

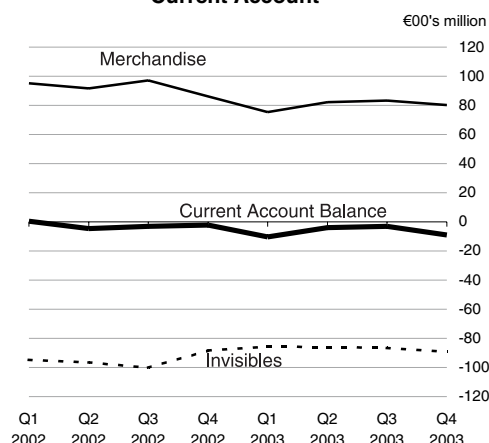


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Balance of International Payments Quarter 4 and Year 2003

Current Account



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	€ million		
	Merchandise Balance	Invisibles Balance	Current Account Balance
Q4 2003	8,028	-8,931	-903
Q4 2002	8,616	-8,834	-218
Year 2003	32,107	-34,755	-2,647
Year 2002	37,014	-37,970	-954

4th Quarter current deficit of €903m; over €2.6bn for 2003

The current account of the Balance of Payments showed a significantly higher deficit of €903m in the fourth quarter of 2003 compared to one of €316m in the previous quarter. The run of negative quarterly balances has resulted in a sizeable annual 2003 deficit of €2,647m (provisional) – by far the largest in the last four years - *see Table 1*. The reduction (€300m) in the *merchandise* surplus of €8,028m in the quarter compared to the previous quarter contrasted with the increase (€700m) in the *services* deficit to €3,662m. For 2003, the merchandise surplus of €32.1bn was down almost €5bn on the 2002 value; the €12.7bn services deficit was largely unchanged. Net *income* outflows in the quarter were €5,853m, just €200m higher than for the third quarter. The €22.7bn net outflow for 2003 was €3.2bn lower than for 2002 - *see Table 1*. The 4th quarter results also show:

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

- ◆ *Merchandise* exports of €20,332m were almost €1.2bn higher than the previous quarter and imports at €12,304m were €1.5bn higher, partly due to capital items.
- ◆ *Services* exports at €8,440m were €271m up on the third quarter figure, mostly due to an increase in *computer services* exports. Imports of €12,101m were €1bn higher, due largely to higher payments overseas for royalties and business services but partly offset by the seasonal reduction in *tourism and travel*.
- ◆ Profit outflows at €7,703m were up €235m on the previous quarter.

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

- ◆ The small net movements in Table 1b for direct, portfolio and other investment result from large gross flows within each account - *see Table 2b*. This may imply lower levels of cross investment from loans and deposits into portfolio securities.
- ◆ Inward *direct investment equity* flows of €2,867m along with *reinvested earnings* of €3,800m were offset by a sizeable net outflow of €7.1bn under *other capital*.
- ◆ Outward *portfolio investment* at €31.8bn was similar to that for the third quarter. However, following the very low level of inward investment (€9.1bn) in quarter three, inflows of €33bn in the fourth quarter reflect a return to the earlier pattern.
- ◆ *Other investment* assets in the form of *loans, currency and deposits* at €17bn were substantially up on quarter three transactions of €3.5bn.

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Table 1a – Summary of Current and Capital Account Balances

€ million

Period		Merchandise ¹	Invisibles				Balance on Current Account	Balance on Capital Account
			Services	Income	Current Transfers	Total		
1998	Year	17,510	-8,820	-9,382	1,319	-16,883	627	840
1999	Year	22,170	-10,176	-12,945	1,177	-21,944	226	560
2000	Year	27,266	-13,889	-14,750	994	-27,645	-379	1,182
2001	Year	30,494	-13,259	-18,295	305	-31,249	-757	703
2002	Year	37,014	-12,871	-25,914	815	-37,970	-954	576
2003	Year	32,107	-12,652	-22,701	598	-34,755	-2,647	422
1998	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	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	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	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	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
	Quarter 2	8,210	-3,095	-5,608	104	-8,599	-389	-17
	Quarter 3	8,335	-2,958	-5,649	-45	-8,652	-316	1
	Quarter 4	8,028	-3,662	-5,853	584	-8,931	-903	417

¹ Adjusted for balance of payments purposes

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

Period		Direct Investment	Portfolio Investment	Other ¹ Investment	Reserve Assets	Balance on Financial Account	Net errors and omissions
1998	Year	4,422	-8,466	7,459	-2,280	1,135	-2,602
1999	Year	11,359	-14,342	-974	1,746	-2,211	1,425
2000	Year	22,957	-5,358	-9,037	-142	8,420	-9,223
2001	Year	6,241	-25,158	19,039	-441	-319	372
2002	Year	22,617	-42,334	19,287	343	-87	464
2003	Year	20,852	-42,243	21,078	1,770	1,458	768
1998	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	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	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	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	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
	Quarter 2	13,849	-10,891	-1,420	-43	1,495	-1,089
	Quarter 3	4,336	-24,434	18,246	-84	-1,936	2,252
	Quarter 4	-911	1,240	1,851	79	2,259	-1,773

