous quarters, disinvestment by non-EMU and non-EU investors occurred. Outward direct investment, at €722m in the quarter, was less than half the level of the previous quarter and lower than the amounts in each quarter of 2000. Net inward direct investment in the third quarter was €747m, compared to €2,205m in the previous quarter and €6,034m in the third quarter of 2000.

#### Portfolio investment

Inward portfolio investment (liability) transactions of €15,664m were almost €14 billion lower than the inflows in the previous quarter. Equity investment principally into IFSC collective investment institutions of €20,740m remained close to the level for the second quarter of €22,487m. The increases in equity liabilities this quarter were offset by redemptions in debt instruments of over €5bn compared with acquisitions of over €7bn in debt instruments in the second quarter. This explains the overall reduction in portfolio liabilities transactions from €29.6bn to €16bn. Non-EU investors accounted for almost €13.6bn or 87% of the overall total invested in Ireland while the amount shown for non-EMU investors was almost €17.4bn (offset by the reduction in investment by EMU residents of €1.7bn). For outward portfolio investment, the figures show that acquisitions of foreign securities of €23,967m in the third quarter had decreased from the €33,709m in the previous quarter. Equity investment of €4,489m is below the second quarter figure of €11,031m reflecting the ongoing uncertainty regarding stock market performance. There were substantial investments into bonds of €8,857m and money market instruments of €10,620m although overall investment in debt securities of €19,478m was a little lower than for the previous quarter. IFSC transactions in foreign assets and liabilities dominated portfolio activity. Overall, net outward investment amounted to €8,302m in the third quarter.

#### Other investment

Ireland's *other investment* transactions in the third quarter showed an increase in net liabilities of €8,516m. This resulted from liability transactions of €6,726m, which were up almost €2.2 billion compared to the previous quarter and decreases in assets of €1,791m compared to increases of almost €3.5 billion for the previous quarter. IFSC enterprises reduced their foreign assets by €3,570m while their foreign liabilities rose by €5,201m. Non-IFSC enterprises showed almost equal increases in assets of €1,779m and in liabilities of €1,525m. There was therefore a net asset balance of €254m for non-IFSC enterprises.

#### Reserve assets

There was a net acquisition of *reserve assets* amounting to €45m in the third quarter of the year.

#### Net errors and omissions

The balancing item *net errors and omissions* show a debit of €806m in the third quarter.

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

€ million

Item	1998	1999	2000	2000				2001		
	Year			Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Current Account										
Merchandise <sup>1</sup>	17,771	22,802	27,698	5,566	6,589	7,596	7,947	7,701	9,248	8,884
Services	-9,002	-10,428	-13,064	-2,435	-3,131	-3,277	-4,221	-4,229	-3,505	-4,200
Income	-9,382	-13,218	-16,280	-3,534	-3,295	-4,749	-4,702	-4,453	-5,666	-4,776
Current Transfers	1,319	1,177	1,031	334	262	-83	518	129	97	-31
Balance on Current Account	706	333	-615	-69	425	-513	-458	-852	174	-123
Balance on Capital Account	840	560	1,207	300	192	13	702	241	88	13
Financial Account										
Direct Investment	4,422	11,631	21,865	1,748	7,040	6,034	7,043	4,572	2,205	747
Portfolio Investment	-8,466	-14,342	-5,650	-5,295	4,688	-5,887	844	-1,998	-4,073	-8,302
Other Investment <sup>2</sup>	7,459	-974	-7,087	3,762	-6,490	3,292	-7,651	168	1,015	8,516
Reserve Assets	-2,280	1,746	-142	39	-55	-38	-88	-67	-199	-45
Balance on Financial Account	1,135	-1,939	8,986	254	5,183	3,401	148	2,675	-1,052	916
Net errors and omissions	-2,681	1,046	-9,578	-485	-5,800	-2,901	-392	-2,064	790	-806

