

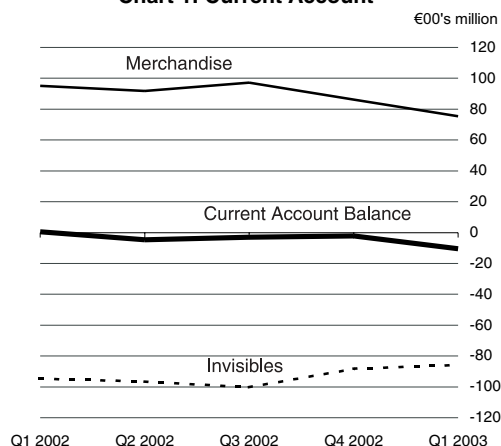


Central Statistics Office
An Phríomh-Oifig Staidrimh

15 July 2003

Balance of International Payments Quarter 1 2003

Chart 1: Current Account



	€ million		
	Merchandise Balance	Invisibles Balance	Current Account Balance
Q1 2003	7,534	-8,573	-1,039
Q1 2002	9,511	-9,466	45
Year 2002	37,014	-37,970	-954

€1 billion deficit on Current Account in the first quarter

There was a deficit of €1,039m on the current account of the Balance of Payments in the first quarter of 2003. This compares with a small surplus of €45m in the same period in 2002 - *see Table 1*. Combined deficits on *services* and *income* of €2,937m and €5,591m respectively exceeded the surplus of €7,534m for *merchandise*. Further details on the components are given below.

Significant drop in merchandise trade balance (*see Tables 1 and 2*)

The *merchandise* trade balance of €7,534m in the first quarter of this year was almost €2 billion lower than that in the same quarter of 2002. Over the same period, exports fell from €24,637m to €18,917m having remained relatively stable throughout 2001. Imports declined from €15,126m in the first quarter of 2002 to €11,382m in quarter one of 2003. A revised c.i.f. to f.o.b. conversion factor was used to compile the BOP merchandise imports from 2001 to date. Corresponding revised adjustments have been applied to the *transport* and *insurance* services data. In addition, in line with EU requirements, merchandise imports have been recorded over the same period on the basis of *country of consignment* (and not *country of origin* as before).

Revised results for 2001 and 2002

This release shows detailed revisions to the previously published results for 2001 and 2002; also to the current account component balances for 1998 to 2000. These arise largely from updated merchandise trade data (including methodological changes - *see above*) and from new and revised company returns for services, profits and investment transactions. The overall effect of these revisions on the annual results is to change the current account balance for 2001 from a deficit of €345m reported earlier to a deficit of €757m; the corresponding deficit for 2002 has changed from €184m to €954m. In addition, significant revisions have been made to the financial account data. The revised current account results are being included in the 2002 National Income and Expenditure Release published simultaneously with this Release.

Services deficit falls (*see Tables 1 and 2*)

In the first quarter of this year, *services* exports amounted to €7,238m with imports at €10,176m; the corresponding flows for the same quarter in 2002 were €6,497m and €10,004m. The resulting deficit of €2,937m in the latest quarter was therefore €570m down on that of €3,507m in the first quarter of last year.

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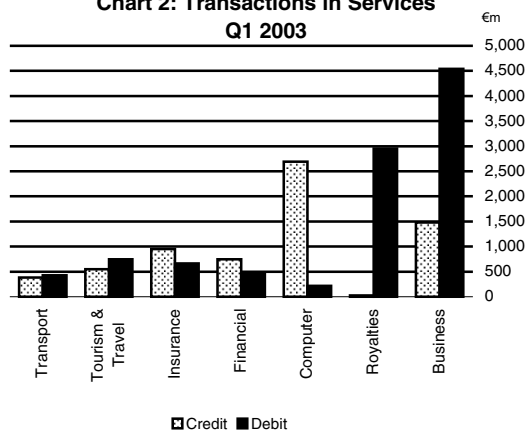
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**Chart 2: Transactions in Services
Q1 2003**



Over this period, exports of *business services* (€1,480m) accounted for over €400m of the overall increase of €741m in total service exports while computer service exports rose by €149m. Correspondingly, total service imports which incorporate the affect of revised c.i.f. to f.o.b. merchandise valuation adjustments were quite stable rising by just €172m.

Net income outflows decline (see Tables 1 and 2)

Gross income inflows in the first quarter of this year amounted to €6,610m and were marginally lower than the corresponding income receipts in the same quarter last year. Gross income outflows at €12,201m were €386m lower over the same period. Net outflows of income therefore amounted to €5,591m in the first quarter of 2003 compared to €5,927m in the first quarter of 2002. *Direct investment income* credits at €816m were slightly up on the €778m shown for the same quarter last year; the corresponding outflows (debits) at €7,519m were slightly lower. *Portfolio investment income* credits of €3,730m were up €546m on the first quarter 2002 figure (€3,184m) while income debits of €2,731m were up €316m on the earlier figure of €2,415m. *Other investment income* showed a net credit of €111m, both the credit (€2,028m) and the debit (€1,917m) being significantly down on the corresponding figures in 2002.

Small current transfers deficit (see Tables 1 and 3)

Current transfers showed a small net deficit of €45m in the first quarter of 2003 compared to a deficit of €32m in the same period last year. The gross flows in the latest quarter show a credit of €1,316m and a debit of €1,360m. As usual within these gross flows, transfers relating to IFSC non-life insurance business showed equal amounts on both the credit and debit sides i.e. €918m in the latest quarter. Non-IFSC transfers relate principally to EU receipts and payments.

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

Credit transactions with EU residents in the first quarter accounted for €20,665m or almost 61% of the total of current account credits; debits amounted to €19,996m or 57% of the total. Using the same analysis for transactions with EMU area residents, total credits amounted to €12,258m or 36% of the total; EMU area debit transactions totalled to €10,677m or 30% of all current account debits.

Capital account (see Table 1)

There was a marginal surplus of €21m on the capital account in the first quarter of 2003 compared to a surplus of €2m in the same quarter last year.