¹ Including financial derivatives and trade credits

Table 2a – Current and Capital Accounts

€ million

Item		2002	2003	2002				2003			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account											
Merchandise ¹	Cr	91,236	77,586	24,637	23,576	22,024	20,999	18,917	19,193	19,144	20,332
	Db	54,222	45,478	15,126	14,401	12,312	12,383	11,382	10,983	10,809	12,304
Services	Cr	29,922	31,698	6,497	7,554	8,099	7,772	7,238	7,851	8,169	8,440
	Db	42,792	44,350	10,004	10,754	11,409	10,625	10,176	10,946	11,127	12,101
Transport	Cr	1,694	1,743	321	452	541	380	385	437	539	382
	Db	1,906	1,718	515	496	443	452	426	421	416	455
Tourism and Travel ²	Cr	3,268	3,400	529	884	1,172	683	549	892	1,279	680
	Db	3,958	4,215	655	977	1,490	836	743	1,078	1,533	861
Communications	Cr	1,235	1,059	288	304	302	341	268	213	275	303
	Db	497	603	121	122	122	132	133	124	129	217
Insurance	Cr	3,762	3,884	876	893	926	1,067	951	969	884	1,080
	Db	3,129	2,861	757	739	753	880	662	740	697	762
Financial services	Cr	2,862	3,311	674	719	685	784	749	724	887	951
	Db	1,683	1,997	428	449	320	486	469	414	557	557
Computer services ³	Cr	11,026	12,084	2,543	2,774	3,033	2,676	2,692	3,127	2,784	3,481
	Db	579	495	150	181	121	127	216	106	82	91
Royalties/Licences	Cr	262	147	55	56	95	56	24	35	41	47
	Db	10,991	12,704	2,946	2,776	2,711	2,558	2,950	3,046	3,096	3,612
Business services	Cr	5,244	5,512	1,069	1,334	1,202	1,639	1,480	1,315	1,340	1,377
	Db	19,918	19,623	4,399	4,982	5,416	5,121	4,544	4,985	4,583	5,511
Trade related	Cr	435	640	-41	93	0	383	119	104	200	217
	Db	10,115	10,356	2,475	2,539	2,705	2,396	2,376	2,762	2,324	2,894
Operational leasing	Cr	1,630	1,547	423	423	395	389	415	366	386	380
	Db	193	198	36	51	51	55	49	43	60	46
Misc. business services ⁴	Cr	3,178	3,324	686	818	807	867	946	846	753	779
	Db	9,609	9,070	1,888	2,391	2,659	2,671	2,119	2,180	2,199	2,572
Other services n.e.s.	Cr	570	560	142	139	144	145	141	139	140	140
	Db	132	132	33	32	34	33	32	32	34	34

Table 2a – Current and Capital Accounts - continued

€ million

Item		2002	2003	2002				2003			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account - continued											
Income	Cr	27,835	28,086	6,661	6,862	7,193	7,119	6,610	7,188	6,985	7,303
	Db	53,749	50,787	12,587	13,439	13,898	13,825	12,201	12,796	12,634	13,156
Compensation of Employees	Cr	215	146	36	36	107	36	36	36	36	38
	Db	210	151	55	62	49	44	33	40	43	35
Investment Income	Cr	27,619	27,940	6,624	6,826	7,086	7,083	6,574	7,152	6,949	7,265
	Db	53,539	50,636	12,532	13,377	13,849	13,781	12,168	12,756	12,590	13,122
Direct investment income	Cr	3,422	3,617	778	812	770	1,062	816	875	898	1,028
	Db	32,819	31,495	7,582	8,306	8,312	8,619	7,519	8,013	7,875	8,088
Income on equity	Cr	2,221	2,279	485	364	584	788	482	538	594	665
	Db	31,739	29,963	7,412	7,982	7,940	8,405	7,160	7,632	7,468	7,703
Dividends & distributed											
branch profits	Cr	379	181	22	21	21	315	94	30	22	35
	Db	15,251	12,952	4,497	3,687	4,221	2,846	2,393	3,046	3,610	3,903
Reinvested earnings	Cr	1,842	2,097	463	343	563	473	388	508	572	629
	Db	16,488	17,012	2,915	4,294	3,720	5,559	4,768	4,586	3,858	3,800
Income on debt	Cr	1,199	1,338	292	448	185	274	334	337	304	363
	Db	1,080	1,532	170	324	372	214	359	381	407	385
Portfolio investment income	Cr	14,504	15,908	3,184	3,758	3,974	3,588	3,730	4,145	3,989	4,044
	Db	11,065	10,683	2,415	2,697	3,058	2,895	2,731	2,602	2,539	2,811
Income on equity	Cr	2,165	2,079	446	571	585	563	475	659	499	446
	Db	7,850	7,610	1,628	1,869	2,216	2,137	1,904	1,871	1,837	1,998
Income on debt	Cr	12,337	13,828	2,738	3,186	3,388	3,025	3,254	3,486	3,490	3,598
	Db	3,215	3,073	788	828	842	757	828	731	702	812
Other investment income	Cr	9,695	8,415	2,663	2,256	2,343	2,433	2,028	2,131	2,062	2,194
	Db	9,656	8,458	2,535	2,374	2,479	2,268	1,917	2,141	2,177	2,223
Current Transfers	Cr	7,569	6,016	1,601	1,790	1,653	2,525	1,316	1,573	1,257	1,870
	Db	6,754	5,416	1,633	1,660	1,660	1,801	1,360	1,468	1,302	1,286
Current Account - Total	Cr	156,562	143,386	39,396	39,782	38,969	38,415	34,081	35,805	35,555	37,945
	Db	157,515	146,031	39,350	40,253	39,279	38,633	35,119	36,193	35,871	38,848
Current Account Balance		-954	-2,647	45	-471	-310	-218	-1,039	-389	-316	-903
Capital Account Balance		576	422	2	18	25	531	21	-17	1	417

