

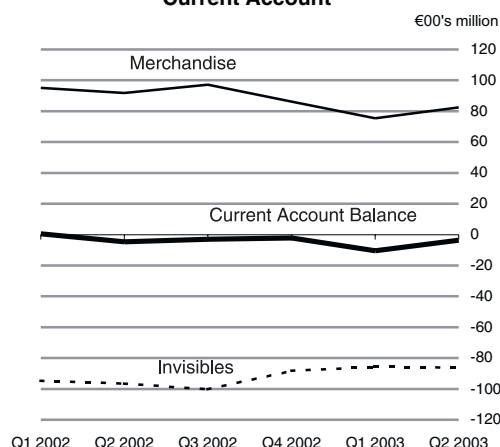


**Central Statistics Office**  
An Phríomh-Oifig Staidrimh

30 September 2003

## Balance of International Payments Quarter 2 2003

### Current Account



	€ million		
	Merchandise Balance	Invisibles Balance	Current Account Balance
Q2 2003	8,210	-8,599	-389
Q2 2002	9,175	-9,647	-471
Q1-Q2 2003	15,744	-17,172	-1,428
Q1-Q2 2002	18,686	-19,113	-426

### Lower Current Account deficit in the second quarter of 2003

The current account of the Balance of Payments showed a smaller deficit of €389m in the second quarter 2003 compared to one of €1,039m in the first quarter. This compared to a largely similar deficit balance (€471m) in the same quarter of 2002 - see Table 1. The recent deficit resulted from combined surpluses of €8,210m on *merchandise* and €104m on *current transfers* being exceeded by deficits on *services* and *income* of €3,095m and €5,608m respectively. Over the first six months of 2003, the current account showed a deficit of €1,428m which was about €1 billion higher than that for the first half of 2002.

Other points of note in the second quarter's results are:

#### Current account (see Tables 1a and 2a)

- ◆ The *merchandise* surplus of €8,210m was about €700m higher than that for the first quarter but about €1 billion lower compared to the second quarter 2002. Exports at €19,193m were up almost €300m on the previous quarter while imports at €10,983m were down €400m.
- ◆ The *services* deficit of €3,095 was €158m higher than for the first quarter. Service exports at €7,851m and imports at €10,946m were both about 8% higher.
- ◆ Net *income* outflows at €5,608m were virtually unchanged on the previous quarter but *direct investment income* outflows at €8,013m were up just €500m.

#### Financial account (see Tables 1b and 2b)

- ◆ Inward direct investment of €14,080m was almost €10 billion higher than for the first quarter, the increase being reflected both in *equity* and in *other capital*.
- ◆ Portfolio investment assets transactions at €43,192m were substantially higher than for the four previous quarters. Portfolio liabilities of €32,301m also reflected this upward trend and probably indicate a returning confidence in the international financial markets.

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Ardee Road  
Dublin 6  
Ireland

Skehard Road  
Cork  
Ireland

LoCall: 1890 313 414

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

Tel: +353-21 453 5000  
Fax: +353-21 453 5555

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

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

Director General: Donal Garvey

Enquiries:

BOP Statistics      BOP Section, 01-498 4057  
bop@cso.ie

Queries and Sales      Information Section, ext 5032  
information@cso.ie

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For more information contact John Fitzpatrick at 01-498 4366, Michael Connolly at 01-498 4203 or Reamonn McKeever at 01-498 4250.