Financial account (see Tables 1, 2 & 3)

The Financial Account for the first quarter of 2003 records substantial transactions in both Portfolio Investment and Other Investment while there were relatively low levels of activity in Direct Investment. Transactions in Portfolio Investment comprised increases in assets of €26.1bn and increases in liabilities of €18bn. In the Other Investment Account assets increased by almost €16.5bn and liabilities increased by €18.8bn. The changes in Direct Investment are considerably lower with an increase in investment into Ireland of €4.3bn and €728m invested abroad. There was a significant decrease in *reserve assets* of €1.8bn. In overall terms the balance on the Financial Account shows a small net asset (debit) transactions balance of €360m. This results from transactions in total foreign assets of €41,495m being almost equalled by increases in liabilities of €41,135m. On the assets side, IFSC enterprises accounted for €37,855m or almost 91% of the total; on the liabilities side these enterprises accounted for €30,129m or 73% of the total.

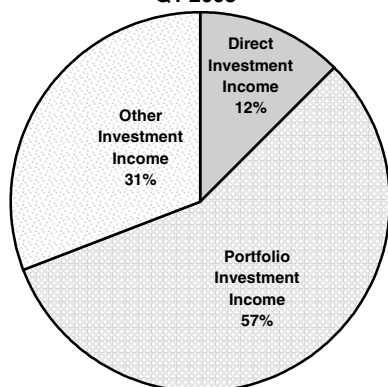
Geographical analysis of the financial account (see Table 4b)

Transactions in foreign assets with EU residents amounted to €32,887m or 79% of the total; the corresponding liability transactions accounted for €30,549m or 74% of all such non-resident transactions. Assets transactions with residents of the EMU area were valued at €19,623m or 47% of the total while liability transactions at €17,275m were almost 42% of all such transactions.

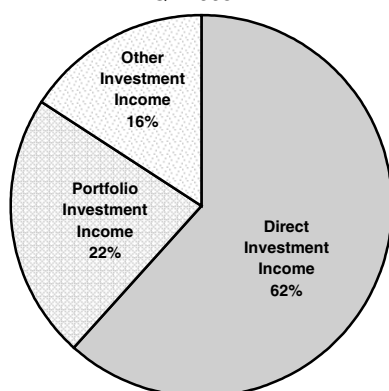
Direct investment – Low levels of equity investment

The statistics for *Direct Investment into Ireland* for the first quarter of 2003 record little activity in *equity* and *other capital* - the increase of €4.3bn being largely explained by the amount of reinvested earnings in the period. Low levels of activity were also recorded for *Direct Investment Abroad/Equity*, totalling €101m for the first quarter of 2003. Net inward investment in the latest quarter was €3,578m.

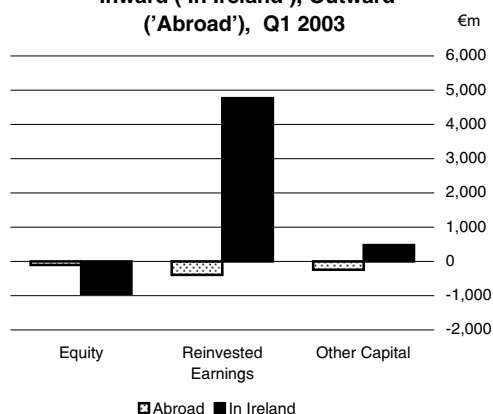
**Chart 3: Investment Income - Credit
Q1 2003**



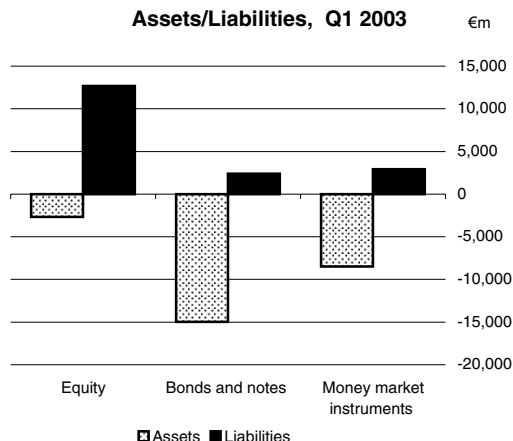
**Chart 4: Investment Income - Debit
Q1 2003**



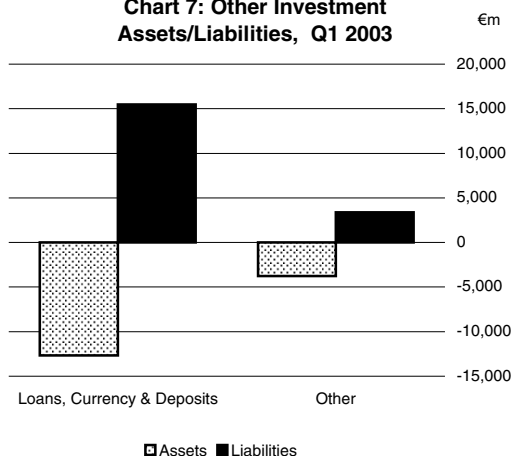
**Chart 5: Direct Investment
Inward ('In Ireland'), Outward
(‘Abroad’), Q1 2003**



**Chart 6: Portfolio Investment
Assets/Liabilities, Q1 2003**



**Chart 7: Other Investment
Assets/Liabilities, Q1 2003**



Portfolio investment

Portfolio investment assets increased by €26,149m and transactions in portfolio investment liabilities amounted to €17,992m. Therefore net portfolio assets increased by €8,158m in the period.

Inward portfolio investment (liability) transactions of €17,992m show a further pick up in activity compared to the lower levels recorded in the third and fourth quarters of 2002 of €8,819m and €12,369m respectively. This level of increase is explained by increases in *equity* liabilities of €12,688m mainly reflecting units purchased in IFSC collective investment institutions and overall debt issues amounting to €5,303m.