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

Table 2b – Financial Account¹

€ million

Item		2002	2003	2002				2003			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Direct Investment	Abroad	-3,277	-1,689	-514	-3,105	588	-246	-728	-231	-239	-491
	In Ireland	25,895	22,540	3,824	6,632	9,931	5,508	4,306	14,080	4,575	-421
Equity	Abroad	-4,090	-141	-40	-3,011	-729	-310	-101	376	160	-576
	In Ireland	10,966	8,109	3,198	2,057	1,687	4,024	-941	5,074	1,109	2,867
Reinvested Earnings	Abroad	-1,842	-2,097	-463	-343	-563	-473	-388	-508	-572	-629
	In Ireland	16,488	17,012	2,915	4,294	3,720	5,559	4,768	4,586	3,858	3,800
Other Capital	Abroad	2,656	549	-10	249	1,880	537	-239	-99	173	714
	In Ireland	-1,559	-2,581	-2,289	281	4,525	-4,076	479	4,420	-393	-7,087
Portfolio Investment	Assets	-114,146	-134,751	-43,936	-21,914	-22,197	-26,099	-26,149	-43,192	-33,565	-31,845
	Liabilities	71,811	92,508	28,268	22,355	8,819	12,369	17,992	32,301	9,131	33,084
Equity	Assets	-27,168	-22,101	-13,053	-823	-2,325	-10,967	-2,687	-7,510	-4,420	-7,484
	Liabilities	74,064	68,048	27,320	18,517	11,988	16,239	12,688	21,509	6,693	27,158
Debt Instruments	Assets	-86,978	-112,649	-30,883	-21,091	-19,872	-15,132	-23,462	-35,682	-29,145	-24,360
	Liabilities	-2,252	24,459	949	3,838	-3,169	-3,870	5,303	10,792	2,438	5,926
Bonds and notes	Assets	-40,204	-75,234	-14,687	-10,032	-7,493	-7,992	-14,961	-22,449	-24,530	-13,294
	Liabilities	-766	24,588	2,078	3,488	-2,574	-3,758	2,392	9,101	4,279	8,816
Money market instruments	Assets	-46,775	-37,415	-16,197	-11,059	-12,379	-7,140	-8,502	-13,233	-4,614	-11,066
	Liabilities	-1,487	-128	-1,130	350	-595	-112	2,911	1,691	-1,841	-2,889