<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

£ million <sup>1</sup>

Item	1998	1999	2000	2000				2001		
	Year			Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Current Account										
Merchandise <sup>2</sup>	13,996	17,958	21,817	4,384	5,190	5,983	6,260	6,066	7,283	6,997
Services	-7,089	-8,213	-10,288	-1,918	-2,466	-2,581	-3,323	-3,328	-2,761	-3,308
Income	-7,389	-10,410	-12,822	-2,783	-2,595	-3,740	-3,704	-3,509	-4,463	-3,761
Current Transfers	1,038	927	812	263	206	-66	409	102	77	-24
Balance on Current Account	556	262	-481	-54	335	-404	-358	-669	136	-97
Balance on Capital Account	661	441	950	236	151	10	553	190	69	10
Financial Account										
Direct Investment	3,483	9,160	17,220	1,377	5,545	4,752	5,546	3,601	1,738	588
Portfolio Investment	-6,667	-11,296	-4,451	-4,170	3,692	-4,638	665	-1,572	-3,207	-6,538
Other Investment <sup>3</sup>	5,874	-767	-5,581	2,963	-5,112	2,593	-6,025	130	802	6,707
Reserve Assets	-1,796	1,375	-113	30	-43	-30	-70	-52	-156	-35
Balance on Financial Account	894	-1,527	7,075	200	4,082	2,677	116	2,107	-823	721
Net errors and omissions	-2,112	824	-7,544	-382	-4,568	-2,283	-311	-1,628	618	-635

<sup>1</sup> Converted at the European Union official exchange rate conversion factor, fixed at 1 euro = £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	Quarter 2	Quarter 3
Current Account										
Merchandise <sup>1</sup>	Cr	64,406	79,834	17,851	19,372	20,168	22,443	22,190	22,240	21,316
	Db	41,604	52,136	12,285	12,783	12,572	14,496	14,489	12,992	12,432
Services	Cr	14,608	18,331	3,453	4,331	5,025	5,522	4,652	5,123	6,055
	Db	25,036	31,395	5,888	7,462	8,302	9,743	8,881	8,628	10,255
Transport	Cr	1,251	1,474	280	390	467	337	316	461	517
	Db	2,290	2,797	670	689	675	763	771	699	666
Tourism and Travel <sup>2</sup>	Cr	2,473	2,886	423	799	1,073	591	453	791	1,186
	Db	2,479	2,858	457	738	1,078	585	526	818	1,218
Communications	Cr	265	358	71	77	93	117	169	186	210
	Db	313	373	72	87	117	97	66	70	84
Insurance	Cr	934	1,222	285	261	206	470	222	385	412
	Db	1,338	1,582	337	524	342	379	430	367	368
Financial services	Cr	1,563	2,259	451	528	638	642	820	737	651
	Db	1,185	1,572	352	350	467	403	412	531	427
Computer services <sup>3</sup>	Cr	5,292	5,965	1,302	1,434	1,422	1,807	1,447	1,460	1,849
	Db	265	300	61	68	77	94	75	77	85
Royalties/Licences	Cr	392	553	75	150	140	188	162	91	50
	Db	6,902	8,598	1,795	2,226	2,064	2,513	2,444	2,468	2,341
Business services	Cr	2,128	3,272	483	604	898	1,287	980	924	1,093
	Db	10,159	13,243	2,127	2,760	3,464	4,892	4,116	3,566	5,042
Trade related	Cr	105	1,255	210	241	283	521	300	184	96
	Db	4,510	5,473	958	1,031	1,368	2,116	1,589	1,321	2,257
Operational leasing	Cr	683	586	77	129	302	78	242	276	323
	Db	92	101	19	21	30	31	21	16	16
Misc. business services <sup>4</sup>	Cr	1,340	1,431	196	234	313	688	438	464	675
	Db	5,557	7,669	1,150	1,708	2,066	2,745	2,506	2,229	2,769
Other services n.e.s.	Cr	309	342	83	88	88	83	83	88	87
	Db	106	72	17	20	18	17	41	32	23