**Table 1a – Summary of Current and Capital Account Balances**

€ million

Period		Merchandise <sup>1</sup>	Invisibles				Balance on Current Account	Balance on Capital Account
			Services	Income	Current Transfers	Total		
1998	Year	17,510	-8,820	-9,382	1,319	-16,883	<b>627</b>	<b>840</b>
1999	Year	22,170	-10,176	-12,945	1,177	-21,944	<b>226</b>	<b>560</b>
2000	Year	27,266	-13,889	-14,750	994	-27,645	<b>-379</b>	<b>1,182</b>
2001	Year	30,494	-13,259	-18,295	305	-31,249	<b>-757</b>	<b>703</b>
2002	Year	37,014	-12,871	-25,914	815	-37,970	<b>-954</b>	<b>576</b>
1998	Quarter 1	3,823	-2,184	-2,071	259	-3,996	<b>-173</b>	<b>91</b>
	Quarter 2	4,130	-1,845	-2,418	404	-3,859	<b>271</b>	<b>39</b>
	Quarter 3	4,883	-1,908	-2,698	235	-4,371	<b>512</b>	<b>336</b>
	Quarter 4	4,675	-2,882	-2,195	422	-4,655	<b>20</b>	<b>374</b>
1999	Quarter 1	4,915	-2,548	-2,581	277	-4,852	<b>63</b>	<b>133</b>
	Quarter 2	5,131	-2,492	-2,987	342	-5,137	<b>-6</b>	<b>40</b>
	Quarter 3	6,114	-2,516	-3,792	163	-6,145	<b>-31</b>	<b>4</b>
	Quarter 4	6,010	-2,621	-3,585	395	-5,811	<b>199</b>	<b>383</b>
2000	Quarter 1	5,457	-2,887	-3,326	324	-5,889	<b>-432</b>	<b>300</b>
	Quarter 2	6,447	-3,188	-3,007	253	-5,942	<b>505</b>	<b>192</b>
	Quarter 3	7,351	-3,406	-4,091	-92	-7,589	<b>-238</b>	<b>-12</b>
	Quarter 4	8,011	-4,408	-4,326	509	-8,225	<b>-214</b>	<b>702</b>
2001	Quarter 1	6,771	-3,413	-3,929	64	-7,278	<b>-508</b>	<b>300</b>
	Quarter 2	8,089	-3,354	-4,748	-13	-8,115	<b>-26</b>	<b>76</b>
	Quarter 3	8,085	-3,085	-4,816	-57	-7,958	<b>126</b>	<b>9</b>
	Quarter 4	7,549	-3,407	-4,802	311	-7,898	<b>-349</b>	<b>318</b>
2002	Quarter 1	9,511	-3,507	-5,927	-32	-9,466	<b>45</b>	<b>2</b>
	Quarter 2	9,175	-3,200	-6,577	130	-9,647	<b>-471</b>	<b>18</b>
	Quarter 3	9,712	-3,311	-6,705	-7	-10,023	<b>-310</b>	<b>25</b>
	Quarter 4	8,616	-2,853	-6,705	724	-8,834	<b>-218</b>	<b>531</b>
2003	Quarter 1	7,534	-2,937	-5,591	-45	-8,573	<b>-1,039</b>	<b>21</b>
	Quarter 2	8,210	-3,095	-5,608	104	-8,599	<b>-389</b>	<b>-17</b>

<sup>1</sup> 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 <sup>1</sup> Investment	Reserve Assets	Balance on Financial Account	Net errors and omissions
1998	Year	4,422	-8,466	7,459	-2,280	<b>1,135</b>	-2,602
1999 <sup>2</sup>	Year	11,359	-14,342	-974	1,746	<b>-2,211</b>	1,425
2000 <sup>2</sup>	Year	22,957	-5,358	-9,037	-142	<b>8,420</b>	-9,223
2001	Year	6,241	-25,158	19,039	-441	<b>-319</b>	372
2002	Year	22,617	-42,334	19,287	343	<b>-87</b>	464
1998	Quarter 1	1,497	-1,255	1,939	-165	<b>2,016</b>	-1,935
	Quarter 2	1,965	-1,301	106	-1,011	<b>-241</b>	-67
	Quarter 3	2,393	-5,411	4,245	-333	<b>894</b>	-1,741
	Quarter 4	-1,433	-498	1,169	-771	<b>-1,533</b>	1,140
1999 <sup>2</sup>	Quarter 1	4,215	-4,805	884	1,887	<b>2,181</b>	-2,377
	Quarter 2	2,019	-5,227	-1,734	-93	<b>-5,035</b>	5,001
	Quarter 3	3,789	-4,390	-12	13	<b>-600</b>	627
	Quarter 4	1,336	79	-112	-61	<b>1,242</b>	-1,824
2000 <sup>2</sup>	Quarter 1	2,317	-5,222	3,728	39	<b>862</b>	-730
	Quarter 2	6,184	4,761	-7,128	-55	<b>3,762</b>	-4,459
	Quarter 3	6,819	-5,814	2,652	-38	<b>3,619</b>	-3,369
	Quarter 4	7,636	917	-8,289	-88	<b>176</b>	-664
2001	Quarter 1	-403	1,851	-3,318	-67	<b>-1,937</b>	2,145
	Quarter 2	4,368	-6,594	3,774	-199	<b>1,349</b>	-1,399
	Quarter 3	1,960	-11,644	11,067	-45	<b>1,338</b>	-1,474
	Quarter 4	316	-8,771	7,516	-130	<b>-1,069</b>	1,100
2002	Quarter 1	3,310	-15,668	9,381	265	<b>-2,712</b>	2,665
	Quarter 2	3,527	441	-2,712	236	<b>1,491</b>	-1,038
	Quarter 3	10,519	-13,377	4,251	-130	<b>1,264</b>	-979
	Quarter 4	5,261	-13,730	8,367	-28	<b>-130</b>	-184
2003	Quarter 1	3,578	-8,158	2,401	1,818	<b>-360</b>	1,378
	Quarter 2	13,849	-10,891	-1,420	-43	<b>1,495</b>	-1,089

