

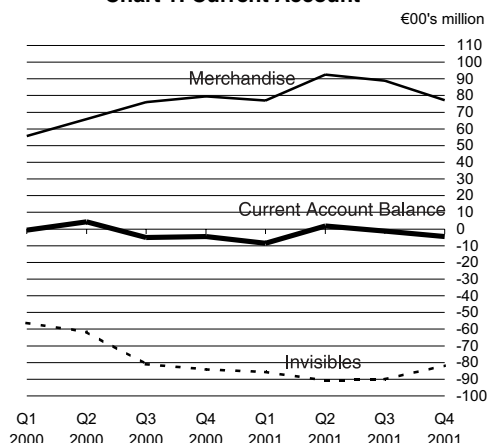


Central Statistics Office
An Phríomh-Oifig Staidrimh

30 April 2002

Balance of International Payments Quarter 4 and Year 2001

Chart 1: Current Account



	€ million		
	Merchandise Balance	Invisibles Balance	Current Account Balance
Q4 2001	7,728	-8,071	-344
Q4 2000	7,947	-8,405	-458
Year 2001	33,561	-34,705	-1,145
Year 2000	27,698	-28,313	-615

Current Account deficit of €344m in the fourth quarter results in an overall deficit of €1,145m for 2001

There was a deficit of €344m on the current account of the Balance of Payments in the fourth quarter of 2001, as compared with the €123m deficit for the previous quarter. For the entire year of 2001 the current account was in deficit by €1,145m compared with a deficit of €615m for the year 2000 - *see Table 1*. However these results are provisional and are subject to revision in the light of later data and information resulting from the preparation of the forthcoming National Income and Expenditure release for 2001.

The fourth quarter deficit resulted from combined surpluses for *merchandise* of €7,728m and *current transfers* of €337m being more than offset by deficits on *services* of €4,423m and *income* of €3,985m. A similar pattern is evident for the full year, the *merchandise* and *current transfer* surpluses being €33,561m and €532m respectively; the *services* and *income* deficits were €16,357m and €18,880m.

Merchandise imports increase and trade surplus declines in 4th Quarter (*see Tables 1 and 2*)

Merchandise exports increased slightly from €21,316m in the third quarter of 2001 to €21,796m in the fourth quarter. Merchandise imports showed a more significant increase from €12,432m to €14,068m and were therefore responsible for the reduced fourth quarter surplus of €7,728m referred to above. Merchandise exports over the entire year were €87,542m while imports amounted to €53,981m.

Deficit on services increases (*see Tables 1 and 2*)

The overall *services* balance in the fourth quarter showed a deficit of €4,423m, up €223m on the third quarter deficit of €4,200m. *Services* exports in the quarter continued to grow and amounted to €6,747m compared to €6,055m in the previous quarter. Imports increased to €11,170m from €10,255m. Over the year, exports of services were €22,577m while imports stood at €38,934m. On the exports side, both *transport* and *tourism and travel* receipts declined in the fourth quarter compared to the previous one. The latter fell from €1,186m to €658m largely reflecting seasonal factors. Computer service exports increased to €2,547m from €1,849m in the previous quarter and accounted for 38% of all service credits. Miscellaneous business services also showed significant growth from €675m in the third quarter to €1,023m in quarter four. This increase was largely due to growth in marketing and advertising exports.

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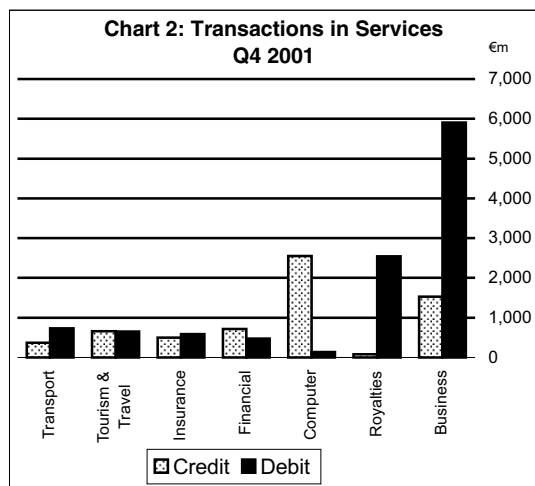
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On the imports side, the main changes during the quarter were a decline in *tourism and travel* expenditure to €654m largely reflecting seasonal factors and an increase in *miscellaneous business services* - mainly inter-affiliate management charges - to €3,394m, up €625m on the previous quarter. The other main contributors to service imports were *royalties/licences* at €2,544m, up €203m on the previous quarter's figure, and *trade related business services*, at €2,494m which showed a similar increase.

Income outflows increase (see Tables 1 and 2)

Net outflows of income amounted to €3,985m in the fourth quarter, down almost €0.8 billion on the previous quarter. Income inflows in the quarter were €7,588m compared with €8,194m in the previous period while income outflows stood at €11,573m compared to €12,970m in quarter three. In the year 2001 income credits were €32,026m slightly down on the 2000 figure of €32,620m while income debits at €50,906m were up €2 billion on the year 2000 outflow of €48,900m. This annual increase on the debit side can be largely traced to increases in *direct investment income* from €26,415m for the year 2000 to €28,240m for the year 2001, reflecting an increase in the profitability of these enterprises. The changes relating to *portfolio investment income* and *other investment income* are largely offsetting.

Increase in current transfers surplus (see Tables 1 and 3)

Current transfers showed a significant surplus of €337m in the fourth quarter of 2001 compared to a small deficit of €31m in the third quarter. Over the year, a surplus of €532m was recorded compared to the previous year's surplus of €1,031m. In gross terms, overall receipts in the quarter amounted to €1,624m while payments stood at €1,288m. Within these gross flows, transfers relating to IFSC non-life insurance business showed equal amounts on both the credits and debits sides i.e. €769m in quarter four compared to €710m in the previous quarter. Non-IFSC transfers relate largely to EU receipts and payments referred to above.