Outward portfolio investment of €26,149m reflects both the investment activity of the collective investment institutions and the substantial investment by the banking sector into *bonds* and *money market instruments* in the first quarter. Investment into *equity* assets is down from €10,967m in the fourth quarter of 2002 to €2,687m in the current quarter. This reduction is probably a result of the ongoing uncertainty about equity market trends. In contrast, investment into the lower risk fixed income securities and *money market instruments* show further increases on last quarter. Increases in *bonds* and *notes* assets of €14,961m were recorded showing an increase of almost €7bn over quarter four of 2002. Investment by IFSC Money Market Funds largely explain the increase of €8,502m in *money market instruments*, assets, showing similar levels to the previous quarter. IFSC activities accounted for €24,410m or 93% of total portfolio asset transactions and €12,797m or 71% of total liabilities transactions.

Other investment

In overall terms, Ireland's *other investment* transactions in the first quarter showed an increase in net liabilities of €2,401m, continuing the trend of increases in net liabilities in previous quarters.

This level of change resulted from asset transactions of €16,436m being less than liability transactions of €18,837m. IFSC activity resulted in increases in holdings of assets of €13,523m (82%) and increases in liabilities of €16,013m (85%).

Reserve assets

There was a substantial net reduction of €1,818m in *reserve assets* in the first quarter of the year. This reduction is largely explained by a diversification by the Central Bank of Ireland from foreign currency to euro-denominated assets.

Net errors and omissions

The balancing item *net errors and omissions* show a credit of €1,378m for the first quarter of 2003.

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 ²	Year	17,510	-8,820	-9,382	1,319	-16,883	627	840
1999 ²	Year	22,170	-10,176	-12,945	1,177	-21,944	226	560
2000 ²	Year	27,266	-13,889	-14,750	994	-27,645	-379	1,182
2001 ²	Year	30,494	-13,259	-18,295	305	-31,249	-757	703
2002 ²	Year	37,014	-12,871	-25,914	815	-37,970	-954	576
1998 ²	Quarter 1	3,823	-2,184	-2,071	259	-3,996	-173	91
	Quarter 2	4,130	-1,845	-2,418	404	-3,859	271	39
	Quarter 3	4,883	-1,908	-2,698	235	-4,371	512	336
	Quarter 4	4,675	-2,882	-2,195	422	-4,655	20	374
1999 ²	Quarter 1	4,915	-2,548	-2,581	277	-4,852	63	133
	Quarter 2	5,131	-2,492	-2,987	342	-5,137	-6	40
	Quarter 3	6,114	-2,516	-3,792	163	-6,145	-31	4
	Quarter 4	6,010	-2,621	-3,585	395	-5,811	199	383
2000 ²	Quarter 1	5,457	-2,887	-3,326	324	-5,889	-432	300
	Quarter 2	6,447	-3,188	-3,007	253	-5,942	505	192
	Quarter 3	7,351	-3,406	-4,091	-92	-7,589	-238	-12
	Quarter 4	8,011	-4,408	-4,326	509	-8,225	-214	702
2001 ²	Quarter 1	6,771	-3,413	-3,929	64	-7,278	-508	300
	Quarter 2	8,089	-3,354	-4,748	-13	-8,115	-26	76
	Quarter 3	8,085	-3,085	-4,816	-57	-7,958	126	9
	Quarter 4	7,549	-3,407	-4,802	311	-7,898	-349	318
2002 ²	Quarter 1	9,511	-3,507	-5,927	-32	-9,466	45	2
	Quarter 2	9,175	-3,200	-6,577	130	-9,647	-471	18
	Quarter 3	9,712	-3,311	-6,705	-7	-10,023	-310	25
	Quarter 4	8,616	-2,853	-6,705	724	-8,834	-218	531
2003	Quarter 1	7,534	-2,937	-5,591	-45	-8,573	-1,039	21

¹ Adjusted for balance of payments purposes² Revised

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 ²	Year	4,422	-8,466	7,459	-2,280	1,135	-2,602
1999 ²	Year	11,359	-14,342	-974	1,746	-2,211	1,425
2000 ²	Year	22,957	-5,358	-9,037	-142	8,420	-9,223
2001 ²	Year	6,241	-25,158	19,039	-441	-319	372
2002 ²	Year	22,617	-42,334	19,287	343	-87	464
1998 ²	Quarter 1	1,497	-1,255	1,939	-165	2,016	-1,935
	Quarter 2	1,965	-1,301	106	-1,011	-241	-67
	Quarter 3	2,393	-5,411	4,245	-333	894	-1,741
	Quarter 4	-1,433	-498	1,169	-771	-1,533	1,140
1999 ²	Quarter 1	4,215	-4,805	884	1,887	2,181	-2,377
	Quarter 2	2,019	-5,227	-1,734	-93	-5,035	5,001
	Quarter 3	3,789	-4,390	-12	13	-600	627
	Quarter 4	1,336	79	-112	-61	1,242	-1,824
2000 ²	Quarter 1	2,317	-5,222	3,728	39	862	-730
	Quarter 2	6,184	4,761	-7,128	-55	3,762	-4,459
	Quarter 3	6,819	-5,814	2,652	-38	3,619	-3,369
	Quarter 4	7,636	917	-8,289	-88	176	-664
2001 ²	Quarter 1	-403	1,851	-3,318	-67	-1,937	2,145
	Quarter 2	4,368	-6,594	3,774	-199	1,349	-1,399
	Quarter 3	1,960	-11,644	11,067	-45	1,338	-1,474
	Quarter 4	316	-8,771	7,516	-130	-1,069	1,100
2002 ²	Quarter 1	3,310	-15,668	9,381	265	-2,712	2,665
	Quarter 2	3,527	441	-2,712	236	1,491	-1,038
	Quarter 3	10,519	-13,377	4,251	-130	1,264	-979
	Quarter 4	5,261	-13,730	8,367	-28	-130	-184
2003	Quarter 1	3,578	-8,158	2,401	1,818	-360	1,378