<sup>1</sup> Including financial derivatives and trade credits<sup>2</sup> Revised

Table 2a – Current and Capital Accounts

€ million

Item		2001	2002	2002				2003	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Current Account									
Merchandise <sup>1</sup>	Cr	86,690	91,236	24,637	23,576	22,024	20,999	18,917	19,193
	Db	56,197	54,222	15,126	14,401	12,312	12,383	11,382	10,983
Services	Cr	26,244	29,922	6,497	7,554	8,099	7,772	7,238	7,851
	Db	39,504	42,792	10,004	10,754	11,409	10,625	10,176	10,946
Transport	Cr	1,658	1,694	321	452	541	380	385	437
	Db	2,001	1,906	515	496	443	452	426	421
Tourism and Travel <sup>2</sup>	Cr	3,131	3,268	529	884	1,172	683	549	892
	Db	3,206	3,958	655	977	1,490	836	743	1,078
Communications	Cr	1,123	1,235	288	304	302	341	268	213
	Db	559	497	121	122	122	132	133	124
Insurance	Cr	2,598	3,762	876	893	926	1,067	951	969
	Db	2,421	3,129	757	739	753	880	662	740
Financial services	Cr	2,080	2,862	674	719	685	784	749	724
	Db	1,443	1,683	428	449	320	486	469	414
Computer services <sup>3</sup>	Cr	9,979	11,026	2,543	2,774	3,033	2,676	2,692	3,127
	Db	620	579	150	181	121	127	216	106
Royalties/Licences	Cr	207	262	55	56	95	56	24	35
	Db	10,578	10,991	2,946	2,776	2,711	2,558	2,950	3,046
Business services	Cr	4,904	5,244	1,069	1,334	1,202	1,639	1,480	1,315
	Db	18,551	19,918	4,399	4,982	5,416	5,121	4,544	4,985
Trade related	Cr	51	435	-41	93	0	383	119	104
	Db	9,766	10,115	2,475	2,539	2,705	2,396	2,376	2,762
Operational leasing	Cr	1,558	1,630	423	423	395	389	415	366
	Db	164	193	36	51	51	55	49	43
Misc. business services <sup>4</sup>	Cr	3,296	3,178	686	818	807	867	946	846
	Db	8,619	9,609	1,888	2,391	2,659	2,671	2,119	2,180
Other services n.e.s.	Cr	564	570	142	139	144	145	141	139
	Db	126	132	33	32	34	33	32	32

Table 2a – Current and Capital Accounts - continued

€ million

Item		2001	2002	2002				2003	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Current Account - continued									
Income	Cr	32,228	27,835	6,661	6,862	7,193	7,119	6,610	7,188
	Db	50,523	53,749	12,587	13,439	13,898	13,825	12,201	12,796
Compensation of Employees	Cr	213	215	36	36	107	36	36	36
	Db	226	210	55	62	49	44	33	40
Investment Income	Cr	32,016	27,619	6,624	6,826	7,086	7,083	6,574	7,152
	Db	50,298	53,539	12,532	13,377	13,849	13,781	12,168	12,756
Direct investment income	Cr	4,067	3,422	778	812	770	1,062	816	875
	Db	26,774	32,819	7,582	8,306	8,312	8,619	7,519	8,013
Income on equity	Cr	2,630	2,221	485	364	584	788	482	538
	Db	25,407	31,739	7,412	7,982	7,940	8,405	7,160	7,632
Dividends & distributed									
branch profits	Cr	382	379	22	21	21	315	94	30
	Db	15,037	15,251	4,497	3,687	4,221	2,846	2,393	3,046
Reinvested earnings	Cr	2,247	1,842	463	343	563	473	388	508
	Db	10,370	16,488	2,915	4,294	3,720	5,559	4,768	4,586
Income on debt	Cr	1,438	1,199	292	448	185	274	334	337
	Db	1,366	1,080	170	324	372	214	359	381
Portfolio investment income	Cr	13,943	14,504	3,184	3,758	3,974	3,588	3,730	4,145
	Db	11,754	11,065	2,415	2,697	3,058	2,895	2,731	2,602
Income on equity	Cr	2,416	2,165	446	571	585	563	475	659
	Db	7,321	7,850	1,628	1,869	2,216	2,137	1,904	1,871
Income on debt	Cr	11,526	12,337	2,738	3,186	3,388	3,025	3,254	3,486
	Db	4,431	3,215	788	828	842	757	828	731
Other investment income	Cr	14,006	9,695	2,663	2,256	2,343	2,433	2,028	2,131
	Db	11,769	9,656	2,535	2,374	2,479	2,268	1,917	2,141
Current Transfers	Cr	8,269	7,569	1,601	1,790	1,653	2,525	1,316	1,573
	Db	7,964	6,754	1,633	1,660	1,660	1,801	1,360	1,468
Current Account - Total	Cr	153,432	156,562	39,396	39,782	38,969	38,415	34,081	35,805
	Db	154,190	157,515	39,350	40,253	39,279	38,633	35,119	36,193
Current Account Balance		-757	-954	45	-471	-310	-218	-1,039	-389
Capital Account Balance		703	576	2	18	25	531	21	-17