IFSC contribution to the current account (see Table 3)

In terms of their nominal contribution to the overall current account balance, IFSC enterprises' transactions with non-residents showed a surplus of €489m in the fourth quarter of 2001. Over the full year this surplus was €1,146m compared to €2,574m in 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 fourth quarter of 2001 accounted for €23,300m or over 61% of the total of current account credits; the corresponding debits amounted to €20,452m, almost 54% of the total. The same analysis for transactions with EMU residents shows that total credits amounted to €13,164m or almost 35% of the total; EMU debit transactions totalled to €10,046m or 26% of all current account debits. The annual 2001 figures reflected similar patterns.

Capital account (see Table 1)

In the fourth quarter of the year there was a net credit balance of €322m on the capital account. This was largely attributable to receipts from the European Regional Development Fund and the Cohesion Fund of the European Union.

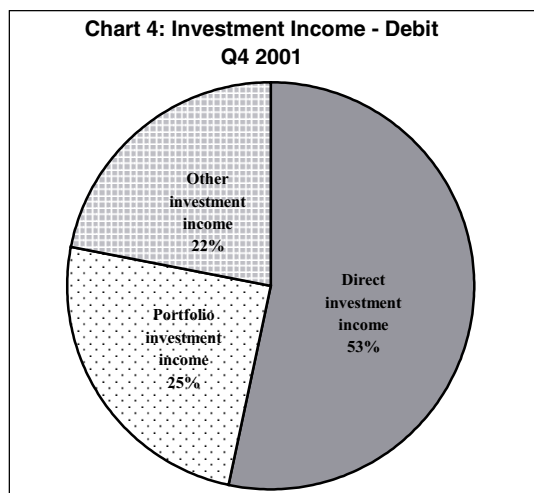
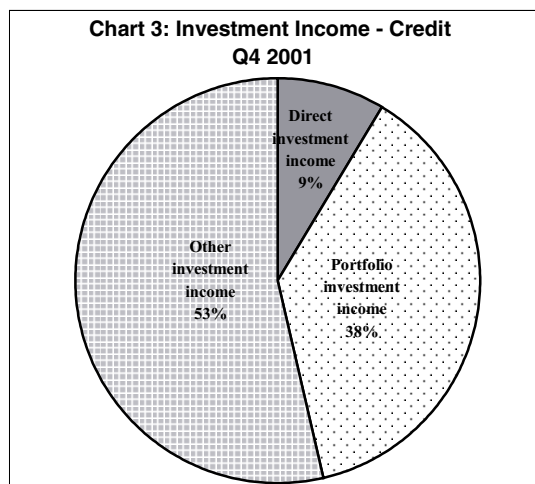
Financial Account (see Tables 1, 2 and 3)

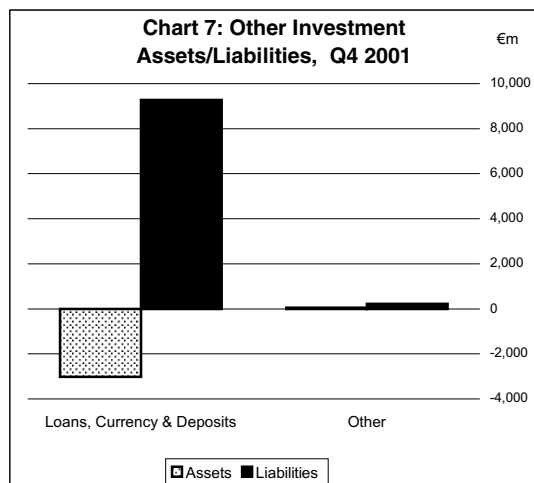
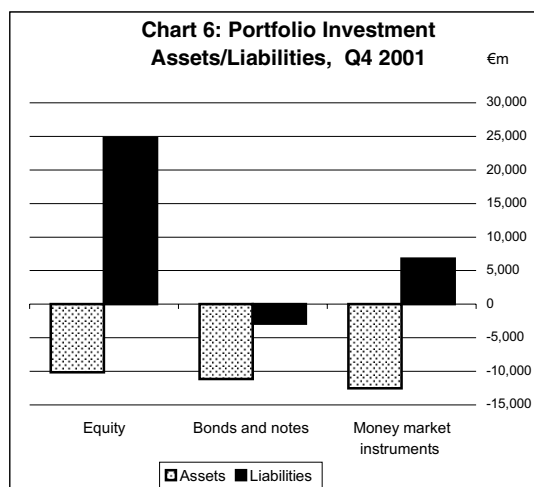
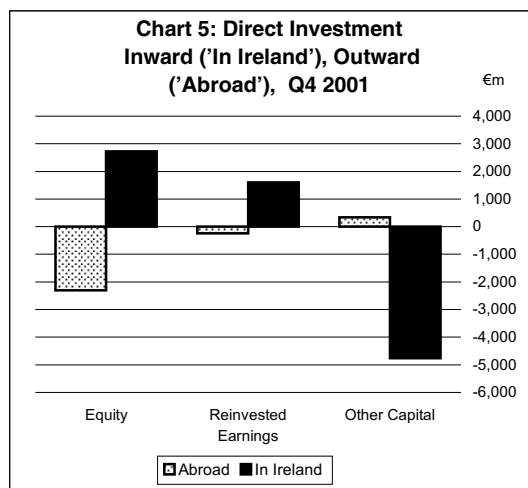
The balance on the financial account shows that there was an overall net increase in foreign assets of €1,398m in the fourth quarter of 2001. This represented a change from the net increase in liabilities reported in the third quarter. For the full year 2001 there was a net increase in liabilities of €1,141m compared with the net increase in liabilities of €8,986m in the year 2000. In gross terms, overall net acquisitions of foreign assets amounted to €140.4 billion in 2001 while net incurrences of foreign liabilities totalled €141.6 billion. Activities of IFSC enterprises continued to dominate the overall results. On the assets side, IFSC enterprises accounted for €120.6 billion or 86% of the total in 2001; on the liabilities side, these enterprises accounted for €115 billion or over 81% of the total.