Table 2b – Financial Account¹ - continued

€ million

Item		2002	2003	2002				2003			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Other Investment	Assets	-28,656	-50,508	-3,454	-10,522	-10,939	-3,741	-16,436	-10,358	-3,849	-19,865
	Liabilities	47,942	71,587	12,835	7,809	15,190	12,108	18,837	8,938	22,095	21,717
Loans, currency and deposits	Assets	-24,611	-43,298	-3,559	-10,276	-8,668	-2,108	-12,676	-10,194	-3,453	-16,975
	Liabilities	36,116	66,967	8,796	6,936	11,789	8,595	15,460	8,503	22,422	20,582
Other ²	Assets	-4,045	-7,210	105	-246	-2,271	-1,633	-3,760	-164	-396	-2,890
	Liabilities	11,828	4,621	4,039	874	3,402	3,513	3,377	435	-326	1,135
Reserve Assets		343	1,770	265	236	-130	-28	1,818	-43	-84	79
Monetary gold		0	-1	0	0	0	0	0	0	-1	0
Special drawing rights		-8	-2	-2	-2	-2	-2	-2	-1	-2	3
Reserve position in the IMF		-106	-42	-44	-28	-45	11	27	1	-26	-44
Foreign exchange		457	1,815	311	266	-83	-37	1,793	-43	-55	120
Other		0	0	0	0	0	0	0	0	0	0
Balance on Financial Account		-87	1,458	-2,712	1,491	1,264	-130	-360	1,495	-1,936	2,259
Net errors and omissions		464	768	2,665	-1,038	-979	-184	1,378	-1,089	2,252	-1,773
Memorandum Item:											
Government financial transactions	Assets	-2,550	-1,725	-756	-1,393	-300	-101	-845	-535	-102	-243
	Liabilities	969	1,785	853	322	87	-293	386	2,121	-192	-530

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

² Including financial derivatives and trade credits

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

€ million

Item		2002	2003	2002				2003			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account - Total	Cr	156,562	143,386	39,396	39,782	38,969	38,415	34,081	35,805	35,555	37,945
	Db	157,515	146,031	39,350	40,253	39,279	38,633	35,119	36,193	35,871	38,848
Merchandise ²	Cr	91,236	77,586	24,637	23,576	22,024	20,999	18,917	19,193	19,144	20,332
	Db	54,222	45,478	15,126	14,401	12,312	12,383	11,382	10,983	10,809	12,304
Services	Cr	29,922	31,698	6,497	7,554	8,099	7,772	7,238	7,851	8,169	8,440
	Db	42,792	44,350	10,004	10,754	11,409	10,625	10,176	10,946	11,127	12,101
- IFSC	Cr	8,303	9,131	1,950	2,028	2,026	2,299	2,250	2,161	2,196	2,524
	Db	5,966	5,581	1,366	1,497	1,422	1,681	1,280	1,369	1,395	1,537
- non IFSC	Cr	21,619	22,568	4,547	5,526	6,073	5,473	4,988	5,691	5,973	5,916
	Db	36,826	38,769	8,638	9,257	9,987	8,944	8,896	9,577	9,732	10,564
Income	Cr	27,835	28,086	6,661	6,862	7,193	7,119	6,610	7,188	6,985	7,303
	Db	53,749	50,787	12,587	13,439	13,898	13,825	12,201	12,796	12,634	13,156
- IFSC	Cr	23,151	22,570	5,599	5,982	5,898	5,672	5,423	5,833	5,558	5,756
	Db	23,435	21,824	5,689	5,897	6,024	5,825	5,133	5,462	5,498	5,731
- non IFSC	Cr	4,684	5,516	1,062	880	1,295	1,447	1,187	1,355	1,427	1,547
	Db	30,313	28,963	6,898	7,541	7,874	8,000	7,068	7,334	7,136	7,425
Current Transfers	Cr	7,569	6,016	1,601	1,790	1,653	2,525	1,316	1,573	1,257	1,870
	Db	6,754	5,416	1,633	1,660	1,660	1,801	1,360	1,468	1,302	1,286
- IFSC ³	Cr	5,129	3,673	1,201	1,226	1,307	1,395	918	1,025	854	876
	Db	5,129	3,673	1,201	1,226	1,307	1,395	918	1,025	854	876
- non IFSC	Cr	2,441	2,344	400	564	347	1,130	398	548	403	995
	Db	1,626	1,746	432	434	354	406	443	444	448	411
Balance on Current Account		-954	-2,647	45	-471	-310	-218	-1,039	-389	-316	-903
Balance on Capital Account		576	422	2	18	25	531	21	-17	1	417