¹ Including financial derivatives and trade credits² Revised

Table 2a – Current and Capital Accounts

€ million

Item		2001 ¹	2002 ¹	2001 ¹				2002 ¹				2003
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Current Account												
Merchandise ²	Cr	86,690	91,236	22,245	21,766	20,944	21,735	24,637	23,576	22,024	20,999	18,917
	Db	56,197	54,222	15,475	13,678	12,859	14,185	15,126	14,401	12,312	12,383	11,382
Services	Cr	26,244	29,922	5,627	6,630	6,810	7,177	6,497	7,554	8,099	7,772	7,238
	Db	39,504	42,792	9,041	9,984	9,895	10,584	10,004	10,754	11,409	10,625	10,176
Transport	Cr	1,658	1,694	309	476	514	359	321	452	541	380	385
	Db	2,001	1,906	540	497	463	501	515	496	443	452	426
Tourism and Travel ³	Cr	3,131	3,268	472	823	1,159	677	529	884	1,172	683	549
	Db	3,206	3,958	494	861	1,202	649	655	977	1,490	836	743
Communications	Cr	1,123	1,235	314	296	265	248	288	304	302	341	268
	Db	559	497	128	131	150	150	121	122	122	132	133
Insurance	Cr	2,598	3,762	596	658	551	793	876	893	926	1,067	951
	Db	2,421	3,129	507	525	544	845	757	739	753	880	662
Financial services	Cr	2,080	2,862	507	467	539	567	674	719	685	784	749
	Db	1,443	1,683	327	385	385	346	428	449	320	486	469
Computer services ⁴	Cr	9,979	11,026	2,244	2,577	2,281	2,877	2,543	2,774	3,033	2,676	2,692
	Db	620	579	101	127	175	217	150	181	121	127	216
Royalties/Licences	Cr	207	262	58	79	25	45	55	56	95	56	24
	Db	10,578	10,991	2,680	2,827	2,396	2,675	2,946	2,776	2,711	2,558	2,950
Business services	Cr	4,904	5,244	988	1,114	1,334	1,468	1,069	1,334	1,202	1,639	1,480
	Db	18,551	19,918	4,234	4,600	4,548	5,169	4,399	4,982	5,416	5,121	4,544
Trade related	Cr	51	435	28	52	-18	-11	-41	93	0	383	119
	Db	9,766	10,115	2,302	2,406	2,322	2,736	2,475	2,539	2,705	2,396	2,376
Operational leasing	Cr	1,558	1,630	307	301	473	477	423	423	395	389	415
	Db	164	193	41	41	41	41	36	51	51	55	49
Misc. business services ⁵	Cr	3,296	3,178	653	761	879	1,003	686	818	807	867	946
	Db	8,619	9,609	1,890	2,153	2,185	2,391	1,888	2,391	2,659	2,671	2,119
Other services n.e.s.	Cr	564	570	139	141	141	143	142	139	144	145	141
	Db	126	132	30	32	32	32	33	32	34	33	32

Table 2a – Current and Capital Accounts - continued

€ million

Item		2001 ¹	2002 ¹	2001 ¹				2002 ¹				2003
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Current Account - continued												
Income	Cr	32,228	27,835	8,310	8,479	7,788	7,651	6,661	6,862	7,193	7,119	6,610
	Db	50,523	53,749	12,239	13,227	12,604	12,453	12,587	13,439	13,898	13,825	12,201
Compensation of Employees	Cr	213	215	35	36	106	36	36	36	107	36	36
	Db	226	210	54	63	47	62	55	62	49	44	33
Investment Income	Cr	32,016	27,619	8,275	8,444	7,682	7,615	6,624	6,826	7,086	7,083	6,574
	Db	50,298	53,539	12,185	13,164	12,558	12,391	12,532	13,377	13,849	13,781	12,168
Direct investment income	Cr	4,067	3,422	1,008	792	1,101	1,166	778	812	770	1,062	816
	Db	26,774	32,819	6,235	7,006	6,806	6,727	7,582	8,306	8,312	8,619	7,519
Income on equity	Cr	2,630	2,221	641	457	737	795	485	364	584	788	482
	Db	25,407	31,739	5,845	6,711	6,370	6,481	7,412	7,982	7,940	8,405	7,160
Dividends & distributed												
branch profits	Cr	382	379	77	81	179	45	22	21	21	315	94
	Db	15,037	15,251	3,140	3,233	3,840	4,824	4,497	3,687	4,221	2,846	2,393
Reinvested earnings	Cr	2,247	1,842	563	376	558	750	463	343	563	473	388
	Db	10,370	16,488	2,705	3,478	2,530	1,657	2,915	4,294	3,720	5,559	4,768
Income on debt	Cr	1,438	1,199	367	335	365	371	292	448	185	274	334
	Db	1,366	1,080	390	295	435	246	170	324	372	214	359
Portfolio investment income	Cr	13,943	14,504	3,534	3,902	3,222	3,285	3,184	3,758	3,974	3,588	3,730
	Db	11,754	11,065	3,049	3,161	2,838	2,706	2,415	2,697	3,058	2,895	2,731
Income on equity	Cr	2,416	2,165	851	570	488	507	446	571	585	563	475
	Db	7,321	7,850	1,728	2,011	1,772	1,810	1,628	1,869	2,216	2,137	1,904
Income on debt	Cr	11,526	12,337	2,684	3,331	2,734	2,777	2,738	3,186	3,388	3,025	3,254
	Db	4,431	3,215	1,321	1,150	1,065	895	788	828	842	757	828
Other investment income	Cr	14,006	9,695	3,733	3,750	3,359	3,164	2,663	2,256	2,343	2,433	2,028
	Db	11,769	9,656	2,900	2,997	2,914	2,958	2,535	2,374	2,479	2,268	1,917
Current Transfers	Cr	8,269	7,569	1,832	1,936	1,947	2,554	1,601	1,790	1,653	2,525	1,316
	Db	7,964	6,754	1,768	1,949	2,004	2,243	1,633	1,660	1,660	1,801	1,360
Current Account - Total	Cr	153,432	156,562	38,014	38,812	37,489	39,117	39,396	39,782	38,969	38,415	34,081
	Db	154,190	157,515	38,523	38,838	37,363	39,466	39,350	40,253	39,279	38,633	35,119
Current Account Balance		-757	-954	-508	-26	126	-349	45	-471	-310	-218	-1,039
Capital Account Balance		703	576	300	76	9	318	2	18	25	531	21

¹ Revised² Adjusted for balance of payments purposes³ Excluding passenger fare receipts⁴ 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 included⁵ Covers mainly inter-affiliate charges (e.g. management fees), in particular on the debit side