Table 2a – Current and Capital Accounts - continued

€ million

Item		1999	2000	2000				2001		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Current Account - continued										
Income	Cr	23,002	32,620	5,839	7,929	9,243	9,609	8,590	7,654	8,194
	Db	36,220	48,900	9,373	11,224	13,992	14,311	13,043	13,320	12,970
Compensation of Employees	Cr	278	278	52	52	122	52	52	48	118
	Db	112	112	41	39	16	16	90	60	45
Investment Income	Cr	22,724	32,342	5,787	7,877	9,121	9,557	8,538	7,606	8,075
	Db	36,108	48,788	9,332	11,185	13,976	14,295	12,953	13,260	12,925
Direct investment income	Cr	2,808	3,279	806	869	1,002	602	1,208	928	1,119
	Db	21,484	26,415	5,409	5,961	7,843	7,202	7,103	7,832	7,171
Income on equity	Cr	1,805	1,900	496	527	647	230	813	698	751
	Db	20,711	25,117	5,186	5,603	7,369	6,959	6,667	7,687	6,783
Dividends & distributed branch profits	Cr	55	502	108	105	284	5	79	63	160
	Db	11,677	13,339	2,840	3,081	3,253	4,165	3,940	3,561	3,551
Reinvested earnings	Cr	1,751	1,398	388	422	363	225	734	635	592
	Db	9,035	11,778	2,346	2,522	4,116	2,794	2,727	4,126	3,232
Income on debt	Cr	1,002	1,379	310	342	355	372	395	230	368
	Db	773	1,298	223	358	474	243	436	145	389
Portfolio investment income	Cr	5,598	7,285	1,135	1,827	2,191	2,132	2,487	2,554	2,819
	Db	5,865	10,308	1,736	2,528	2,869	3,175	2,711	2,765	3,072
Income on equity	Cr	1,122	1,165	250	363	291	261	262	366	660
	Db	3,173	4,434	834	1,133	1,256	1,211	1,309	1,353	1,825
Income on debt	Cr	4,476	6,120	885	1,464	1,900	1,871	2,225	2,188	2,158
	Db	2,692	5,874	902	1,395	1,613	1,964	1,402	1,412	1,248
Other investment income	Cr	14,319	21,778	3,846	5,181	5,928	6,823	4,843	4,124	4,138
	Db	8,759	12,065	2,187	2,696	3,264	3,918	3,139	2,663	2,681
Current Transfers	Cr	5,009	4,687	1,119	1,069	860	1,639	1,009	1,113	1,054
	Db	3,832	3,656	785	807	943	1,121	880	1,016	1,085
Current Account - Total	Cr	107,025	135,472	28,262	32,701	35,296	39,213	36,441	36,130	36,618
	Db	106,692	136,087	28,331	32,276	35,809	39,671	37,293	35,956	36,742
Current Account Balance		333	-615	-69	425	-513	-458	-852	174	-123
Capital Account Balance		560	1,207	300	192	13	702	241	88	13

<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	Quarter 2	Quarter 3
Direct Investment	Abroad	-5,734	-4,312	-1,132	-1,065	-971	-1,144	-1,616	-1,486	-722
	In Ireland	17,365	26,177	2,880	8,105	7,005	8,187	6,188	3,691	1,469
Equity	Abroad	-4,492	-3,532	-871	-770	-924	-967	-885	-905	-113
	In Ireland	7,161	13,181	2,238	4,307	3,751	2,885	883	975	1,385
Reinvested Earnings	Abroad	-1,751	-1,398	-388	-422	-363	-225	-734	-635	-592
	In Ireland	9,035	11,778	2,346	2,522	4,116	2,794	2,727	4,126	3,232
Other Capital	Abroad	508	618	127	127	316	48	3	54	-17
	In Ireland	1,170	1,218	-1,704	1,276	-862	2,508	2,578	-1,410	-3,148
Portfolio Investment	Assets	-78,019	-87,374	-25,124	-20,448	-31,529	-10,273	-29,819	-33,709	-23,967
	Liabilities	63,677	81,724	19,829	25,136	25,642	11,117	27,821	29,636	15,664
Equity	Assets	-34,329	-30,527	-7,590	-3,637	-14,416	-4,884	-1,267	-11,031	-4,489
	Liabilities	49,310	72,652	16,853	21,240	25,080	9,479	19,514	22,487	20,740
Debt Instruments	Assets	-43,691	-56,847	-17,534	-16,811	-17,113	-5,389	-28,552	-22,678	-19,478
	Liabilities	14,367	9,072	2,976	3,896	562	1,638	8,307	7,149	-5,076
Bonds and notes	Assets	-29,737	-31,334	-10,560	-6,774	-8,714	-5,286	-15,128	-15,412	-8,857
	Liabilities	7,382	1,907	846	564	770	-273	4,002	2,555	-2,436
Money market instruments	Assets	-13,953	-25,513	-6,974	-10,037	-8,399	-103	-13,424	-7,266	-10,620
	Liabilities	6,985	7,165	2,130	3,332	-208	1,911	4,305	4,594	-2,640