<sup>1</sup> Adjusted for balance of payments purposes<sup>2</sup> Excluding passenger fare receipts<sup>3</sup> Covers exports and imports of software that was not incorporated as part of computer hardware or physical media but separately transmitted by electronic means. The value of sales and purchases of additional software licences is also included<sup>4</sup> Covers mainly inter-affiliate charges (e.g. management fees), in particular on the debit side

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

€ million

Item		2001	2002	2002				2003	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
<b>Direct Investment</b>	<b>Abroad</b>	<b>-4,543</b>	<b>-3,277</b>	<b>-514</b>	<b>-3,105</b>	<b>588</b>	<b>-246</b>	<b>-728</b>	<b>-231</b>
	<b>In Ireland</b>	<b>10,785</b>	<b>25,895</b>	<b>3,824</b>	<b>6,632</b>	<b>9,931</b>	<b>5,508</b>	<b>4,306</b>	<b>14,080</b>
Equity	Abroad	-1,572	-4,090	-40	-3,011	-729	-310	-101	376
	In Ireland	10,040	10,966	3,198	2,057	1,687	4,024	-941	5,074
Reinvested Earnings	Abroad	-2,247	-1,842	-463	-343	-563	-473	-388	-508
	In Ireland	10,370	16,488	2,915	4,294	3,720	5,559	4,768	4,586
Other Capital	Abroad	-727	2,656	-10	249	1,880	537	-239	-99
	In Ireland	-9,625	-1,559	-2,289	281	4,525	-4,076	479	4,420
<b>Portfolio Investment</b>	<b>Assets</b>	<b>-124,488</b>	<b>-114,146</b>	<b>-43,936</b>	<b>-21,914</b>	<b>-22,197</b>	<b>-26,099</b>	<b>-26,149</b>	<b>-43,192</b>
	<b>Liabilities</b>	<b>99,328</b>	<b>71,811</b>	<b>28,268</b>	<b>22,355</b>	<b>8,819</b>	<b>12,369</b>	<b>17,992</b>	<b>32,301</b>
Equity	Assets	-26,767	-27,168	-13,053	-823	-2,325	-10,967	-2,687	-7,510
	Liabilities	88,599	74,064	27,320	18,517	11,988	16,239	12,688	21,509
Debt Instruments	Assets	-97,719	-86,978	-30,883	-21,091	-19,872	-15,132	-23,462	-35,682
	Liabilities	10,729	-2,252	949	3,838	-3,169	-3,870	5,303	10,792
Bonds and notes	Assets	-50,432	-40,204	-14,687	-10,032	-7,493	-7,992	-14,961	-22,449
	Liabilities	-1,497	-766	2,078	3,488	-2,574	-3,758	2,392	9,101
Money market instruments	Assets	-47,287	-46,775	-16,197	-11,059	-12,379	-7,140	-8,502	-13,233
	Liabilities	12,226	-1,487	-1,130	350	-595	-112	2,911	1,691

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

€ million

Item		2001	2002	2002				2003	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Other Investment	Assets	-24,092	-28,656	-3,454	-10,522	-10,939	-3,741	-16,436	-10,358
	Liabilities	43,131	47,942	12,835	7,809	15,190	12,108	18,837	8,938
Loans, currency and deposits	Assets	-11,790	-24,611	-3,559	-10,276	-8,668	-2,108	-12,676	-10,194
	Liabilities	27,926	36,116	8,796	6,936	11,789	8,595	15,460	8,503
Other <sup>2</sup>	Assets	-12,302	-4,045	105	-246	-2,271	-1,633	-3,760	-164
	Liabilities	15,205	11,828	4,039	874	3,402	3,513	3,377	435
Reserve Assets		-441	343	265	236	-130	-28	1,818	-43
Monetary gold		0	0	0	0	0	0	0	0
Special drawing rights		-8	-8	-2	-2	-2	-2	-2	-1
Reserve position in the IMF		-20	-106	-44	-28	-45	11	27	1
Foreign exchange		-413	457	311	266	-83	-37	1,793	-43
Other		0	0	0	0	0	0	0	0
Balance on Financial Account		-319	-87	-2,712	1,491	1,264	-130	-360	1,495
Net errors and omissions		372	464	2,665	-1,038	-979	-184	1,378	-1,089
Memorandum Item:									
Government financial transactions	Assets	768	-2,550	-756	-1,393	-300	-101	-845	-535
	Liabilities	3,602	969	853	322	87	-293	386	2,121