Table 2b – Financial Account¹

€ million

		2001 ²	2002 ²	2001 ²				2002 ²				2003
Item		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Direct Investment	Abroad	-4,543	-3,277	-1,594	457	-2,029	-1,377	-514	-3,105	588	-246	-728
	In Ireland	10,785	25,895	1,191	3,912	3,989	1,693	3,824	6,632	9,931	5,508	4,306
Equity	Abroad	-1,572	-4,090	-248	850	-1,158	-1,016	-40	-3,011	-729	-310	-101
	In Ireland	10,040	10,966	-987	2,512	5,154	3,361	3,198	2,057	1,687	4,024	-941
Reinvested Earnings	Abroad	-2,247	-1,842	-563	-376	-558	-750	-463	-343	-563	-473	-388
	In Ireland	10,370	16,488	2,705	3,478	2,530	1,657	2,915	4,294	3,720	5,559	4,768
Other Capital	Abroad	-727	2,656	-783	-18	-314	388	-10	249	1,880	537	-239
	In Ireland	-9,625	-1,559	-527	-2,078	-3,695	-3,325	-2,289	281	4,525	-4,076	479
Portfolio Investment	Assets	-124,488	-114,146	-27,824	-33,401	-22,285	-40,978	-43,936	-21,914	-22,197	-26,099	-26,149
	Liabilities	99,328	71,811	29,674	26,807	10,641	32,206	28,268	22,355	8,819	12,369	17,992
Equity	Assets	-26,767	-27,168	-1,522	-7,758	-4,695	-12,792	-13,053	-823	-2,325	-10,967	-2,687
	Liabilities	88,599	74,064	22,284	21,828	17,535	26,952	27,320	18,517	11,988	16,239	12,688
Debt Instruments	Assets	-97,719	-86,978	-26,301	-25,643	-17,590	-28,185	-30,883	-21,091	-19,872	-15,132	-23,462
	Liabilities	10,729	-2,252	7,390	4,978	-6,893	5,254	949	3,838	-3,169	-3,870	5,303
Bonds and notes	Assets	-50,432	-40,204	-12,629	-15,024	-7,176	-15,603	-14,687	-10,032	-7,493	-7,992	-14,961
	Liabilities	-1,497	-766	3,466	2,290	-3,136	-4,117	2,078	3,488	-2,574	-3,758	2,392
Money market instruments	Assets	-47,287	-46,775	-13,672	-10,618	-10,414	-12,583	-16,197	-11,059	-12,379	-7,140	-8,502
	Liabilities	12,226	-1,487	3,924	2,688	-3,757	9,371	-1,130	350	-595	-112	2,911

Table 2b – Financial Account¹ - continued

€ million

		2001 ²	2002 ²	2001 ²				2002 ²				2003
Item		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Other Investment	Assets	-24,092	-28,656	-16,443	693	-7,090	-1,252	-3,454	-10,522	-10,939	-3,741	-16,436
	Liabilities	43,131	47,942	13,125	3,081	18,157	8,768	12,835	7,809	15,190	12,108	18,837
Loans, currency and deposits	Assets	-11,790	-24,611	-10,892	3,270	-5,894	1,726	-3,559	-10,276	-8,668	-2,108	-12,676
	Liabilities	27,926	36,116	10,068	-276	13,891	4,243	8,796	6,936	11,789	8,595	15,460
Other ³	Assets	-12,302	-4,045	-5,551	-2,577	-1,196	-2,978	105	-246	-2,271	-1,633	-3,760
	Liabilities	15,205	11,828	3,057	3,357	4,266	4,525	4,039	874	3,402	3,513	3,377
Reserve Assets		-441	343	-67	-199	-45	-130	265	236	-130	-28	1,818
Monetary gold		0	0	0	1	-1	0	0	0	0	0	0
Special drawing rights		-8	-8	-3	-2	-2	-1	-2	-2	-2	-2	-2
Reserve position in the IMF		-20	-106	-3	-8	-29	20	-44	-28	-45	11	27
Foreign exchange		-413	457	-61	-190	-13	-149	311	266	-83	-37	1,793
Other		0	0	0	0	0	0	0	0	0	0	0
Balance on Financial Account		-319	-87	-1,937	1,349	1,338	-1,069	-2,712	1,491	1,264	-130	-360
Net errors and omissions		372	464	2,145	-1,399	-1,474	1,100	2,665	-1,038	-979	-184	1,378
Memorandum Item:												
Government financial transactions	Assets	768	-2,550	-438	-2,032	-531	3,769	-756	-1,393	-300	-101	-845
	Liabilities	3,602	969	-306	-71	1,922	2,057	853	322	87	-293	386