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	Quarter 2	Quarter 3
<b>Other Investment</b>	<b>Assets</b>	<b>-36,055</b>	<b>-35,243</b>	<b>-8,017</b>	<b>-7,318</b>	<b>-11,454</b>	<b>-8,454</b>	<b>-8,000</b>	<b>-3,480</b>	<b>1,791</b>
	<b>Liabilities</b>	<b>35,081</b>	<b>28,156</b>	<b>11,779</b>	<b>828</b>	<b>14,746</b>	<b>803</b>	<b>8,168</b>	<b>4,495</b>	<b>6,726</b>
Loans, currency and deposits	Assets	-31,892	-28,936	-7,729	-5,803	-12,475	-2,929	-6,300	-1,496	3,137
	Liabilities	33,256	26,872	11,601	1,016	12,880	1,375	7,149	5,271	3,680
Other <sup>2</sup>	Assets	-4,163	-6,307	-288	-1,515	1,021	-5,525	-1,700	-1,984	-1,346
	Liabilities	1,825	1,284	178	-188	1,866	-572	1,019	-776	3,046
<b>Reserve Assets</b>		<b>1,746</b>	<b>-142</b>	<b>39</b>	<b>-55</b>	<b>-38</b>	<b>-88</b>	<b>-67</b>	<b>-199</b>	<b>-45</b>
Monetary gold		64	-1	-1	1	0	-1	0	1	-1
Special drawing rights		132	-10	-2	-3	-3	-2	-3	-2	-2
Reserve position in the IMF		140	69	0	56	12	1	-3	-8	-29
Foreign exchange		1,422	-245	42	-99	-9	-179	-61	-190	-13
Other		-12	45	0	-10	-38	93	0	0	0
<b>Balance on Financial Account</b>		<b>-1,939</b>	<b>8,986</b>	<b>254</b>	<b>5,183</b>	<b>3,401</b>	<b>148</b>	<b>2,675</b>	<b>-1,052</b>	<b>916</b>
<hr/>										
<i>Net errors and omissions</i>		<i>1,046</i>	<i>-9,578</i>	<i>-485</i>	<i>-5,800</i>	<i>-2,901</i>	<i>-392</i>	<i>-2,064</i>	<i>790</i>	<i>-806</i>
<hr/>										
<b>Memorandum Item:</b>										
<i>Government financial transactions</i>	<i>Assets</i>	<i>-2,432</i>	<i>-1,568</i>	<i>-2,060</i>	<i>-2,410</i>	<i>2,487</i>	<i>414</i>	<i>-556</i>	<i>-2,580</i>	<i>-531</i>
	<i>Liabilities</i>	<i>348</i>	<i>1,042</i>	<i>1,769</i>	<i>1,293</i>	<i>-2,025</i>	<i>6</i>	<i>-382</i>	<i>-89</i>	<i>1,922</i>