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

Transactions in foreign assets with EU residents amounted to €14,439m in the fourth quarter, or 37% of the total; the corresponding liability transactions accounted for €20,014m or 53% of all such transactions with non-residents. Asset transactions with members of the EMU area were valued at €8,672m or 22% of the total while liability transactions at €10,331m account for 27% of the total.

Over the year 2001, increased claims on non-EMU area residents amounted to €88.3 billion or 63% of all such transactions; claims on non-EU residents accounted for €66,405m or 47% of the total. Liabilities to non-EMU area residents





at €108,285m were 76% of the total while similar claims on non-EU residents accounted for just 40% of the total.

Direct investment

Inward direct investment (including reinvestment of earnings) in the fourth quarter showed a reduction in liabilities of €424m compared to an increase of €1,469m in the previous quarter. This reduction was attributable to a sizeable decline in the reinvestment of earnings as well as a net disinvestment of €4,755m in the *other capital* category more than offsetting inward equity investment of €2,726m. Outward investment in the quarter at €2,206m was almost €1.5 billion higher than the corresponding third quarter figure and occurred primarily in the *equity* investment category, where transactions amounted to €2,299m in the quarter. For the year 2001 overall, direct investment into Ireland was €10,924m, well down from the figure of €26,177m in 2000. In contrast, outward direct investment in 2001 at €6,030m was over €1.7 billion up on the year 2000. There was overall disinvestment of €472m in IFSC enterprises in the fourth quarter while only a marginal increase in investment in non-IFSC enterprises of €49m is shown (compared to €2,859m in the previous quarter). The latter reflects the opposing flows referred to above. In geographical terms, inward direct investment from the EMU region amounted to €4,627m while liabilities to non-EMU investors were reduced by €5,051m during the quarter. A similar pattern was observable for the EU region.

Portfolio investment

The trend of substantial inward portfolio investment (liability) transactions in each of the first three quarters of 2001 continued in the fourth quarter with an increase of €28,648m compared to an increase in liabilities of €15,664m in the third quarter. These increases are largely explained by increased investment from abroad into IFSC collective investment institutions of almost €25 billion. Outward portfolio investment (mostly by IFSC enterprises) amounted to €33.8 billion. In geographical terms, the bulk of the inward and outward investment relates to transactions with counterparts in non-EMU (and non-EU) countries. As regards instrument analysis on the assets side, for 2001 as a whole, *equities* accounted for about 22% of the total down from 35% in 2000, while *bonds and notes* accounted for almost 42% of the total, an increase relative to 36% for *bonds and notes* in 2000. *Money market instruments* account for the remaining assets at 36% in 2001 up on the level of 29% for the year 2000. On the liabilities side, 86% of the inward investment was in *equities* (including units purchased in collective investment schemes).

Other investment

Ireland's *other investment* transactions in the fourth quarter showed an increase in net foreign liabilities of just over €6.5 billion, due to the sizeable increase in *loans, currency and deposits* of €9,275m being partly offset by asset transactions of just over €3 billion.

For the full year 2001, acquisition of foreign assets (mostly under *loans, currencies and deposits*) totalled just over €12.6 billion while the equivalent value for 2000 was €35.2 billion. Liability transactions in the year 2001 at €28,888m narrowly exceeded the 2000 figure of €28,156m. IFSC activity accounted for €7.7 billion of the assets acquired and over €19 billion of the liabilities incurred. Transactions with EU residents totalled over €19 billion on the assets side and almost €27 billion in liabilities.

Reserve assets

There was a net increase in *reserve assets* in the fourth quarter of €130m and an increase of €441m over 2001 as a whole.

Net errors and omissions

The balancing item *net errors and omissions* shows a credit of €1,420m in the fourth quarter of 2001; over the whole year, however, this item shows a relatively small debit of €660m.

Table 1a – Summary of Current and Capital Account Balances

€ million

Period		Merchandise ¹	Invisibles				Balance on Current Account	Balance on Capital Account
			Services	Income	Current Transfers	Total		
1998	Year	17,771	-9,002	-9,382	1,319	-17,065	706	840
1999	Year	22,802	-10,428	-13,218	1,177	-22,469	333	560
2000	Year	27,698	-13,064	-16,280	1,031	-28,313	-615	1,207
2001	Year	33,561	-16,357	-18,880	532	-34,705	-1,145	664
1998	Quarter 1	3,835	-2,214	-2,071	259	-4,026	-191	91
	Quarter 2	4,141	-1,872	-2,418	404	-3,886	253	39
	Quarter 3	4,996	-1,970	-2,698	235	-4,433	562	336
	Quarter 4	4,800	-2,945	-2,195	422	-4,718	81	374
1999	Quarter 1	5,005	-2,601	-2,681	277	-5,005	0	133
	Quarter 2	5,342	-2,562	-2,960	342	-5,180	163	40
	Quarter 3	6,287	-2,582	-3,892	163	-6,311	-24	4
	Quarter 4	6,168	-2,684	-3,685	395	-5,974	194	383
2000	Quarter 1	5,566	-2,435	-3,534	334	-5,635	-69	300
	Quarter 2	6,589	-3,131	-3,295	262	-6,164	425	192
	Quarter 3	7,596	-3,277	-4,749	-83	-8,109	-513	13
	Quarter 4	7,947	-4,221	-4,702	518	-8,405	-458	702
2001	Quarter 1	7,701	-4,229	-4,453	129	-8,553	-852	241
	Quarter 2	9,248	-3,505	-5,666	97	-9,074	174	88
	Quarter 3	8,884	-4,200	-4,776	-31	-9,007	-123	13
	Quarter 4	7,728	-4,423	-3,985	337	-8,071	-344	322