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 Revised

³ Including financial derivatives and trade credits

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

€ million

Item		2001 ²	2002 ²	2001 ²				2002 ²				2003
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Current Account - Total	Cr	153,432	156,562	38,014	38,812	37,489	39,117	39,396	39,782	38,969	38,415	34,081
	Db	154,190	157,515	38,523	38,838	37,363	39,466	39,350	40,253	39,279	38,633	35,119
Merchandise³	Cr	86,690	91,236	22,245	21,766	20,944	21,735	24,637	23,576	22,024	20,999	18,917
	Db	56,197	54,222	15,475	13,678	12,859	14,185	15,126	14,401	12,312	12,383	11,382
Services	Cr	26,244	29,922	5,627	6,630	6,810	7,177	6,497	7,554	8,099	7,772	7,238
	Db	39,504	42,792	9,041	9,984	9,895	10,584	10,004	10,754	11,409	10,625	10,176
- IFSC	Cr	6,379	8,303	1,399	1,448	1,660	1,872	1,950	2,028	2,026	2,299	2,250
	Db	5,091	5,966	1,089	1,314	1,292	1,396	1,366	1,497	1,422	1,681	1,280
- non IFSC	Cr	19,865	21,619	4,228	5,182	5,150	5,305	4,547	5,526	6,073	5,473	4,988
	Db	34,414	36,826	7,952	8,670	8,604	9,188	8,638	9,257	9,987	8,944	8,896
Income	Cr	32,228	27,835	8,310	8,479	7,788	7,651	6,661	6,862	7,193	7,119	6,610
	Db	50,523	53,749	12,239	13,227	12,604	12,453	12,587	13,439	13,898	13,825	12,201
- IFSC	Cr	26,862	23,151	7,031	7,208	6,431	6,192	5,599	5,982	5,898	5,672	5,423
	Db	26,718	23,435	6,935	7,166	6,440	6,177	5,689	5,897	6,024	5,825	5,133
- non IFSC	Cr	5,365	4,684	1,279	1,271	1,357	1,458	1,062	880	1,295	1,447	1,187
	Db	23,806	30,313	5,305	6,061	6,164	6,276	6,898	7,541	7,874	8,000	7,068
Current Transfers	Cr	8,269	7,569	1,832	1,936	1,947	2,554	1,601	1,790	1,653	2,525	1,316
	Db	7,964	6,754	1,768	1,949	2,004	2,243	1,633	1,660	1,660	1,801	1,360
- IFSC ⁴	Cr	6,197	5,129	1,354	1,538	1,600	1,705	1,201	1,226	1,307	1,395	918
	Db	6,197	5,129	1,354	1,538	1,600	1,705	1,201	1,226	1,307	1,395	918
- non IFSC	Cr	2,076	2,441	479	399	348	850	400	564	347	1,130	398
	Db	1,771	1,626	415	412	405	539	432	434	354	406	443
Balance on Current Account		-757	-954	-508	-26	126	-349	45	-471	-310	-218	-1,039
Balance on Capital Account		703	576	300	76	9	318	2	18	25	531	21

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

Item		2001 ²	2002 ²	2001 ²				2002 ²				2003
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Financial Account ⁵												
Direct investment	Abroad	-4,543	-3,277	-1,594	457	-2,029	-1,377	-514	-3,105	588	-246	-728
	In Ireland	10,785	25,895	1,191	3,912	3,989	1,693	3,824	6,632	9,931	5,508	4,306
- IFSC	Abroad	-263	-1,833	-99	887	-92	-959	100	-2,912	145	834	78
	In Ireland	5,197	11,938	3,485	2,008	-1,456	1,160	4,583	2,076	5,323	-44	1,319
- non IFSC	Abroad	-4,281	-1,444	-1,496	-430	-1,937	-418	-613	-194	443	-1,080	-806
	In Ireland	5,588	13,956	-2,294	1,904	5,445	533	-759	4,556	4,608	5,551	2,986
Portfolio investment	Assets	-124,488	-114,146	-27,824	-33,401	-22,285	-40,978	-43,936	-21,914	-22,197	-26,099	-26,149
	Liabilities	99,328	71,811	29,674	26,807	10,641	32,206	28,268	22,355	8,819	12,369	17,992
- IFSC	Assets	-114,754	-92,796	-24,796	-30,678	-21,401	-37,879	-37,185	-16,446	-17,578	-21,587	-24,410
	Liabilities	88,162	67,380	26,450	24,565	8,479	28,668	26,140	18,225	10,488	12,527	12,797
- non IFSC	Assets	-9,733	-21,350	-3,027	-2,723	-884	-3,099	-6,751	-5,468	-4,618	-4,513	-1,739
	Liabilities	11,166	4,432	3,224	2,242	2,162	3,538	2,128	4,130	-1,668	-158	5,195
Other investment ⁶	Assets	-24,092	-28,656	-16,443	693	-7,090	-1,252	-3,454	-10,522	-10,939	-3,741	-16,436
	Liabilities	43,131	47,942	13,125	3,081	18,157	8,768	12,835	7,809	15,190	12,108	18,837
- IFSC	Assets	-20,113	-13,627	-16,658	2,408	-5,013	-850	-2,110	-1,791	-7,820	-1,906	-13,523
	Liabilities	33,238	26,662	12,099	-1,110	15,767	6,482	5,120	1,268	11,228	9,046	16,013
- non IFSC	Assets	-3,979	-15,029	215	-1,715	-2,077	-402	-1,344	-8,731	-3,119	-1,835	-2,913
	Liabilities	9,894	21,281	1,026	4,191	2,391	2,286	7,714	6,542	3,963	3,062	2,824
Reserve Assets		-441	343	-67	-199	-45	-130	265	236	-130	-28	1,818
Balance on Financial Account		-319	-87	-1,937	1,349	1,338	-1,069	-2,712	1,491	1,264	-130	-360
Net errors and omissions		372	464	2,145	-1,399	-1,474	1,100	2,665	-1,038	-979	-184	1,378

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 Revised

³ Adjusted for balance of payments purposes

⁴ Current transfers to and from IFSC enterprises relate solely to non-life insurance transactions (see Background Notes)