<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	Quarter 2	Quarter 3
<b>Current Account - Total</b>	<b>Cr</b>	<b>107,025</b>	<b>135,472</b>	<b>28,262</b>	<b>32,701</b>	<b>35,296</b>	<b>39,213</b>	<b>36,441</b>	<b>36,130</b>	<b>36,618</b>
	<b>Db</b>	<b>106,692</b>	<b>136,087</b>	<b>28,331</b>	<b>32,276</b>	<b>35,809</b>	<b>39,671</b>	<b>37,293</b>	<b>35,956</b>	<b>36,742</b>
Merchandise <sup>2</sup>	Cr	64,406	79,834	17,851	19,372	20,168	22,443	22,190	22,240	21,316
	Db	41,604	52,136	12,285	12,783	12,572	14,496	14,489	12,992	12,432
Services	Cr	14,608	18,331	3,453	4,331	5,025	5,522	4,652	5,123	6,055
	Db	25,036	31,395	5,888	7,462	8,302	9,743	8,881	8,628	10,255
- IFSC	Cr	3,299	3,842	765	865	1,086	1,126	1,215	1,309	1,493
	Db	2,725	3,098	542	756	863	937	988	1,094	1,211
- non IFSC	Cr	11,309	14,489	2,688	3,466	3,939	4,396	3,437	3,814	4,562
	Db	22,311	28,297	5,346	6,706	7,439	8,806	7,893	7,534	9,044
Income	Cr	23,002	32,620	5,839	7,929	9,243	9,609	8,590	7,654	8,194
	Db	36,220	48,900	9,373	11,224	13,992	14,311	13,043	13,320	12,970
- IFSC	Cr	17,552	26,480	4,427	6,391	7,420	8,242	6,680	5,792	6,809
	Db	16,556	24,650	4,204	5,840	7,066	7,540	6,552	5,960	6,836
- non IFSC	Cr	5,450	6,140	1,412	1,538	1,823	1,367	1,910	1,862	1,384
	Db	19,664	24,250	5,169	5,384	6,926	6,771	6,491	7,360	6,134
Current Transfers	Cr	5,009	4,687	1,119	1,069	860	1,639	1,009	1,113	1,054
	Db	3,832	3,656	785	807	943	1,121	880	1,016	1,085
- IFSC <sup>3</sup>	Cr	2,544	2,305	412	587	573	733	477	654	710
	Db	2,544	2,305	412	587	573	733	477	654	710
- non IFSC	Cr	2,465	2,382	707	482	287	906	532	459	343
	Db	1,288	1,351	373	220	370	388	403	362	374
<b>Balance on Current Account</b>		<b>333</b>	<b>-615</b>	<b>-69</b>	<b>425</b>	<b>-513</b>	<b>-458</b>	<b>-852</b>	<b>174</b>	<b>-123</b>
<b>Balance on Capital Account</b>		<b>560</b>	<b>1,207</b>	<b>300</b>	<b>192</b>	<b>13</b>	<b>702</b>	<b>241</b>	<b>88</b>	<b>13</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	Quarter 2	Quarter 3
Financial Account <sup>4</sup>										
Direct investment	Abroad	-5,734	-4,312	-1,132	-1,065	-971	-1,144	-1,616	-1,486	-722
	In Ireland	17,365	26,177	2,880	8,105	7,005	8,187	6,188	3,691	1,469
- IFSC	Abroad	0	0	0	0	0	0	48	47	187
	In Ireland	11,720	14,735	1,179	3,753	3,989	5,814	3,976	594	-1,390
- non IFSC	Abroad	-5,734	-4,312	-1,132	-1,065	-971	-1,144	-1,664	-1,533	-909
	In Ireland	5,646	11,442	1,701	4,352	3,016	2,373	2,212	3,097	2,859
Portfolio investment	Assets	-78,019	-87,374	-25,124	-20,448	-31,529	-10,273	-29,819	-33,709	-23,967
	Liabilities	63,677	81,724	19,829	25,136	25,642	11,117	27,821	29,636	15,664
- IFSC	Assets	-67,032	-80,241	-22,571	-21,118	-28,640	-7,912	-26,748	-31,625	-23,088
	Liabilities	59,952	75,149	16,865	22,016	25,922	10,346	25,884	29,234	13,526
- non IFSC	Assets	-10,987	-7,133	-2,553	670	-2,889	-2,361	-3,071	-2,084	-879
	Liabilities	3,725	6,575	2,964	3,120	-280	771	1,937	402	2,138
Other investment <sup>5</sup>	Assets	-36,055	-35,243	-8,017	-7,318	-11,454	-8,454	-8,000	-3,480	1,791
	Liabilities	35,081	28,156	11,779	828	14,746	803	8,168	4,495	6,726
- IFSC	Assets	-24,953	-30,531	-6,647	-5,428	-8,509	-9,947	-6,771	-267	3,570
	Liabilities	22,164	18,291	8,971	236	8,911	173	4,189	-1,017	5,201
- non IFSC	Assets	-11,102	-4,712	-1,370	-1,890	-2,945	1,493	-1,229	-3,213	-1,779
	Liabilities	12,917	9,865	2,808	592	5,835	630	3,979	5,512	1,525
Reserve Assets		1,746	-142	39	-55	-38	-88	-67	-199	-45
Balance on Financial Account		-1,939	8,986	254	5,183	3,401	148	2,675	-1,052	916
Net errors and omissions		1,046	-9,578	-485	-5,800	-2,901	-392	-2,064	790	-806