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

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

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

€ million

Item		2001	2002	2002				2003	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Current Account - Total	Cr	153,432	156,562	39,396	39,782	38,969	38,415	34,081	35,805
	Db	154,190	157,515	39,350	40,253	39,279	38,633	35,119	36,193
Merchandise <sup>2</sup>	Cr	86,690	91,236	24,637	23,576	22,024	20,999	18,917	19,193
	Db	56,197	54,222	15,126	14,401	12,312	12,383	11,382	10,983
Services	Cr	26,244	29,922	6,497	7,554	8,099	7,772	7,238	7,851
	Db	39,504	42,792	10,004	10,754	11,409	10,625	10,176	10,946
- IFSC	Cr	6,379	8,303	1,950	2,028	2,026	2,299	2,250	2,161
	Db	5,091	5,966	1,366	1,497	1,422	1,681	1,280	1,369
- non IFSC	Cr	19,865	21,619	4,547	5,526	6,073	5,473	4,988	5,691
	Db	34,414	36,826	8,638	9,257	9,987	8,944	8,896	9,577
Income	Cr	32,228	27,835	6,661	6,862	7,193	7,119	6,610	7,188
	Db	50,523	53,749	12,587	13,439	13,898	13,825	12,201	12,796
- IFSC	Cr	26,862	23,151	5,599	5,982	5,898	5,672	5,423	5,833
	Db	26,718	23,435	5,689	5,897	6,024	5,825	5,133	5,462
- non IFSC	Cr	5,365	4,684	1,062	880	1,295	1,447	1,187	1,355
	Db	23,806	30,313	6,898	7,541	7,874	8,000	7,068	7,334
Current Transfers	Cr	8,269	7,569	1,601	1,790	1,653	2,525	1,316	1,573
	Db	7,964	6,754	1,633	1,660	1,660	1,801	1,360	1,468
- IFSC <sup>3</sup>	Cr	6,197	5,129	1,201	1,226	1,307	1,395	918	1,025
	Db	6,197	5,129	1,201	1,226	1,307	1,395	918	1,025
- non IFSC	Cr	2,076	2,441	400	564	347	1,130	398	548
	Db	1,771	1,626	432	434	354	406	443	444
Balance on Current Account		-757	-954	45	-471	-310	-218	-1,039	-389
Balance on Capital Account		703	576	2	18	25	531	21	-17



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

Item		2001	2002	2002				2003	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Financial Account <sup>4</sup>									
Direct investment	Abroad	-4,543	-3,277	-514	-3,105	588	-246	-728	-231
	In Ireland	10,785	25,895	3,824	6,632	9,931	5,508	4,306	14,080
- IFSC	Abroad	-263	-1,833	100	-2,912	145	834	78	-76
	In Ireland	5,197	11,938	4,583	2,076	5,323	-44	1,319	7,097
- non IFSC	Abroad	-4,281	-1,444	-613	-194	443	-1,080	-806	-155
	In Ireland	5,588	13,956	-759	4,556	4,608	5,551	2,986	6,983
Portfolio investment	Assets	-124,488	-114,146	-43,936	-21,914	-22,197	-26,099	-26,149	-43,192
	Liabilities	99,328	71,811	28,268	22,355	8,819	12,369	17,992	32,301
- IFSC	Assets	-114,754	-92,796	-37,185	-16,446	-17,578	-21,587	-24,410	-39,535
	Liabilities	88,162	67,380	26,140	18,225	10,488	12,527	12,797	26,918
- non IFSC	Assets	-9,733	-21,350	-6,751	-5,468	-4,618	-4,513	-1,739	-3,657
	Liabilities	11,166	4,432	2,128	4,130	-1,668	-158	5,195	5,383
Other investment <sup>5</sup>	Assets	-24,092	-28,656	-3,454	-10,522	-10,939	-3,741	-16,436	-10,358
	Liabilities	43,131	47,942	12,835	7,809	15,190	12,108	18,837	8,938
- IFSC	Assets	-20,113	-13,627	-2,110	-1,791	-7,820	-1,906	-13,523	-2,488
	Liabilities	33,238	26,662	5,120	1,268	11,228	9,046	16,013	2,467
- non IFSC	Assets	-3,979	-15,029	-1,344	-8,731	-3,119	-1,835	-2,913	-7,870
	Liabilities	9,894	21,281	7,714	6,542	3,963	3,062	2,824	6,471
Reserve Assets		-441	343	265	236	-130	-28	1,818	-43
Balance on Financial Account		-319	-87	-2,712	1,491	1,264	-130	-360	1,495
Net errors and omissions		372	464	2,665	-1,038	-979	-184	1,378	-1,089