⁵ See footnote 1 on Table 2b

⁶ Including financial derivatives and trade credits

Table 4a – Current and Capital Accounts showing geographical¹ detail

€ million

Item		2001 ²	2002 ²	2001 ²				2002 ²				2003
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Current Account - Total	Cr	153,432	156,562	38,014	38,812	37,489	39,117	39,396	39,782	38,969	38,415	34,081
	Db	154,190	157,515	38,523	38,838	37,363	39,466	39,350	40,253	39,279	38,633	35,119
Merchandise³	Cr	86,690	91,236	22,245	21,766	20,944	21,735	24,637	23,576	22,024	20,999	18,917
	Db	56,197	54,222	15,475	13,678	12,859	14,185	15,126	14,401	12,312	12,383	11,382
- EMU	Cr	31,358	34,575	8,465	8,020	7,308	7,565	8,670	8,287	8,697	8,921	7,200
	Db	11,774	11,008	3,389	3,128	2,498	2,759	2,848	2,831	2,497	2,832	2,796
- non EMU	Cr	55,331	56,662	13,780	13,747	13,635	14,169	15,967	15,290	13,327	12,078	11,717
	Db	44,421	43,215	12,085	10,549	10,361	11,426	12,278	11,571	9,815	9,551	8,586
- EU	Cr	55,555	58,984	14,131	13,737	13,481	14,206	15,895	15,301	14,074	13,714	11,270
	Db	36,734	36,036	9,479	8,918	8,717	9,620	10,158	9,949	7,822	8,107	7,330
- non EU	Cr	31,134	32,253	8,114	8,029	7,462	7,529	8,742	8,276	7,950	7,285	7,646
	Db	19,462	18,185	5,995	4,760	4,142	4,565	4,968	4,453	4,489	4,275	4,053
Services	Cr	26,244	29,922	5,627	6,630	6,810	7,177	6,497	7,554	8,099	7,772	7,238
	Db	39,504	42,792	9,041	9,984	9,895	10,584	10,004	10,754	11,409	10,625	10,176
- EMU	Cr	8,777	10,277	1,803	2,141	2,319	2,514	2,392	2,524	2,834	2,527	2,454
	Db	10,302	12,572	2,193	2,828	2,566	2,715	2,783	3,168	3,749	2,872	3,311
- non EMU	Cr	17,467	19,642	3,824	4,489	4,491	4,663	4,105	5,029	5,264	5,244	4,785
	Db	29,201	30,221	6,847	7,156	7,329	7,869	7,221	7,586	7,661	7,753	6,865
- EU	Cr	17,027	19,929	3,482	4,344	4,550	4,651	4,468	4,939	5,379	5,143	4,601
	Db	19,707	21,347	4,312	5,016	4,961	5,418	4,801	5,200	6,022	5,324	5,247
- non EU	Cr	9,217	9,991	2,145	2,286	2,260	2,526	2,028	2,615	2,720	2,628	2,637
	Db	19,798	21,445	4,729	4,968	4,934	5,167	5,203	5,554	5,387	5,301	4,929
Income	Cr	32,228	27,835	8,310	8,479	7,788	7,651	6,661	6,862	7,193	7,119	6,610
	Db	50,523	53,749	12,239	13,227	12,604	12,453	12,587	13,439	13,898	13,825	12,201
- EMU	Cr	10,043	9,007	2,526	2,788	2,435	2,294	2,234	2,296	2,263	2,214	2,424
	Db	15,618	19,299	3,428	4,276	3,775	4,139	3,922	4,786	5,179	5,412	4,394
- non EMU	Cr	22,184	18,828	5,784	5,691	5,353	5,356	4,426	4,567	4,930	4,905	4,186
	Db	34,906	34,448	8,811	8,951	8,830	8,314	8,665	8,652	8,719	8,412	7,807
- EU	Cr	17,372	16,334	4,343	4,760	4,176	4,093	3,936	3,927	4,316	4,155	4,034
	Db	25,568	28,457	5,713	6,780	6,270	6,805	6,062	6,938	7,597	7,860	6,660
- non EU	Cr	14,856	11,500	3,967	3,719	3,612	3,558	2,724	2,935	2,877	2,964	2,575
	Db	24,955	25,291	6,526	6,447	6,334	5,648	6,525	6,501	6,301	5,964	5,541
Current Transfers	Cr	8,269	7,569	1,832	1,936	1,947	2,554	1,601	1,790	1,653	2,525	1,316
	Db	7,964	6,754	1,768	1,949	2,004	2,243	1,633	1,660	1,660	1,801	1,360
- EMU	Cr	1,336	1,008	162	294	298	582	227	248	252	281	180
	Db	1,332	992	162	294	298	578	223	244	248	277	176
- non EMU	Cr	6,934	6,563	1,670	1,643	1,649	1,972	1,375	1,542	1,402	2,244	1,135
	Db	6,633	5,763	1,606	1,656	1,706	1,665	1,410	1,416	1,413	1,524	1,184
- EU	Cr	4,053	4,201	753	834	800	1,666	828	994	756	1,623	760
	Db	3,564	3,202	643	801	811	1,309	814	818	717	853	759
- non EU	Cr	4,216	3,368	1,079	1,102	1,147	888	773	796	897	902	556
	Db	4,400	3,552	1,125	1,148	1,193	934	819	842	943	948	601
Balance on Current Account		-757	-954	-508	-26	126	-349	45	-471	-310	-218	-1,039
Balance on Capital Account		703	576	300	76	9	318	2	18	25	531	21

¹ The term 'EMU' means the area represented by the 12 Member States participating in Monetary Union² Revised³ Adjusted for balance of payments purposes