<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	Quarter 2	Quarter 3
<b>Current Account - Total</b>	<b>Cr</b>	<b>107,025</b>	<b>135,472</b>	<b>28,262</b>	<b>32,701</b>	<b>35,296</b>	<b>39,213</b>	<b>36,441</b>	<b>36,130</b>	<b>36,618</b>
	<b>Db</b>	<b>106,692</b>	<b>136,087</b>	<b>28,331</b>	<b>32,276</b>	<b>35,809</b>	<b>39,671</b>	<b>37,293</b>	<b>35,956</b>	<b>36,742</b>
<b>Merchandise <sup>2</sup></b>	<b>Cr</b>	<b>64,406</b>	<b>79,834</b>	<b>17,851</b>	<b>19,372</b>	<b>20,168</b>	<b>22,443</b>	<b>22,190</b>	<b>22,240</b>	<b>21,316</b>
	<b>Db</b>	<b>41,604</b>	<b>52,136</b>	<b>12,285</b>	<b>12,783</b>	<b>12,572</b>	<b>14,496</b>	<b>14,489</b>	<b>12,992</b>	<b>12,432</b>
- EMU	Cr	25,802	29,687	7,117	7,227	7,311	8,032	8,487	8,162	7,206
	Db	7,965	10,403	2,569	2,782	2,204	2,848	2,993	2,789	2,384
- non EMU	Cr	38,604	50,147	10,734	12,145	12,857	14,411	13,703	14,078	14,110
	Db	33,639	41,732	9,715	10,001	10,368	11,648	11,496	10,203	10,048
- EU	Cr	41,808	49,267	11,652	12,039	12,096	13,480	13,608	13,520	12,940
	Db	22,478	27,894	6,764	6,956	6,336	7,838	7,693	7,375	7,509
- non EU	Cr	22,598	30,567	6,199	7,333	8,072	8,963	8,582	8,720	8,376
	Db	19,126	24,243	5,521	5,827	6,237	6,658	6,796	5,617	4,923
<b>Services</b>	<b>Cr</b>	<b>14,608</b>	<b>18,331</b>	<b>3,453</b>	<b>4,331</b>	<b>5,025</b>	<b>5,522</b>	<b>4,652</b>	<b>5,123</b>	<b>6,055</b>
	<b>Db</b>	<b>25,036</b>	<b>31,395</b>	<b>5,888</b>	<b>7,462</b>	<b>8,302</b>	<b>9,743</b>	<b>8,881</b>	<b>8,628</b>	<b>10,255</b>
- EMU	Cr	4,235	6,135	1,164	1,361	1,735	1,875	1,333	1,393	1,785
	Db	6,098	6,719	1,313	1,701	1,692	2,013	2,094	1,830	1,812
- non EMU	Cr	10,373	12,196	2,289	2,970	3,290	3,647	3,319	3,730	4,270
	Db	18,938	24,675	4,575	5,761	6,610	7,729	6,789	6,802	8,443
- EU	Cr	8,884	12,182	2,326	2,868	3,277	3,711	2,529	3,033	3,772
	Db	11,348	13,156	2,604	3,247	3,538	3,767	3,888	3,588	4,089