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

Item		2002	2003	2002				2003			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Financial Account ⁴											
Direct investment	Abroad	-3,277	-1,689	-514	-3,105	588	-246	-728	-231	-239	-491
	In Ireland	25,895	22,540	3,824	6,632	9,931	5,508	4,306	14,080	4,575	-421
- IFSC	Abroad	-1,833	-749	100	-2,912	145	834	78	-76	11	-762
	In Ireland	11,938	8,843	4,583	2,076	5,323	-44	1,319	7,097	3,066	-2,639
- non IFSC	Abroad	-1,444	-940	-613	-194	443	-1,080	-806	-155	-250	271
	In Ireland	13,956	13,698	-759	4,556	4,608	5,551	2,986	6,983	1,510	2,219
Portfolio investment	Assets	-114,146	-134,751	-43,936	-21,914	-22,197	-26,099	-26,149	-43,192	-33,565	-31,845
	Liabilities	71,811	92,508	28,268	22,355	8,819	12,369	17,992	32,301	9,131	33,084
- IFSC	Assets	-92,796	-121,973	-37,185	-16,446	-17,578	-21,587	-24,410	-39,535	-27,514	-30,514
	Liabilities	67,380	78,460	26,140	18,225	10,488	12,527	12,797	26,918	6,685	32,060
- non IFSC	Assets	-21,350	-12,777	-6,751	-5,468	-4,618	-4,513	-1,739	-3,657	-6,051	-1,330
	Liabilities	4,432	14,048	2,128	4,130	-1,668	-158	5,195	5,383	2,446	1,024
Other investment ⁵	Assets	-28,656	-50,508	-3,454	-10,522	-10,939	-3,741	-16,436	-10,358	-3,849	-19,865
	Liabilities	47,942	71,587	12,835	7,809	15,190	12,108	18,837	8,938	22,095	21,717
- IFSC	Assets	-13,627	-32,804	-2,110	-1,791	-7,820	-1,906	-13,523	-2,488	-2,133	-14,660
	Liabilities	26,662	52,197	5,120	1,268	11,228	9,046	16,013	2,467	15,225	18,492
- non IFSC	Assets	-15,029	-17,706	-1,344	-8,731	-3,119	-1,835	-2,913	-7,870	-1,717	-5,206
	Liabilities	21,281	19,391	7,714	6,542	3,963	3,062	2,824	6,471	6,871	3,225
Reserve Assets		343	1,770	265	236	-130	-28	1,818	-43	-84	79
Balance on Financial Account		-87	1,458	-2,712	1,491	1,264	-130	-360	1,495	-1,936	2,259
Net errors and omissions		464	768	2,665	-1,038	-979	-184	1,378	-1,089	2,252	-1,773

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

² Adjusted for balance of payments purposes

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

⁴ See footnote 1 on Table 2b

⁵ Including financial derivatives and trade credits

Table 4a – Current and Capital Accounts showing geographical¹ detail

€ million

Item		2002	2003	2002				2003			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Account - Total	Cr	156,562	143,386	39,396	39,782	38,969	38,415	34,081	35,805	35,555	37,945
	Db	157,515	146,031	39,350	40,253	39,279	38,633	35,119	36,193	35,871	38,848
Merchandise ²	Cr	91,236	77,586	24,637	23,576	22,024	20,999	18,917	19,193	19,144	20,332
	Db	54,222	45,478	15,126	14,401	12,312	12,383	11,382	10,983	10,809	12,304
- EMU	Cr	34,575	32,455	8,670	8,287	8,697	8,921	7,200	8,103	8,254	8,898
	Db	11,008	10,118	2,848	2,831	2,497	2,832	2,796	2,382	2,204	2,736
- non EMU	Cr	56,662	45,131	15,967	15,290	13,327	12,078	11,717	11,090	10,890	11,434
	Db	43,215	35,360	12,278	11,571	9,815	9,551	8,586	8,601	8,605	9,568
- EU	Cr	58,984	48,566	15,895	15,301	14,074	13,714	11,270	11,972	12,108	13,216
	Db	36,036	28,775	10,158	9,949	7,822	8,107	7,330	6,893	6,704	7,848
- non EU	Cr	32,253	29,018	8,742	8,276	7,950	7,285	7,646	7,221	7,035	7,116
	Db	18,185	16,704	4,968	4,453	4,489	4,275	4,053	4,090	4,105	4,456
Services	Cr	29,922	31,698	6,497	7,554	8,099	7,772	7,238	7,851	8,169	8,440
	Db	42,792	44,350	10,004	10,754	11,409	10,625	10,176	10,946	11,127	12,101
- EMU	Cr	10,277	10,787	2,392	2,524	2,834	2,527	2,454	2,798	2,728	2,807
	Db	12,572	14,366	2,783	3,168	3,749	2,872	3,311	3,694	3,735	3,626
- non EMU	Cr	19,642	20,912	4,105	5,029	5,264	5,244	4,785	5,053	5,441	5,633
	Db	30,221	29,985	7,221	7,586	7,661	7,753	6,865	7,252	7,392	8,476
- EU	Cr	19,929	20,324	4,468	4,939	5,379	5,143	4,601	5,239	5,252	5,232
	Db	21,347	22,623	4,801	5,200	6,022	5,324	5,247	5,701	5,689	5,986
- non EU	Cr	9,991	11,374	2,028	2,615	2,720	2,628	2,637	2,612	2,917	3,208
	Db	21,445	21,726	5,203	5,554	5,387	5,301	4,929	5,245	5,437	6,115
Income	Cr	27,835	28,086	6,661	6,862	7,193	7,119	6,610	7,188	6,985	7,303
	Db	53,749	50,787	12,587	13,439	13,898	13,825	12,201	12,796	12,634	13,156
- EMU	Cr	9,007	10,927	2,234	2,296	2,263	2,214	2,424	2,729	2,808	2,966
	Db	19,299	19,125	3,922	4,786	5,179	5,412	4,394	4,642	5,003	5,086
- non EMU	Cr	18,828	17,159	4,426	4,567	4,930	4,905	4,186	4,459	4,177	4,337
	Db	34,448	31,660	8,665	8,652	8,719	8,412	7,807	8,153	7,630	8,070
- EU	Cr	16,334	17,873	3,936	3,927	4,316	4,155	4,034	4,431	4,635	4,773
	Db	28,457	28,914	6,062	6,938	7,597	7,860	6,660	7,122	7,283	7,849
- non EU	Cr	11,500	10,213	2,724	2,935	2,877	2,964	2,575	2,757	2,350	2,531
	Db	25,291	21,874	6,525	6,501	6,301	5,964	5,541	5,674	5,351	5,308
Current Transfers	Cr	7,569	6,016	1,601	1,790	1,653	2,525	1,316	1,573	1,257	1,870
	Db	6,754	5,416	1,633	1,660	1,660	1,801	1,360	1,468	1,302	1,286
- EMU	Cr	1,008	1,082	227	248	252	281	180	242	258	402
	Db	992	1,066	223	244	248	277	176	238	254	398
- non EMU	Cr	6,563	4,934	1,375	1,542	1,402	2,244	1,135	1,331	999	1,469
	Db	5,763	4,351	1,410	1,416	1,413	1,524	1,184	1,231	1,048	888
- EU	Cr	4,201	4,134	828	994	756	1,623	760	954	804	1,616
	Db	3,202	3,356	814	818	717	853	759	806	804	987
- non EU	Cr	3,368	1,881	773	796	897	902	556	618	453	254
	Db	3,552	2,061	819	842	943	948	601	663	498	299
Balance on Current Account		-954	-2,647	45	-471	-310	-218	-1,039	-389	-316	-903
Balance on Capital Account		576	422	2	18	25	531	21	-17	1	417