¹ Adjusted for balance of payments purposes

Table 1b – Summary of Financial Account Balances and Net Errors and Omissions

€ million

Period		Direct Investment	Portfolio Investment	Other ¹ Investment	Reserve Assets	Balance on Financial Account	Net errors and omissions
1998	Year	4,422	-8,466	7,459	-2,280	1,135	-2,681
1999	Year	11,631	-14,342	-974	1,746	-1,939	1,046
2000	Year	21,865	-5,650	-7,087	-142	8,986	-9,578
2001	Year	4,895	-19,534	16,221	-441	1,141	-660
1998	Quarter 1	1,497	-1,255	1,939	-165	2,016	-1,917
	Quarter 2	1,965	-1,301	106	-1,011	-241	-51
	Quarter 3	2,393	-5,411	4,245	-333	894	-1,792
	Quarter 4	-1,433	-498	1,169	-771	-1,533	1,078
1999	Quarter 1	4,315	-4,805	884	1,887	2,281	-2,414
	Quarter 2	1,992	-5,227	-1,734	-93	-5,062	4,859
	Quarter 3	3,889	-4,390	-12	13	-499	519
	Quarter 4	1,436	79	-112	-61	1,342	-1,919
2000	Quarter 1	1,748	-5,295	3,762	39	254	-485
	Quarter 2	7,040	4,688	-6,490	-55	5,183	-5,800
	Quarter 3	6,034	-5,887	3,292	-38	3,401	-2,901
	Quarter 4	7,043	844	-7,651	-88	148	-392
2001	Quarter 1	4,572	-1,998	168	-67	2,675	-2,064
	Quarter 2	2,205	-4,073	1,015	-199	-1,052	790
	Quarter 3	747	-8,302	8,516	-45	916	-806
	Quarter 4	-2,629	-5,161	6,522	-130	-1,398	1,420

¹ Including financial derivatives and trade credits

Table 2a – Current and Capital Accounts

€ million

		2000	2001	2000				2001			
Item		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account											
Merchandise ¹	Cr	79,834	87,542	17,851	19,372	20,168	22,443	22,190	22,240	21,316	21,796
	Db	52,136	53,981	12,285	12,783	12,572	14,496	14,489	12,992	12,432	14,068
Services	Cr	18,331	22,577	3,453	4,331	5,025	5,522	4,652	5,123	6,055	6,747
	Db	31,395	38,934	5,888	7,462	8,302	9,743	8,881	8,628	10,255	11,170
Transport	Cr	1,474	1,666	280	390	467	337	316	461	517	372
	Db	2,797	2,865	670	689	675	763	771	699	666	729
Tourism and Travel ²	Cr	2,886	3,088	423	799	1,073	591	453	791	1,186	658
	Db	2,858	3,216	457	738	1,078	585	526	818	1,218	654
Communications	Cr	358	812	71	77	93	117	169	186	210	247
	Db	373	332	72	87	117	97	66	70	84	112
Insurance	Cr	1,222	1,517	285	261	206	470	222	385	412	498
	Db	1,582	1,756	337	524	342	379	430	367	368	591
Financial services	Cr	2,259	2,924	451	528	638	642	820	737	651	716
	Db	1,572	1,841	352	350	467	403	412	531	427	471
Computer services ³	Cr	5,965	7,303	1,302	1,434	1,422	1,807	1,447	1,460	1,849	2,547
	Db	300	374	61	68	77	94	75	77	85	137
Royalties/Licences	Cr	553	384	75	150	140	188	162	91	50	81
	Db	8,598	9,797	1,795	2,226	2,064	2,513	2,444	2,468	2,341	2,544
Business services	Cr	3,272	4,527	483	604	898	1,287	980	924	1,093	1,530
	Db	13,243	18,633	2,127	2,760	3,464	4,892	4,116	3,566	5,042	5,909
Trade related	Cr	1,255	629	210	241	283	521	300	184	96	49
	Db	5,473	7,661	958	1,031	1,368	2,116	1,589	1,321	2,257	2,494
Operational leasing	Cr	586	1,298	77	129	302	78	242	276	323	457
	Db	101	73	19	21	30	31	21	16	16	20
Misc. business services ⁴	Cr	1,431	2,600	196	234	313	688	438	464	675	1,023
	Db	7,669	10,898	1,150	1,708	2,066	2,745	2,506	2,229	2,769	3,394
Other services n.e.s.	Cr	342	357	83	88	88	83	83	88	87	99
	Db	72	119	17	20	18	17	41	32	23	23

Table 2a – Current and Capital Accounts - continued

€ million

Item		2000	2001	2000				2001			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account - continued											
Income	Cr	32,620	32,026	5,839	7,929	9,243	9,609	8,590	7,654	8,194	7,588
	Db	48,900	50,906	9,373	11,224	13,992	14,311	13,043	13,320	12,970	11,573
Compensation of Employees	Cr	278	266	52	52	122	52	52	48	118	48
	Db	112	254	41	39	16	16	90	60	45	59
Investment Income	Cr	32,342	31,759	5,787	7,877	9,121	9,557	8,538	7,606	8,075	7,540
	Db	48,788	50,652	9,332	11,185	13,976	14,295	12,953	13,260	12,925	11,514
Direct investment income	Cr	3,279	3,901	806	869	1,002	602	1,208	928	1,119	646
	Db	26,415	28,240	5,409	5,961	7,843	7,202	7,103	7,832	7,171	6,134
Income on equity	Cr	1,900	2,526	496	527	647	230	813	698	751	264
	Db	25,117	27,081	5,186	5,603	7,369	6,959	6,667	7,687	6,783	5,944
Dividends & distributed branch profits											
	Cr	502	325	108	105	284	5	79	63	160	23
	Db	13,339	15,390	2,840	3,081	3,253	4,165	3,940	3,561	3,551	4,338
Reinvested earnings											
	Cr	1,398	2,202	388	422	363	225	734	635	592	241
	Db	11,778	11,691	2,346	2,522	4,116	2,794	2,727	4,126	3,232	1,606
Income on debt	Cr	1,379	1,376	310	342	355	372	395	230	368	383
	Db	1,298	1,159	223	358	474	243	436	145	389	189
Portfolio investment income	Cr	7,285	10,711	1,135	1,827	2,191	2,132	2,487	2,554	2,819	2,851
	Db	10,308	11,413	1,736	2,528	2,869	3,175	2,711	2,765	3,072	2,865
Income on equity	Cr	1,165	1,919	250	363	291	261	262	366	660	631
	Db	4,434	6,099	834	1,133	1,256	1,211	1,309	1,353	1,825	1,612
Income on debt	Cr	6,120	8,791	885	1,464	1,900	1,871	2,225	2,188	2,158	2,220
	Db	5,874	5,315	902	1,395	1,613	1,964	1,402	1,412	1,248	1,253
Other investment income	Cr	21,778	17,148	3,846	5,181	5,928	6,823	4,843	4,124	4,138	4,043
	Db	12,065	10,998	2,187	2,696	3,264	3,918	3,139	2,663	2,681	2,515
Current Transfers	Cr	4,687	4,800	1,119	1,069	860	1,639	1,009	1,113	1,054	1,624
	Db	3,656	4,269	785	807	943	1,121	880	1,016	1,085	1,288
Current Account - Total	Cr	135,472	146,944	28,262	32,701	35,296	39,213	36,441	36,130	36,618	37,755
	Db	136,087	148,090	28,331	32,276	35,809	39,671	37,293	35,956	36,742	38,099
Current Account Balance		-615	-1,145	-69	425	-513	-458	-852	174	-123	-344
Capital Account Balance		1,207	664	300	192	13	702	241	88	13	322