- non EU	Cr	5,723	6,149	1,127	1,463	1,748	1,811	2,125	2,090	2,283
	Db	13,688	18,238	3,284	4,215	4,764	5,975	4,995	5,042	6,166
<b>Income</b>	<b>Cr</b>	<b>23,002</b>	<b>32,620</b>	<b>5,839</b>	<b>7,929</b>	<b>9,243</b>	<b>9,609</b>	<b>8,590</b>	<b>7,654</b>	<b>8,194</b>
	<b>Db</b>	<b>36,220</b>	<b>48,900</b>	<b>9,373</b>	<b>11,224</b>	<b>13,992</b>	<b>14,311</b>	<b>13,043</b>	<b>13,320</b>	<b>12,970</b>
- EMU	Cr	8,121	10,722	2,094	3,008	2,844	2,776	3,110	2,801	2,743
	Db	12,686	15,872	3,202	3,812	4,222	4,636	4,184	4,288	3,430
- non EMU	Cr	14,881	21,898	3,745	4,921	6,399	6,833	5,480	4,852	5,451
	Db	23,534	33,028	6,171	7,412	9,770	9,675	8,858	9,033	9,540
- EU	Cr	12,893	17,935	3,314	4,386	5,002	5,233	5,389	4,788	4,625
	Db	18,621	24,070	4,460	6,065	6,425	7,120	6,522	6,831	5,977
- non EU	Cr	10,109	14,684	2,525	3,543	4,241	4,375	3,200	2,866	3,569
	Db	17,599	24,830	4,913	5,159	7,567	7,191	6,521	6,489	6,993
<b>Current Transfers</b>	<b>Cr</b>	<b>5,009</b>	<b>4,687</b>	<b>1,119</b>	<b>1,069</b>	<b>860</b>	<b>1,639</b>	<b>1,009</b>	<b>1,113</b>	<b>1,054</b>
	<b>Db</b>	<b>3,832</b>	<b>3,656</b>	<b>785</b>	<b>807</b>	<b>943</b>	<b>1,121</b>	<b>880</b>	<b>1,016</b>	<b>1,085</b>
- EMU	Cr	2,385	2,537	661	581	249	1,046	532	585	470
	Db	1,190	1,486	320	318	319	529	409	503	512
- non EMU	Cr	2,624	2,150	458	488	611	593	477	528	584
	Db	2,642	2,170	465	489	624	592	471	513	572
- EU	Cr	4,182	3,695	978	983	574	1,160	735	852	764
	Db	2,832	2,329	618	483	615	613	584	744	779
- non EU	Cr	827	992	141	86	286	479	274	261	289
	Db	1,000	1,327	167	324	328	508	296	272	305
<b>Balance on Current Account</b>		<b>333</b>	<b>-615</b>	<b>-69</b>	<b>425</b>	<b>-513</b>	<b>-458</b>	<b>-852</b>	<b>174</b>	<b>-123</b>
<b>Balance on Capital Account</b>		<b>560</b>	<b>1,207</b>	<b>300</b>	<b>192</b>	<b>13</b>	<b>702</b>	<b>241</b>	<b>88</b>	<b>13</b>