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

Table 4b – Financial Account¹ showing geographical² detail

€ million

Item		2002	2003	2002				2003			
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Direct Investment	Abroad	-3,277	-1,689	-514	-3,105	588	-246	-728	-231	-239	-491
	In Ireland	25,895	22,540	3,824	6,632	9,931	5,508	4,306	14,080	4,575	-421
- EMU	Abroad	-1,888	-701	-437	-2,900	964	485	-26	-414	91	-352
	In Ireland	17,821	17,126	-1,538	5,020	5,305	9,034	2,398	7,769	6,386	573
- non EMU	Abroad	-1,389	-988	-77	-206	-375	-731	-702	183	-330	-139
	In Ireland	8,075	5,414	5,362	1,612	4,627	-3,526	1,908	6,311	-1,811	-994
- EU	Abroad	-1,093	-1,547	-394	-3,009	2,071	239	-563	-503	-129	-352
	In Ireland	18,336	20,901	-2,689	4,807	7,094	9,124	1,655	10,303	7,333	1,610
- non EU	Abroad	-2,184	-142	-120	-96	-1,483	-485	-165	272	-110	-139
	In Ireland	7,558	1,640	6,513	1,825	2,837	-3,617	2,651	3,777	-2,758	-2,030
Portfolio Investment	Assets	-114,146	-134,751	-43,936	-21,914	-22,197	-26,099	-26,149	-43,192	-33,565	-31,845
	Liabilities	71,811	92,508	28,268	22,355	8,819	12,369	17,992	32,301	9,131	33,084
- EMU	Assets	-35,148	-59,192	-15,189	-7,561	438	-12,836	-12,932	-14,614	-22,012	-9,634
	Liabilities	3,548	16,150	2,978	1,942	-838	-534	3,216	5,689	202	7,043
- non EMU	Assets	-78,998	-75,559	-28,747	-14,353	-22,635	-13,263	-13,218	-28,578	-11,553	-22,210
	Liabilities	68,264	76,359	25,291	20,413	9,657	12,903	14,776	26,611	8,930	26,042
- EU	Assets	-59,803	-85,292	-26,383	-12,935	-6,951	-13,534	-16,331	-24,479	-27,470	-17,012
	Liabilities	24,258	63,510	13,605	11,952	439	-1,738	17,096	21,581	3,073	21,760
- non EU	Assets	-54,343	-49,459	-17,553	-8,979	-15,246	-12,565	-9,818	-18,713	-6,095	-14,833
	Liabilities	47,553	28,997	14,664	10,402	8,380	14,107	895	10,720	6,058	11,324
Other Investment ³	Assets	-28,656	-50,508	-3,454	-10,522	-10,939	-3,741	-16,436	-10,358	-3,849	-19,865
	Liabilities	47,942	71,587	12,835	7,809	15,190	12,108	18,837	8,938	22,095	21,717
- EMU	Assets	-9,184	-20,880	-1,565	-5,432	699	-2,886	-6,665	-4,684	-2,183	-7,348
	Liabilities	29,111	38,824	180	9,281	10,481	9,169	11,661	8,194	15,194	3,775
- non EMU	Assets	-19,470	-29,629	-1,888	-5,090	-11,637	-855	-9,771	-5,674	-1,666	-12,518
	Liabilities	18,830	32,763	12,654	-1,473	4,710	2,939	7,176	744	6,901	17,942
- EU	Assets	-19,294	-50,865	-5,120	-9,248	-1,855	-3,071	-15,993	-8,554	-9,551	-16,767
	Liabilities	43,637	58,484	10,326	6,326	14,768	12,217	11,798	8,695	24,171	13,820
- non EU	Assets	-9,361	356	1,666	-1,274	-9,083	-670	-443	-1,804	5,701	-3,098
	Liabilities	4,305	13,104	2,509	1,482	423	-109	7,039	243	-2,075	7,897
Reserve Assets		343	1,770	265	236	-130	-28	1,818	-43	-84	79
Balance on Financial Account		-87	1,458	-2,712	1,491	1,264	-130	-360	1,495	-1,936	2,259
<i>Net errors and omissions</i>		<i>464</i>	<i>768</i>	<i>2,665</i>	<i>-1,038</i>	<i>-979</i>	<i>-184</i>	<i>1,378</i>	<i>-1,089</i>	<i>2,252</i>	<i>-1,773</i>