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

Table 2b – Financial Account¹

€ million

Item		2000	2001	2000				2001			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Direct Investment	Abroad	-4,312	-6,030	-1,132	-1,065	-971	-1,144	-1,616	-1,486	-722	-2,206
	In Ireland	26,177	10,924	2,880	8,105	7,005	8,187	6,188	3,691	1,469	-424
Equity	Abroad	-3,532	-4,202	-871	-770	-924	-967	-885	-905	-113	-2,299
	In Ireland	13,181	5,969	2,238	4,307	3,751	2,885	883	975	1,385	2,726
Reinvested Earnings	Abroad	-1,398	-2,202	-388	-422	-363	-225	-734	-635	-592	-241
	In Ireland	11,778	11,691	2,346	2,522	4,116	2,794	2,727	4,126	3,232	1,606
Other Capital	Abroad	618	374	127	127	316	48	3	54	-17	334
	In Ireland	1,218	-6,735	-1,704	1,276	-862	2,508	2,578	-1,410	-3,148	-4,755
Portfolio Investment	Assets	-87,374	-121,304	-25,124	-20,448	-31,529	-10,273	-29,819	-33,709	-23,967	-33,809
	Liabilities	81,724	101,769	19,829	25,136	25,642	11,117	27,821	29,636	15,664	28,648
Equity	Assets	-30,527	-26,945	-7,590	-3,637	-14,416	-4,884	-1,267	-11,031	-4,489	-10,158
	Liabilities	72,652	87,491	16,853	21,240	25,080	9,479	19,514	22,487	20,740	24,750
Debt Instruments	Assets	-56,847	-94,359	-17,534	-16,811	-17,113	-5,389	-28,552	-22,678	-19,478	-23,651
	Liabilities	9,072	14,278	2,976	3,896	562	1,638	8,307	7,149	-5,076	3,898
Bonds and notes	Assets	-31,334	-50,531	-10,560	-6,774	-8,714	-5,286	-15,128	-15,412	-8,857	-11,134
	Liabilities	1,907	1,222	846	564	770	-273	4,002	2,555	-2,436	-2,899
Money market instruments	Assets	-25,513	-43,827	-6,974	-10,037	-8,399	-103	-13,424	-7,266	-10,620	-12,517
	Liabilities	7,165	13,056	2,130	3,332	-208	1,911	4,305	4,594	-2,640	6,797

Table 2b – Financial Account¹ - continued

€ million

Item		2000	2001	2000				2001			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Other Investment	Assets	-35,243	-12,666	-8,017	-7,318	-11,454	-8,454	-8,000	-3,480	1,791	-2,977
	Liabilities	28,156	28,888	11,779	828	14,746	803	8,168	4,495	6,726	9,499
Loans, currency and deposits	Assets	-28,936	-7,682	-7,729	-5,803	-12,475	-2,929	-6,300	-1,496	3,137	-3,023
	Liabilities	26,872	25,375	11,601	1,016	12,880	1,375	7,149	5,271	3,680	9,275
Other ²	Assets	-6,307	-4,984	-288	-1,515	1,021	-5,525	-1,700	-1,984	-1,346	46
	Liabilities	1,284	3,513	178	-188	1,866	-572	1,019	-776	3,046	224
Reserve Assets		-142	-441	39	-55	-38	-88	-67	-199	-45	-130
Monetary gold		-1	0	-1	1	0	-1	0	1	-1	0
Special drawing rights		-10	-8	-2	-3	-3	-2	-3	-2	-2	-1
Reserve position in the IMF		69	-20	0	56	12	1	-3	-8	-29	20
Foreign exchange		-245	-413	42	-99	-9	-179	-61	-190	-13	-149
Other		45	0	0	-10	-38	93	0	0	0	0
Balance on Financial Account		8,986	1,141	254	5,183	3,401	148	2,675	-1,052	916	-1,398
<hr/>											
<i>Net errors and omissions</i>		<i>-9,578</i>	<i>-660</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>	<i>1,420</i>
<hr/>											
Memorandum Item:											
Government financial	Assets	-1,568	102	-2,060	-2,410	2,487	414	-556	-2,580	-531	3,769
transactions	Liabilities	1,042	5,330	1,769	1,293	-2,025	6	-382	-89	1,922	3,879