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

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

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

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

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

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

€ million

Item		2001	2002	2002				2003	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
<b>Current Account - Total</b>	<b>Cr</b>	<b>153,432</b>	<b>156,562</b>	<b>39,396</b>	<b>39,782</b>	<b>38,969</b>	<b>38,415</b>	<b>34,081</b>	<b>35,805</b>
	<b>Db</b>	<b>154,190</b>	<b>157,515</b>	<b>39,350</b>	<b>40,253</b>	<b>39,279</b>	<b>38,633</b>	<b>35,119</b>	<b>36,193</b>
<b>Merchandise <sup>2</sup></b>	<b>Cr</b>	<b>86,690</b>	<b>91,236</b>	<b>24,637</b>	<b>23,576</b>	<b>22,024</b>	<b>20,999</b>	<b>18,917</b>	<b>19,193</b>
	<b>Db</b>	<b>56,197</b>	<b>54,222</b>	<b>15,126</b>	<b>14,401</b>	<b>12,312</b>	<b>12,383</b>	<b>11,382</b>	<b>10,983</b>
- EMU	Cr	31,358	34,575	8,670	8,287	8,697	8,921	7,200	8,103
	Db	11,774	11,008	2,848	2,831	2,497	2,832	2,796	2,382
- non EMU	Cr	55,331	56,662	15,967	15,290	13,327	12,078	11,717	11,090
	Db	44,421	43,215	12,278	11,571	9,815	9,551	8,586	8,601
- EU	Cr	55,555	58,984	15,895	15,301	14,074	13,714	11,270	11,972
	Db	36,734	36,036	10,158	9,949	7,822	8,107	7,330	6,893
- non EU	Cr	31,134	32,253	8,742	8,276	7,950	7,285	7,646	7,221
	Db	19,462	18,185	4,968	4,453	4,489	4,275	4,053	4,090
<b>Services</b>	<b>Cr</b>	<b>26,244</b>	<b>29,922</b>	<b>6,497</b>	<b>7,554</b>	<b>8,099</b>	<b>7,772</b>	<b>7,238</b>	<b>7,851</b>
	<b>Db</b>	<b>39,504</b>	<b>42,792</b>	<b>10,004</b>	<b>10,754</b>	<b>11,409</b>	<b>10,625</b>	<b>10,176</b>	<b>10,946</b>
- EMU	Cr	8,777	10,277	2,392	2,524	2,834	2,527	2,454	2,798
	Db	10,302	12,572	2,783	3,168	3,749	2,872	3,311	3,694
- non EMU	Cr	17,467	19,642	4,105	5,029	5,264	5,244	4,785	5,053
	Db	29,201	30,221	7,221	7,586	7,661	7,753	6,865	7,252
- EU	Cr	17,027	19,929	4,468	4,939	5,379	5,143	4,601	5,239
	Db	19,707	21,347	4,801	5,200	6,022	5,324	5,247	5,701
- non EU	Cr	9,217	9,991	2,028	2,615	2,720	2,628	2,637	2,612
	Db	19,798	21,445	5,203	5,554	5,387	5,301	4,929	5,245
<b>Income</b>	<b>Cr</b>	<b>32,228</b>	<b>27,835</b>	<b>6,661</b>	<b>6,862</b>	<b>7,193</b>	<b>7,119</b>	<b>6,610</b>	<b>7,188</b>
	<b>Db</b>	<b>50,523</b>	<b>53,749</b>	<b>12,587</b>	<b>13,439</b>	<b>13,898</b>	<b>13,825</b>	<b>12,201</b>	<b>12,796</b>
- EMU	Cr	10,043	9,007	2,234	2,296	2,263	2,214	2,424	2,729
	Db	15,618	19,299	3,922	4,786	5,179	5,412	4,394	4,642
- non EMU	Cr	22,184	18,828	4,426	4,567	4,930	4,905	4,186	4,459
	Db	34,906	34,448	8,665	8,652	8,719	8,412	7,807	8,153
- EU	Cr	17,372	16,334	3,936	3,927	4,316	4,155	4,034	4,431
	Db	25,568	28,457	6,062	6,938	7,597	7,860	6,660	7,122
- non EU	Cr	14,856	11,500	2,724	2,935	2,877	2,964	2,575	2,757
	Db	24,955	25,291	6,525	6,501	6,301	5,964	5,541	5,674
<b>Current Transfers</b>	<b>Cr</b>	<b>8,269</b>	<b>7,569</b>	<b>1,601</b>	<b>1,790</b>	<b>1,653</b>	<b>2,525</b>	<b>1,316</b>	<b>1,573</b>
	<b>Db</b>	<b>7,964</b>	<b>6,754</b>	<b>1,633</b>	<b>1,660</b>	<b>1,660</b>	<b>1,801</b>	<b>1,360</b>	<b>1,468</b>
- EMU	Cr	1,336	1,008	227	248	252	281	180	242
	Db	1,332	992	223	244	248	277	176	238
- non EMU	Cr	6,934	6,563	1,375	1,542	1,402	2,244	1,135	1,331
	Db	6,633	5,763	1,410	1,416	1,413	1,524	1,184	1,231
- EU	Cr	4,053	4,201	828	994	756	1,623	760	954
	Db	3,564	3,202	814	818	717	853	759	806
- non EU	Cr	4,216	3,368	773	796	897	902	556	618
	Db	4,400	3,552	819	842	943	948	601	663
<b>Balance on Current Account</b>		<b>-757</b>	<b>-954</b>	<b>45</b>	<b>-471</b>	<b>-310</b>	<b>-218</b>	<b>-1,039</b>	<b>-389</b>
<b>Balance on Capital Account</b>		<b>703</b>	<b>576</b>	<b>2</b>	<b>18</b>	<b>25</b>	<b>531</b>	<b>21</b>	<b>-17</b>