Table 4b – Financial Account¹ showing geographical² detail

€ million

Item		2001 ³	2002 ³	2001 ³				2002 ³				2003
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Direct Investment	Abroad	-4,543	-3,277	-1,594	457	-2,029	-1,377	-514	-3,105	588	-246	-728
	In Ireland	10,785	25,895	1,191	3,912	3,989	1,693	3,824	6,632	9,931	5,508	4,306
- EMU	Abroad	-2,054	-1,888	-534	-82	-1,401	-37	-437	-2,900	964	485	-26
	In Ireland	12,347	17,821	1,893	1,566	2,413	6,475	-1,538	5,020	5,305	9,034	2,398
- non EMU	Abroad	-2,490	-1,389	-1,060	539	-628	-1,341	-77	-206	-375	-731	-702
	In Ireland	-1,563	8,075	-702	2,346	1,575	-4,782	5,362	1,612	4,627	-3,526	1,908
- EU	Abroad	-3,466	-1,093	-917	-487	-1,664	-398	-394	-3,009	2,071	239	-563
	In Ireland	19,045	18,336	4,132	3,335	7,025	4,553	-2,689	4,807	7,094	9,124	1,655
- non EU	Abroad	-1,078	-2,184	-678	944	-365	-979	-120	-96	-1,483	-485	-165
	In Ireland	-8,259	7,558	-2,941	577	-3,036	-2,859	6,513	1,825	2,837	-3,617	2,651
Portfolio Investment	Assets	-124,488	-114,146	-27,824	-33,401	-22,285	-40,978	-43,936	-21,914	-22,197	-26,099	-26,149
	Liabilities	99,328	71,811	29,674	26,807	10,641	32,206	28,268	22,355	8,819	12,369	17,992
- EMU	Assets	-33,682	-35,148	-9,527	-10,831	-4,928	-8,396	-15,189	-7,561	438	-12,836	-12,932
	Liabilities	2,864	3,548	1,887	2,265	-2,593	1,305	2,978	1,942	-838	-534	3,216
- non EMU	Assets	-90,804	-78,998	-18,296	-22,570	-17,356	-32,582	-28,747	-14,353	-22,635	-13,263	-13,218
	Liabilities	96,464	68,264	27,788	24,541	13,234	30,901	25,291	20,413	9,657	12,903	14,776
- EU	Assets	-53,258	-59,803	-14,051	-17,605	-7,107	-14,495	-26,383	-12,935	-6,951	-13,534	-16,331
	Liabilities	37,609	24,258	10,170	16,749	-170	10,860	13,605	11,952	439	-1,738	17,096
- non EU	Assets	-71,228	-54,343	-13,772	-15,796	-15,178	-26,482	-17,553	-8,979	-15,246	-12,565	-9,818
	Liabilities	61,719	47,553	19,504	10,058	10,811	21,346	14,664	10,402	8,380	14,107	895
Other Investment⁴	Assets	-24,092	-28,656	-16,443	693	-7,090	-1,252	-3,454	-10,522	-10,939	-3,741	-16,436
	Liabilities	43,131	47,942	13,125	3,081	18,157	8,768	12,835	7,809	15,190	12,108	18,837
- EMU	Assets	2,449	-9,184	-369	2,843	-4,724	4,699	-1,565	-5,432	699	-2,886	-6,665
	Liabilities	16,340	29,111	4,053	2,570	8,582	1,135	180	9,281	10,481	9,169	11,661
- non EMU	Assets	-26,540	-19,470	-16,073	-2,150	-2,366	-5,951	-1,888	-5,090	-11,637	-855	-9,771
	Liabilities	26,790	18,830	9,072	511	9,575	7,632	12,654	-1,473	4,710	2,939	7,176
- EU	Assets	-8,583	-19,294	-10,621	3,055	-5,697	4,680	-5,120	-9,248	-1,855	-3,071	-15,993
	Liabilities	31,598	43,637	7,069	4,183	16,212	4,134	10,326	6,326	14,768	12,217	11,798
- non EU	Assets	-15,509	-9,361	-5,822	-2,362	-1,393	-5,932	1,666	-1,274	-9,083	-670	-443
	Liabilities	11,533	4,305	6,056	-1,102	1,945	4,634	2,509	1,482	423	-109	7,039
Reserve Assets		-441	343	-67	-199	-45	-130	265	236	-130	-28	1,818
Balance on Financial Account		-319	-87	-1,937	1,349	1,338	-1,069	-2,712	1,491	1,264	-130	-360
<i>Net errors and omissions</i>		<i>372</i>	<i>464</i>	<i>2,145</i>	<i>-1,399</i>	<i>-1,474</i>	<i>1,100</i>	<i>2,665</i>	<i>-1,038</i>	<i>-979</i>	<i>-184</i>	<i>1,378</i>

¹ See footnote 1 on Table 2b² The term 'EMU' means the area represented by the 12 Member States participating in Monetary Union³ Revised⁴ Including financial derivatives and trade credits

Background Notes *(updated July 2003)*

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) which was prepared in close co-operation with the European Commission (Eurostat), the OECD and other international organisations and published by the IMF in 1993. Since then certain modifications to the treatment of financial derivatives have been approved internationally and were published in 2000 by the IMF (*Financial Derivatives: A Supplement to the 5th Edition (1993) of the Balance of Payments Manual*).

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 re-designed.

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 financial 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 4,500 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, transfers, as well as 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). Information is also obtained from other sources (e.g. charitable organisations, industry bodies). 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 transactions + net change in liabilities transactions</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; '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 may still be 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	<i>Merchandise</i> exports and imports are valued f.o.b. (<i>free on board</i>) for BOP purposes (imports are valued c.i.f. [<i>cost, insurance and freight</i>] in the official external trade statistics and this valuation was formerly used in the BOP). Different c.i.f./f.o.b. conversion ratios are now applied to imports from within the European Union and outside the European Union. In addition and in line with EU and ECB requirements, merchandise imports from within European Union member states are now compiled on the basis of country of consignment rather than country of ultimate origin as has been

the case hitherto. Some adjustments are also made to the official merchandise trade statistics to conform to the BOP change of ownership and market valuation principles. In addition, certain exports sales of software licences which were formerly included in merchandise exports are now recorded as service exports.

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

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

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

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

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

- (i) *Direct investment income* covers income accruing to an Irish or foreign direct investor from ownership of (correspondingly) a direct investment enterprise located abroad or in Ireland (*see*

definition of direct investment in the financial account section below). It is split into income on equity and income on debt. *Direct investment income on equity* may be called the 'entrepreneurial income' of the enterprise which, in principle, is its net operating surplus plus investment income receivable less investment income payable. It is calculated net of corporation taxes. In company accounting terms, direct investment income on equity can be equated or approximated to an enterprise's consolidated profit (or loss) after interest, tax and minority interests and excluding capital and exchange gains (or losses) and other unusual provisions and write-offs. This income item is further subdivided into *dividends* and *distributed branch profits* and *reinvested earnings*. Dividends are recorded at the time they become due for payment while distributed branch profits are recorded when receipt or payment occurs. Amounts recorded under *reinvested earnings* represent the difference between the enterprise's entrepreneurial income and the distributions (dividends, etc.) made. As it is an income flow in the BOP current account but without a counterpart cash flow in the financial account, an offset of equal magnitude is recorded under *direct investment* in the latter. *Direct investment income on debt* covers income (mainly interest) on non-equity inter-affiliate assets and liabilities (mainly loans).

- (ii) *Portfolio investment income* covers income receivable and payable to non-direct investors on their holdings of equity and long and short-term debt securities (*see definition of portfolio investment below*). Income on equity consists of dividends actually received/paid. Income on debt securities refers to coupon or interest payments on bonds and notes and interest on money market instruments. In principle, the income should be recorded on an accruals basis using market valuations. In practice, some respondents may still 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. These transactions tend to occur infrequently but the amounts involved can vary substantially. 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 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.

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.