<sup>1</sup> The term 'EMU' means the area represented by the 12 Member States participating in Monetary Union<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	Quarter 2	Quarter 3
<b>Direct Investment</b>	<b>Abroad</b>	<b>-5,734</b>	<b>-4,312</b>	<b>-1,132</b>	<b>-1,065</b>	<b>-971</b>	<b>-1,144</b>	<b>-1,616</b>	<b>-1,486</b>	<b>-722</b>
	<b>In Ireland</b>	<b>17,365</b>	<b>26,177</b>	<b>2,880</b>	<b>8,105</b>	<b>7,005</b>	<b>8,187</b>	<b>6,188</b>	<b>3,691</b>	<b>1,469</b>
- EMU	Abroad	-218	-230	-71	-101	-88	30	-151	-118	-1,124
	In Ireland	6,236	3,266	-537	138	2,613	1,052	3,173	1,528	2,116
- non EMU	Abroad	-5,516	-4,082	-1,061	-964	-883	-1,174	-1,465	-1,366	401
	In Ireland	11,129	22,911	3,417	7,967	4,392	7,135	3,015	2,162	-647
- EU	Abroad	-823	42	-78	-220	446	-106	-517	-456	-1,361
	In Ireland	6,307	6,345	-328	2,859	3,776	38	4,117	2,176	4,525
- non EU	Abroad	-4,911	-4,354	-1,054	-845	-1,417	-1,038	-1,099	-1,030	639
	In Ireland	11,058	19,831	3,208	5,246	3,229	8,148	2,072	1,515	-3,056
<b>Portfolio Investment</b>	<b>Assets</b>	<b>-78,019</b>	<b>-87,374</b>	<b>-25,124</b>	<b>-20,448</b>	<b>-31,529</b>	<b>-10,273</b>	<b>-29,819</b>	<b>-33,709</b>	<b>-23,967</b>
	<b>Liabilities</b>	<b>63,677</b>	<b>81,724</b>	<b>19,829</b>	<b>25,136</b>	<b>25,642</b>	<b>11,117</b>	<b>27,821</b>	<b>29,636</b>	<b>15,664</b>
- EMU	Assets	-22,809	-24,229	-11,229	-460	-9,046	-3,494	-8,510	-13,264	-7,045
	Liabilities	10,284	6,148	4,253	1,288	1,958	-1,351	2,204	3,193	-1,735
- non EMU	Assets	-55,210	-63,145	-13,895	-19,988	-22,483	-6,779	-21,309	-20,445	-16,922
	Liabilities	53,393	75,576	15,576	23,848	23,684	12,468	25,617	26,443	17,399
- EU	Assets	-29,546	-35,944	-16,971	193	-15,296	-3,870	-14,982	-16,324	-9,467
	Liabilities	19,232	26,781	18,429	4,734	2,153	1,465	10,651	18,524	2,061
- non EU	Assets	-48,473	-51,430	-8,153	-20,641	-16,233	-6,403	-14,837	-17,385	-14,499
	Liabilities	44,445	54,943	1,400	20,402	23,489	9,652	17,170	11,112	13,603
<b>Other Investment <sup>3</sup></b>	<b>Assets</b>	<b>-36,055</b>	<b>-35,243</b>	<b>-8,017</b>	<b>-7,318</b>	<b>-11,454</b>	<b>-8,454</b>	<b>-8,000</b>	<b>-3,480</b>	<b>1,791</b>
	<b>Liabilities</b>	<b>35,081</b>	<b>28,156</b>	<b>11,779</b>	<b>828</b>	<b>14,746</b>	<b>803</b>	<b>8,168</b>	<b>4,495</b>	<b>6,726</b>
- EMU	Assets	-14,732	-7,326	2,015	-1,649	-4,776	-2,916	-3,543	-785	-8,947
	Liabilities	9,962	5,799	-65	-731	4,233	2,362	2,160	5,197	5,130
- non EMU	Assets	-21,323	-27,917	-10,032	-5,669	-6,678	-5,538	-4,457	-2,695	10,738
	Liabilities	25,120	22,358	11,844	1,559	10,513	-1,558	6,008	-701	1,597
- EU	Assets	-23,068	-15,214	251	-5,688	-5,014	-4,763	-6,893	281	-9,440
	Liabilities	19,213	15,420	3,275	920	8,589	2,636	4,305	7,096	11,725
- non EU	Assets	-12,986	-20,029	-8,268	-1,630	-6,440	-3,691	-1,108	-3,763	11,230
	Liabilities	15,869	12,721	8,489	-92	6,157	-1,833	3,862	-2,600	-4,997
<b>Reserve Assets</b>		<b>1,746</b>	<b>-142</b>	<b>39</b>	<b>-55</b>	<b>-38</b>	<b>-88</b>	<b>-67</b>	<b>-199</b>	<b>-45</b>
<b>Balance on Financial Account</b>		<b>-1,939</b>	<b>8,986</b>	<b>254</b>	<b>5,183</b>	<b>3,401</b>	<b>148</b>	<b>2,675</b>	<b>-1,052</b>	<b>916</b>
<i>Net errors and omissions</i>		<i>1,046</i>	<i>-9,578</i>	<i>-485</i>	<i>-5,800</i>	<i>-2,901</i>	<i>-392</i>	<i>-2,064</i>	<i>790</i>	<i>-806</i>

<sup>1</sup> See footnote 1 on Table 2b<sup>2</sup> The term 'EMU' means the area represented by the 12 Member States participating in Monetary Union<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>	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.
<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 Euro and, in <i>Table 1b</i>, in millions of Irish Pounds. '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>	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.
<b>Valuation</b>	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.
<b>Residence</b>	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.
<b>Geographical allocation principle</b>	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) *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.