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

² Including financial derivatives and trade credits

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

€ million

Item		2000	2001	2000				2001			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account - Total	Cr	135,472	146,944	28,262	32,701	35,296	39,213	36,441	36,130	36,618	37,755
	Db	136,087	148,090	28,331	32,276	35,809	39,671	37,293	35,956	36,742	38,099
Merchandise ²	Cr	79,834	87,542	17,851	19,372	20,168	22,443	22,190	22,240	21,316	21,796
	Db	52,136	53,981	12,285	12,783	12,572	14,496	14,489	12,992	12,432	14,068
Services	Cr	18,331	22,577	3,453	4,331	5,025	5,522	4,652	5,123	6,055	6,747
	Db	31,395	38,934	5,888	7,462	8,302	9,743	8,881	8,628	10,255	11,170
- IFSC	Cr	3,842	5,727	765	865	1,086	1,126	1,215	1,309	1,493	1,710
	Db	3,098	4,809	542	756	863	937	988	1,094	1,211	1,516
- non IFSC	Cr	14,489	16,850	2,688	3,466	3,939	4,396	3,437	3,814	4,562	5,037
	Db	28,297	34,125	5,346	6,706	7,439	8,806	7,893	7,534	9,044	9,654
Income	Cr	32,620	32,026	5,839	7,929	9,243	9,609	8,590	7,654	8,194	7,588
	Db	48,900	50,906	9,373	11,224	13,992	14,311	13,043	13,320	12,970	11,573
- IFSC	Cr	26,480	25,937	4,427	6,391	7,420	8,242	6,680	5,792	6,809	6,656
	Db	24,650	25,709	4,204	5,840	7,066	7,540	6,552	5,960	6,836	6,361
- non IFSC	Cr	6,140	6,088	1,412	1,538	1,823	1,367	1,910	1,862	1,384	932
	Db	24,250	25,197	5,169	5,384	6,926	6,771	6,491	7,360	6,134	5,212
Current Transfers	Cr	4,687	4,800	1,119	1,069	860	1,639	1,009	1,113	1,054	1,624
	Db	3,656	4,269	785	807	943	1,121	880	1,016	1,085	1,288
- IFSC ³	Cr	2,305	2,610	412	587	573	733	477	654	710	769
	Db	2,305	2,610	412	587	573	733	477	654	710	769
- non IFSC	Cr	2,382	2,189	707	482	287	906	532	459	343	855
	Db	1,351	1,658	373	220	370	388	403	362	374	519
Balance on Current Account		-615	-1,145	-69	425	-513	-458	-852	174	-123	-344
Balance on Capital Account		1,207	664	300	192	13	702	241	88	13	322

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

€ million

Item		2000	2001	2000				2001			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Financial Account ⁴											
Direct investment	Abroad	-4,312	-6,030	-1,132	-1,065	-971	-1,144	-1,616	-1,486	-722	-2,206
	In Ireland	26,177	10,924	2,880	8,105	7,005	8,187	6,188	3,691	1,469	-424
- IFSC	Abroad	0	-670	0	0	0	0	48	47	187	-952
	In Ireland	14,735	2,708	1,179	3,753	3,989	5,814	3,976	594	-1,390	-472
- non IFSC	Abroad	-4,312	-5,360	-1,132	-1,065	-971	-1,144	-1,664	-1,533	-909	-1,254
	In Ireland	11,442	8,217	1,701	4,352	3,016	2,373	2,212	3,097	2,859	49
Portfolio investment	Assets	-87,374	-121,304	-25,124	-20,448	-31,529	-10,273	-29,819	-33,709	-23,967	-33,809
	Liabilities	81,724	101,769	19,829	25,136	25,642	11,117	27,821	29,636	15,664	28,648
- IFSC	Assets	-80,241	-112,295	-22,571	-21,118	-28,640	-7,912	-26,748	-31,625	-23,088	-30,834
	Liabilities	75,149	93,073	16,865	22,016	25,922	10,346	25,884	29,234	13,526	24,429
- non IFSC	Assets	-7,133	-9,009	-2,553	670	-2,889	-2,361	-3,071	-2,084	-879	-2,975
	Liabilities	6,575	8,697	2,964	3,120	-280	771	1,937	402	2,138	4,220
Other investment ⁵	Assets	-35,243	-12,666	-8,017	-7,318	-11,454	-8,454	-8,000	-3,480	1,791	-2,977
	Liabilities	28,156	28,888	11,779	828	14,746	803	8,168	4,495	6,726	9,499
- IFSC	Assets	-30,531	-7,680	-6,647	-5,428	-8,509	-9,947	-6,771	-267	3,570	-4,212
	Liabilities	18,291	19,203	8,971	236	8,911	173	4,189	-1,017	5,201	10,830
- non IFSC	Assets	-4,712	-4,986	-1,370	-1,890	-2,945	1,493	-1,229	-3,213	-1,779	1,235
	Liabilities	9,865	9,685	2,808	592	5,835	630	3,979	5,512	1,525	-1,331
Reserve Assets		-142	-441	39	-55	-38	-88	-67	-199	-45	-130
Balance on Financial Account		8,986	1,141	254	5,183	3,401	148	2,675	-1,052	916	-1,398
Net errors and omissions		-9,578	-660	-485	-5,800	-2,901	-392	-2,064	790	-806	1,420