<sup>1</sup> The term 'EMU' means the area represented by the 12 Member States participating in Monetary Union<sup>2</sup> Adjusted for balance of payments purposes

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

€ million

Item		2001	2002	2002				2003	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
<b>Direct Investment</b>	<b>Abroad</b>	<b>-4,543</b>	<b>-3,277</b>	<b>-514</b>	<b>-3,105</b>	<b>588</b>	<b>-246</b>	<b>-728</b>	<b>-231</b>
	<b>In Ireland</b>	<b>10,785</b>	<b>25,895</b>	<b>3,824</b>	<b>6,632</b>	<b>9,931</b>	<b>5,508</b>	<b>4,306</b>	<b>14,080</b>
- EMU	Abroad	-2,054	-1,888	-437	-2,900	964	485	-26	-414
	In Ireland	12,347	17,821	-1,538	5,020	5,305	9,034	2,398	7,769
- non EMU	Abroad	-2,490	-1,389	-77	-206	-375	-731	-702	183
	In Ireland	-1,563	8,075	5,362	1,612	4,627	-3,526	1,908	6,311
- EU	Abroad	-3,466	-1,093	-394	-3,009	2,071	239	-563	-503
	In Ireland	19,045	18,336	-2,689	4,807	7,094	9,124	1,655	10,303
- non EU	Abroad	-1,078	-2,184	-120	-96	-1,483	-485	-165	272
	In Ireland	-8,259	7,558	6,513	1,825	2,837	-3,617	2,651	3,777
<b>Portfolio Investment</b>	<b>Assets</b>	<b>-124,488</b>	<b>-114,146</b>	<b>-43,936</b>	<b>-21,914</b>	<b>-22,197</b>	<b>-26,099</b>	<b>-26,149</b>	<b>-43,192</b>
	<b>Liabilities</b>	<b>99,328</b>	<b>71,811</b>	<b>28,268</b>	<b>22,355</b>	<b>8,819</b>	<b>12,369</b>	<b>17,992</b>	<b>32,301</b>
- EMU	Assets	-33,682	-35,148	-15,189	-7,561	438	-12,836	-12,932	-14,614
	Liabilities	2,864	3,548	2,978	1,942	-838	-534	3,216	5,689
- non EMU	Assets	-90,804	-78,998	-28,747	-14,353	-22,635	-13,263	-13,218	-28,578
	Liabilities	96,464	68,264	25,291	20,413	9,657	12,903	14,776	26,611
- EU	Assets	-53,258	-59,803	-26,383	-12,935	-6,951	-13,534	-16,331	-24,479
	Liabilities	37,609	24,258	13,605	11,952	439	-1,738	17,096	21,581
- non EU	Assets	-71,228	-54,343	-17,553	-8,979	-15,246	-12,565	-9,818	-18,713
	Liabilities	61,719	47,553	14,664	10,402	8,380	14,107	895	10,720
<b>Other Investment <sup>3</sup></b>	<b>Assets</b>	<b>-24,092</b>	<b>-28,656</b>	<b>-3,454</b>	<b>-10,522</b>	<b>-10,939</b>	<b>-3,741</b>	<b>-16,436</b>	<b>-10,358</b>
	<b>Liabilities</b>	<b>43,131</b>	<b>47,942</b>	<b>12,835</b>	<b>7,809</b>	<b>15,190</b>	<b>12,108</b>	<b>18,837</b>	<b>8,938</b>
- EMU	Assets	2,449	-9,184	-1,565	-5,432	699	-2,886	-6,665	-4,684
	Liabilities	16,340	29,111	180	9,281	10,481	9,169	11,661	8,194
- non EMU	Assets	-26,540	-19,470	-1,888	-5,090	-11,637	-855	-9,771	-5,674
	Liabilities	26,790	18,830	12,654	-1,473	4,710	2,939	7,176	744
- EU	Assets	-8,583	-19,294	-5,120	-9,248	-1,855	-3,071	-15,993	-8,554
	Liabilities	31,598	43,637	10,326	6,326	14,768	12,217	11,798	8,695
- non EU	Assets	-15,509	-9,361	1,666	-1,274	-9,083	-670	-443	-1,804
	Liabilities	11,533	4,305	2,509	1,482	423	-109	7,039	243
<b>Reserve Assets</b>		<b>-441</b>	<b>343</b>	<b>265</b>	<b>236</b>	<b>-130</b>	<b>-28</b>	<b>1,818</b>	<b>-43</b>
<b>Balance on Financial Account</b>		<b>-319</b>	<b>-87</b>	<b>-2,712</b>	<b>1,491</b>	<b>1,264</b>	<b>-130</b>	<b>-360</b>	<b>1,495</b>
<i>Net errors and omissions</i>		<i>372</i>	<i>464</i>	<i>2,665</i>	<i>-1,038</i>	<i>-979</i>	<i>-184</i>	<i>1,378</i>	<i>-1,089</i>