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

Background Notes *(updated December 2003)*

Introduction

Ireland's balance of payments (BOP) quarterly statistical compilation system was completely overhauled in the late 1990's to strengthen sectoral and enterprise coverage in basic data collection; adopt best international methodological standards; conform more closely with international presentation formats; and provide for geographical analysis of the results. The 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 including those associated with the National Pensions Reserve Fund; 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 and Financial Services Authority 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 *Current Account*, the *Capital Account* and the *Financial Account*. 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

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.

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 *credit – debit*.

The transactions in the financial account are implicitly recorded on a credit/debit basis but are generally 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 *net change in assets transactions + net change in liabilities transactions*. In the case of direct investment, the asset/liability presentation is replaced by the so-called ‘directional’ one, i.e. *direct investment abroad* (which approximates to the assets concept) and *direct investment in Ireland* (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) or its foreign affiliates (see *direct investment* below).

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.

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). In the case of direct investment, transactions are geographically attributed on the basis of country of location of immediate ownership of the direct investment enterprise rather than that of the ultimate beneficial owner. Therefore, if a US investor directly invests in a direct investment enterprise located in Ireland, the origin of the investment as presented in these statistics is US. If the US investor indirectly invests, through its Cayman Islands subsidiary, in an enterprise located in Ireland then the origin of the investment is Cayman Islands. In both cases, the country of location of the ultimate beneficial owner is US. This may have a significant impact on the geographic analysis of FDI statistics.
Current account	<p>Merchandise 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.</p> <p>Services exports and imports are now given in more detail than before. Nine categories are distinguished: <i>transport, tourism and travel, communications, insurance services, financial services, computer services, royalties and licences, business services</i> and <i>other services not elsewhere specified</i>. Some specific points of note are:</p> <ul style="list-style-type: none"> (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 <i>transport</i>. (ii) The value of <i>insurance services</i> provided to non-residents by resident insurers (credit) is estimated as the value of direct and supplementary premiums earned less the value of claims payable less increases in the actuarial element of insurance technical reserves. Supplementary premiums consist of investment income earned on investing the insurance technical reserves. For BOP purposes, this income is attributed to the policy holders and also treated as being paid back to the insurance company by them. To obtain the value of insurance services purchased from non-resident insurers (debit), the ratio of the estimated service charge to total premiums for insurance exports is applied to the total premiums payable to non-resident insurers. In

relation to merchandise imports, the freight insurance element of the c.i.f. to f.o.b. adjustment referred to above under *merchandise* is recorded under *insurance*.

- (iii) *Financial services* covers non-interest receivables and payables in respect of financial intermediary and auxiliary services (other than those of insurance enterprises and pension funds).
- (iv) Exports and imports of computer software which is embedded in hardware or carried on other physical media are not included in *computer services* but under *merchandise*. Sales and purchases of software transmitted electronically as well as exports of certain software licences are now recorded under *computer services* (formerly, the value of such licences was included under *merchandise*).
- (v) *Business services* covers receivables and payables for (a) *merchandising and other trade-related services*, (b) *operational leasing* and (c) *miscellaneous business services*.

Merchandising consists of the sales net of purchases by Irish merchants of foreign goods bought from and sold to non-residents without entering or leaving Ireland; it may also include sales less purchases of services associated with the installation, maintenance, repair, etc. of these goods. *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 and Financial Services Authority 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'*).