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

² Adjusted for balance of payments purposes

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

⁴ See footnote 1 on Table 2b

⁵ Including financial derivatives and trade credits

Table 4a – Current and Capital Accounts showing geographical¹ detail

€ million

Item		2000	2001	2000				2001			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account - Total	Cr	135,472	146,944	28,262	32,701	35,296	39,213	36,441	36,130	36,618	37,755
	Db	136,087	148,090	28,331	32,276	35,809	39,671	37,293	35,956	36,742	38,099
Merchandise ²	Cr	79,834	87,542	17,851	19,372	20,168	22,443	22,190	22,240	21,316	21,796
	Db	52,136	53,981	12,285	12,783	12,572	14,496	14,489	12,992	12,432	14,068
- EMU	Cr	29,687	31,257	7,117	7,227	7,311	8,032	8,487	8,162	7,206	7,402
	Db	10,403	10,833	2,569	2,782	2,204	2,848	2,993	2,789	2,384	2,667
- non EMU	Cr	50,147	56,285	10,734	12,145	12,857	14,411	13,703	14,078	14,110	14,394
	Db	41,732	43,149	9,715	10,001	10,368	11,648	11,496	10,203	10,048	11,402
- EU	Cr	49,267	53,646	11,652	12,039	12,096	13,480	13,608	13,520	12,940	13,578
	Db	27,894	30,949	6,764	6,956	6,336	7,838	7,693	7,375	7,509	8,372
- non EU	Cr	30,567	33,896	6,199	7,333	8,072	8,963	8,582	8,720	8,376	8,218
	Db	24,243	23,032	5,521	5,827	6,237	6,658	6,796	5,617	4,923	5,696
Services	Cr	18,331	22,577	3,453	4,331	5,025	5,522	4,652	5,123	6,055	6,747
	Db	31,395	38,934	5,888	7,462	8,302	9,743	8,881	8,628	10,255	11,170
- EMU	Cr	6,135	6,588	1,164	1,361	1,735	1,875	1,333	1,393	1,785	2,077
	Db	6,719	8,129	1,313	1,701	1,692	2,013	2,094	1,830	1,812	2,393
- non EMU	Cr	12,196	15,988	2,289	2,970	3,290	3,647	3,319	3,730	4,270	4,669
	Db	24,675	30,811	4,575	5,761	6,610	7,729	6,789	6,802	8,443	8,777
- EU	Cr	12,182	13,021	2,326	2,868	3,277	3,711	2,529	3,033	3,772	3,687
	Db	13,156	16,332	2,604	3,247	3,538	3,767	3,888	3,588	4,089	4,767
- non EU	Cr	6,149	9,558	1,127	1,463	1,748	1,811	2,125	2,090	2,283	3,060
	Db	18,238	22,606	3,284	4,215	4,764	5,975	4,995	5,042	6,166	6,403
Income	Cr	32,620	32,026	5,839	7,929	9,243	9,609	8,590	7,654	8,194	7,588
	Db	48,900	50,906	9,373	11,224	13,992	14,311	13,043	13,320	12,970	11,573
- EMU	Cr	10,722	11,141	2,094	3,008	2,844	2,776	3,110	2,801	2,743	2,487
	Db	15,872	16,020	3,202	3,812	4,222	4,636	4,184	4,288	3,430	4,118
- non EMU	Cr	21,898	20,884	3,745	4,921	6,399	6,833	5,480	4,852	5,451	5,101
	Db	33,028	34,886	6,171	7,412	9,770	9,675	8,858	9,033	9,540	7,455
- EU	Cr	17,935	19,261	3,314	4,386	5,002	5,233	5,389	4,788	4,625	4,459
	Db	24,070	25,416	4,460	6,065	6,425	7,120	6,522	6,831	5,977	6,086
- non EU	Cr	14,684	12,764	2,525	3,543	4,241	4,375	3,200	2,866	3,569	3,129
	Db	24,830	25,489	4,913	5,159	7,567	7,191	6,521	6,489	6,993	5,486
Current Transfers	Cr	4,687	4,800	1,119	1,069	860	1,639	1,009	1,113	1,054	1,624
	Db	3,656	4,269	785	807	943	1,121	880	1,016	1,085	1,288
- EMU	Cr	2,537	2,785	661	581	249	1,046	532	585	470	1,198
	Db	1,486	2,292	320	318	319	529	409	503	512	868
- non EMU	Cr	2,150	2,015	458	488	611	593	477	528	584	426
	Db	2,170	1,975	465	489	624	592	471	513	572	419
- EU	Cr	3,695	3,927	978	983	574	1,160	735	852	764	1,576
	Db	2,329	3,334	618	483	615	613	584	744	779	1,227
- non EU	Cr	992	872	141	86	286	479	274	261	289	48
	Db	1,327	933	167	324	328	508	296	272	305	60
Balance on Current Account		-615	-1,145	-69	425	-513	-458	-852	174	-123	-344
Balance on Capital Account		1,207	664	300	192	13	702	241	88	13	322

¹ The term 'EMU' means the area represented by the 12 Member States participating in Monetary Union² Adjusted for balance of payments purposes