<sup>1</sup> See footnote 1 on Table 2b<sup>2</sup> The term 'EMU' means the area represented by the 12 Member States participating in Monetary Union<sup>3</sup> Including financial derivatives and trade credits

## Background Notes *(updated July 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.

<b>Structure of the Balance of Payments accounts</b>	The balance of payments presentation consists of three tables or accounts, the <i>Current Account</i> , the <i>Capital Account</i> and the <i>Financial Account</i> . The current account consists of trade in merchandise and services, income inflows and outflows and current transfers. The capital account covers capital transfers and the acquisition and disposal of non-produced, non-financial assets. The financial account is concerned with transactions in foreign financial assets and liabilities, distinguishing the functional type of investment i.e. direct, portfolio and other investment and reserve assets.
<b>Sign convention and symbols</b>	<p>The BOP presentation follows the standard double entry accounting treatment for a transaction i.e. in principle, every credit entry is matched by a corresponding debit entry elsewhere in the system.</p> <p>In the current account, credit items are exports of merchandise and services, income inflows and current transfer receivables while debit items are imports, income outflows and transfer payables. In the capital account, capital transfer receivables are recorded as credits and payables as debits. Both credit (denoted by the symbol 'Cr') and debit (denoted by 'Db') items are shown as positive numbers and the net balances are calculated as <i>credit – debit</i>.</p> <p>The transactions in the financial account are implicitly recorded on a credit/debit basis but are presented on an assets/liabilities basis. Increases in foreign assets or reductions in foreign liabilities are shown with a – (minus) sign, i.e. implicitly as a debit amount, while decreases in assets or increases in liabilities are unsigned i.e. shown as positive numbers (credits). The net balances are calculated as <i>net change in assets 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>
<b>Net errors and omissions</b>	Given the double entry accounting procedure described above, the sum of the credit entries should in principle equal the sum of the debit entries over all three accounts. In practice because of differences in coverage, valuation and timing, this does not occur and a balancing item <i>net errors and omissions</i> is inserted to balance the overall account.
<b>Valuation</b>	BOP transactions, in principle, should be recorded on an accruals basis using market valuation. In practice, the collection system is designed to adhere to this approach and, for the most part, the valuations reported are either market values or a close approximation. In certain cases, income (interest) flows on debt securities may still be reported on a cash basis but accruals reporting is intended ultimately.
<b>Residence</b>	BOP transactions occur between residents of Ireland and non-residents. The term 'resident' covers (a) individuals, including foreign nationals, living in Ireland for at least one year as well as Irish embassy staff and military staff located abroad, (b) Irish government enclaves located abroad (embassies, consulates, etc.), and (c) corporate bodies who have a centre of economic interest located here, including branches of foreign-registered companies. It is important to note that transactions in foreign assets and liabilities can occur between residents and should be recorded in the financial account.
<b>Geographical allocation principle</b>	Current and capital account transactions are allocated to the country of residence of the counterpart. Financial account transactions are allocated on the basis of the debtor/creditor principle; assets are geographically assigned to the country of the debtor (i.e. the issuer) of the assets, while liabilities are assigned to the country of the creditor (i.e. the holder).
<b>Current account</b>	<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<sup>1</sup> i.e. there are no entries in the current account other than related fees and service charges (not always identifiable). In principle, other investment transactions are valued at market valuation inclusive of accrued income. For loans, book values are accepted as a proxy for market values.

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

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

#### Comparison with previous series

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

<sup>1</sup> The inclusion of these receipts and payments in the financial account anticipates the impending changes to the IMF's Balance of Payments Manual (5<sup>th</sup> 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.