The **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.

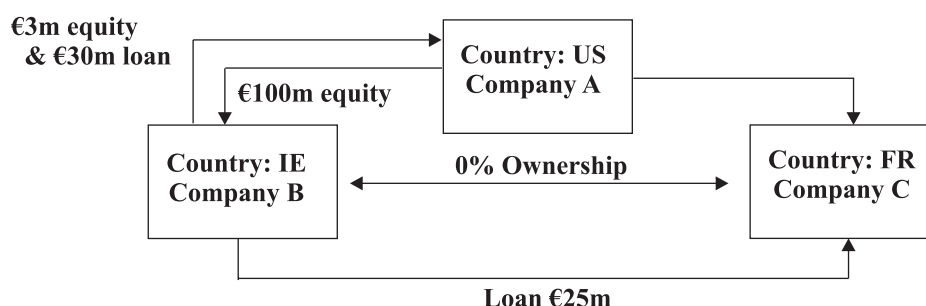
Financial account

The financial account covers transactions in foreign financial assets (i.e. claims on non-residents) and foreign financial 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. The essential difference between the directional principle and the assets/liabilities approach centres on the treatment of reverse investment by a direct investment enterprise in its parent (direct investor) and on the treatment of transactions with other foreign affiliates covered by a direct investment relationship. In the Irish context, reverse *equity* investment in a parent enterprise is rare and tends to be relatively small. However, substantial flows (and positions) under the category *direct investment – other capital* can take place. These predominantly take the form of inter-affiliate loans but trade credits and transactions in financial securities between affiliates are also included. Rather than treating reverse *equity* investment flows (and positions) as straight-forward *direct investment abroad* or *direct investment in Ireland* in their own right, the internationally accepted directional principle recommends that such reverse investment be netted out of the original investment. For example, if a US direct investor A invests €100m in a direct investment enterprise B located in Ireland and B acquires a small reverse equity investment of €3m in its parent (A) then the value of *direct investment in Ireland-equity* is €97m (i.e. €100m less €3m). A similar treatment is applied to non-equity reverse investment. For example, if B advances a €30m loan to parent, A, *direct investment in Ireland-other capital* is €30m lower. Overall *direct investment in Ireland* from A to B is therefore €67m (i.e. €100m - €3m - €30m).

Given a number of considerations, there is some flexibility in the international standards regarding the treatment of non-equity reverse investment by a resident direct investment enterprise in its foreign affiliates (non-parent). In Ireland's case and in order to ensure that all inward and outward flows (and stocks) arising from an initial inward direct investment are retained within the *direct*

investment in Ireland category, the same principle as for reverse equity or non-equity investment with a parent company is applied. For example, if resident direct investment enterprise, B, advances a loan of €25m to a sister company, C, located in France, *direct investment in Ireland – other capital* is lowered by €25m and overall *direct investment in Ireland* from A to B amounts to €42m (i.e. €100m - €3m - €30m - €25m) – see diagram below. Cases occur on an ongoing basis where the outward investment flows or positions of B (or other sister direct investment enterprises located in Ireland) exceed the amounts attributable to A under *direct investment in Ireland*. The equivalent treatment is applied for similar situations categorised under *direct investment abroad*.



Portfolio investment covers the acquisition and disposal of equity and debt securities which cannot be classified under direct investment or reserve assets transactions. The securities involved are traded (or tradable) in organised and other financial markets. *Debt securities* cover *bonds and notes*, which have an original maturity term of more than one year, and *money market instruments* with original maturity of one year or less. Transactions are valued at market value inclusive of accrued income.

Other investment covers assets and liabilities other than those classifiable to direct investment, portfolio investment or reserve assets. It comprises loans, currency and deposits, short and long-term trade credits, financial derivatives and other accounts receivable and payable. Derivatives cover over-the-counter (OTC) and exchange-traded contracts and include options, futures, swaps, forwards, etc. For BOP purposes, all receipts and payments connected to financial derivative contracts (other than the values of transactions in the underlying commodities or financial instruments) are recorded in the financial account¹ i.e. there are no entries in the current account other than related fees and service charges (not always identifiable). In principle, other investment transactions are valued at market valuation inclusive of accrued income. For loans, book values are accepted as a proxy for market values.

Reserve assets at national level in the context of EMU have been defined by the European Central Bank from 1 January 1999, the date of introduction of the euro currency, as: (a) qualifying assets which are under the effective control of the national monetary authority (i.e. the Central Bank and Financial Services Authority 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.

¹ The inclusion of these receipts and payments in the financial account reflects the amended recommendations on the treatment of financial derivative transactions as described in the IMF's *Financial Derivatives: A Supplement to the 5th Edition (1993) of the Balance of Payments Manual* published in 2000.