Table 4b – Financial Account¹ showing geographical² detail

€ million

Item		2000	2001	2000				2001			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Direct Investment	Abroad	-4,312	-6,030	-1,132	-1,065	-971	-1,144	-1,616	-1,486	-722	-2,206
	In Ireland	26,177	10,924	2,880	8,105	7,005	8,187	6,188	3,691	1,469	-424
- EMU	Abroad	-230	-2,652	-71	-101	-88	30	-151	-118	-1,124	-1,259
	In Ireland	3,266	11,444	-537	138	2,613	1,052	3,173	1,528	2,116	4,627
- non EMU	Abroad	-4,082	-3,377	-1,061	-964	-883	-1,174	-1,465	-1,366	401	-947
	In Ireland	22,911	-521	3,417	7,967	4,392	7,135	3,015	2,162	-647	-5,051
- EU	Abroad	42	-4,106	-78	-220	446	-106	-517	-456	-1,361	-1,772
	In Ireland	6,345	16,050	-328	2,859	3,776	38	4,117	2,176	4,525	5,232
- non EU	Abroad	-4,354	-1,924	-1,054	-845	-1,417	-1,038	-1,099	-1,030	639	-434
	In Ireland	19,831	-5,125	3,208	5,246	3,229	8,148	2,072	1,515	-3,056	-5,656
Portfolio Investment	Assets	-87,374	-121,304	-25,124	-20,448	-31,529	-10,273	-29,819	-33,709	-23,967	-33,809
	Liabilities	81,724	101,769	19,829	25,136	25,642	11,117	27,821	29,636	15,664	28,648
- EMU	Assets	-24,229	-33,186	-11,229	-460	-9,046	-3,494	-8,510	-13,264	-7,045	-4,367
	Liabilities	6,148	6,760	4,253	1,288	1,958	-1,351	2,204	3,193	-1,735	3,098
- non EMU	Assets	-63,145	-88,117	-13,895	-19,988	-22,483	-6,779	-21,309	-20,445	-16,922	-29,441
	Liabilities	75,576	95,009	15,576	23,848	23,684	12,468	25,617	26,443	17,399	25,550
- EU	Assets	-35,944	-50,194	-16,971	193	-15,296	-3,870	-14,982	-16,324	-9,467	-9,421
	Liabilities	26,781	42,416	18,429	4,734	2,153	1,465	10,651	18,524	2,061	11,180
- non EU	Assets	-51,430	-71,109	-8,153	-20,641	-16,233	-6,403	-14,837	-17,385	-14,499	-24,388
	Liabilities	54,943	59,353	1,400	20,402	23,489	9,652	17,170	11,112	13,603	17,468
Other Investment ³	Assets	-35,243	-12,666	-8,017	-7,318	-11,454	-8,454	-8,000	-3,480	1,791	-2,977
	Liabilities	28,156	28,888	11,779	828	14,746	803	8,168	4,495	6,726	9,499
- EMU	Assets	-7,326	-16,321	2,015	-1,649	-4,776	-2,916	-3,543	-785	-8,947	-3,046
	Liabilities	5,799	15,093	-65	-731	4,233	2,362	2,160	5,197	5,130	2,606
- non EMU	Assets	-27,917	3,655	-10,032	-5,669	-6,678	-5,538	-4,457	-2,695	10,738	69
	Liabilities	22,358	13,797	11,844	1,559	10,513	-1,558	6,008	-701	1,597	6,893
- EU	Assets	-15,214	-19,298	251	-5,688	-5,014	-4,763	-6,893	281	-9,440	-3,246
	Liabilities	15,420	26,728	3,275	920	8,589	2,636	4,305	7,096	11,725	3,602
- non EU	Assets	-20,029	6,628	-8,268	-1,630	-6,440	-3,691	-1,108	-3,763	11,230	269
	Liabilities	12,721	2,162	8,489	-92	6,157	-1,833	3,862	-2,600	-4,997	5,897
Reserve Assets		-142	-441	39	-55	-38	-88	-67	-199	-45	-130
Balance on Financial Account		8,986	1,141	254	5,183	3,401	148	2,675	-1,052	916	-1,398
<i>Net errors and omissions</i>		<i>-9,578</i>	<i>-660</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>	<i>1,420</i>

¹ See footnote 1 on Table 2b² The term 'EMU' means the area represented by the 12 Member States participating in Monetary Union³ Including financial derivatives and trade credits

Background Notes *(updated July 2000)*

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

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

Data collection BOP data collection is statutory and surveys or other data collection arrangements are conducted under the Statistics (Balance of Payments) Order, 2001 made under the Statistics Act, 1993.

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

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

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

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

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

Structure of the Balance of Payments accounts	The balance of payments presentation consists of three tables or accounts, the <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.
Sign convention and symbols	<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>
Net errors and omissions	Given the double entry accounting procedure described above, the sum of the credit entries should in principle equal the sum of the debit entries over all three accounts. In practice because of differences in coverage, valuation and timing, this does not occur and a balancing item <i>net errors and omissions</i> is inserted to balance the overall account.
Valuation	BOP transactions, in principle, should be recorded on an accruals basis using market valuation. In practice, the collection system is designed to adhere to this approach and, for the most part, the valuations reported are either market values or a close approximation. In certain cases, income (interest) flows on debt securities are currently reported on a cash basis but accruals reporting is intended ultimately.
Residence	BOP transactions occur between residents of Ireland and non-residents. The term 'resident' covers (a) individuals, including foreign nationals, living in Ireland for at least one year as well as Irish embassy staff and military staff located abroad, (b) Irish government enclaves located abroad (embassies, consulates, etc.), and (c) corporate bodies who have a centre of economic interest located here, including branches of foreign-registered companies. It is important to note that transactions in foreign assets and liabilities can occur between residents and should be recorded in the financial account.
Geographical allocation principle	Current and capital account transactions are allocated to the country of residence of the counterpart. Financial account transactions are allocated on the basis of the debtor/creditor principle; assets are geographically assigned to the country of the debtor (i.e. the issuer) of the assets, while liabilities are assigned to the country of the creditor (i.e. the holder).

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

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

- (i) Because of the presentation of merchandise imports on a f.o.b. basis (rather than c.i.f. as before), the freight element of the c.i.f. to f.o.b. adjustment is now included in *transport*.
- (ii) The value of *insurance services* provided to non-residents by resident insurers (credit) is estimated as the value of direct and supplementary premiums earned less the value of claims payable less increases in the actuarial element of insurance technical reserves. Supplementary premiums consist of investment income earned on investing the insurance technical reserves. For BOP purposes, this income is attributed to the policy holders and also treated as being paid back to the insurance company by them. To obtain the value of insurance services purchased from non-resident insurers (debit), the ratio of the estimated service charge to total premiums for insurance exports is applied to the total premiums payable to non-resident insurers. In relation to merchandise imports, the freight insurance element of the c.i.f. to f.o.b. adjustment referred to above under *merchandise* is recorded under *insurance*.
- (iii) *Financial services* covers non-interest receivables and payables in respect of financial intermediary and auxiliary services (other than those of insurance enterprises and pension funds).
- (iv) Exports and imports of computer software which is embedded in hardware or carried on other physical media are not included in *computer services* but under *merchandise*. Sales and purchases of software transmitted electronically as well as exports of certain software licences are now recorded under *computer services* (formerly, the value of such licences was included under *merchandise*).
- (v) *Business services* covers receivables and payables for (a) *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 account¹ i.e. there are no entries in the current account other than related fees and service charges (not always identifiable). In principle, other investment transactions are valued at market valuation inclusive of accrued income. For loans, book values are accepted as a proxy for market values.

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

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

Comparison with previous series

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

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