

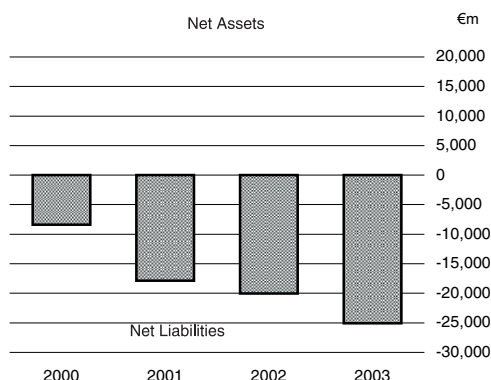


Central Statistics Office
An Phríomh-Oifig Staidrimh

30 September 2004

International Investment Position 31 December 2003

Ireland's Net IIP Position (€m)



€ million

	Assets Stock	Liabilities Stock	Net Position
End 2003	1,015,561	1,040,625	-25,064
End 2002	898,171	918,228	-20,057
End 2001	850,144	867,991	-17,847
End 2000	680,152	688,526	-8,374

Foreign financial stocks of assets and liabilities exceed €1 trillion by end-2003

At end-December 2003, Ireland's overall stocks of foreign assets and liabilities both exceeded the €1 trillion mark, with assets of €1,015,561m and liabilities of €1,040,625m. Irish residents therefore had an overall net liability of €25,064m to non-residents, reflecting a continually increasing negative balance from the €8,374m in 2000 – see *Table 1*.

Some points of note in the 2003 results are:

- ◆ Overall *Portfolio Investment* stocks of both assets and liabilities continued their upward trend and increased to €643 billion and €482 billion respectively. Substantial asset acquisition (€142 billion) during 2003 was very much offset by the net impact of negative trends in foreign currency markets (particularly in the case of the US dollar) outweighing the effect of improved equity performance. For liabilities, the contribution of transactions in equity liabilities of almost €68 billion was partly offset by the valuation effects of dollar weakness during the year. These stocks included substantial issues of units by bond and money market funds and were less exposed to the positive trends in equities – see *Table 4b*.
- ◆ *Direct Investment in Ireland* (€171,943m) and *Direct Investment Abroad* (€51,035m) were largely unchanged from the corresponding levels in 2002 – see *Table 2a* and *Table 4b*.
- ◆ *Monetary financial institutions* accounted for €223 billion or 46% of total external portfolio equity and debt security liabilities; on the assets side, this sector accounted for a similar proportion (€303 billion) – see *Table 2a* and *2b*.

This Release updates the annual series of international investment position (IIP) statistics for Ireland introduced in December 2002. In presenting the 2003 results it also incorporates revisions to earlier years' data arising partly from revised Balance of Payments statistics released on 1 July 2004 and partly from improved stock data from respondents. In addition, the figures include the impact of new estimates for investment in foreign residential and commercial property, the former included under *Direct Investment Abroad – equity capital* and the latter under *Portfolio Investment – equity assets*.

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Table 1 - International Investment Position (IIP) - Main Aggregate Data

Item	1998	1999 ¹	2000 ¹	2001 ¹	2002 ¹	2003
Foreign Assets						
Direct Investment Abroad ²	17,342	25,116	30,011	46,317	51,518	51,035
Portfolio Investment	163,961 ³	285,211	366,867	491,141	547,189	642,633
Other Investment ⁴	175,943	253,291	277,467	306,286	294,237	318,598
Reserve Assets	6,434 ³	5,355	5,807	6,400	5,227	3,295
Total Foreign Assets	363,680	568,973	680,152	850,144	898,171	1,015,561
Foreign Liabilities						
Direct Investment in Ireland ²	53,315	72,482	136,581	152,108	170,281	171,943
Portfolio Investment	140,945	224,621	310,528	412,082	421,263	481,941
Other Investment ⁴	149,185	226,185	241,417	303,801	326,684	386,741
Total Foreign Liabilities	343,445	523,288	688,526	867,991	918,228	1,040,625
Net International Investment Position (IIP)						
Direct Investment ²	-35,973	-47,366	-106,570	-105,791	-118,763	-120,908
Portfolio Investment	23,016 ³	60,590	56,339	79,059	125,926	160,692
Other Investment ⁴	26,758	27,106	36,050	2,485	-32,447	-68,143
Reserve Assets	6,434 ³	5,355	5,807	6,400	5,227	3,295
Total (Net IIP)	20,235	45,685	-8,374	-17,847	-20,057	-25,064

¹ Revised

² Reflecting the so-called directional principle for reclassifying Direct Investment (see background notes)

³ Reflects the introduction of the Euro on 1 January 1999 and the resulting re-classification of part of Reserve Assets under Portfolio Investment

⁴ Includes financial derivatives and trade credits

Table 2a - International Investment Position - Detailed Data

€ million

Item	2000 ¹	2001 ¹	2002 ¹	2003
Foreign Assets				
Direct Investment Abroad ²	30,011	46,317	51,518	51,035
Equity capital and reinvested earnings	25,528	40,506	48,476	48,016
Other capital	4,483	5,811	3,042	3,019
Portfolio Investment	366,867	491,141	547,189	642,633
Equity	140,675	151,774	147,178	167,392
<i>Monetary authority ³</i>	0	0	0	0
<i>General government</i>	0	0	4,182	6,752
<i>Monetary Financial Institutions ⁴</i>	253	358	3,378	159
<i>Other sectors</i>	140,422	151,416	139,618	160,481
Debt instruments	226,192	339,367	400,011	475,241
Bonds and notes	154,178	208,636	235,626	305,413
<i>Monetary authority ³</i>	2,009	2,333	2,770	2,961
<i>General government</i>	0	216	1,288	1,341
<i>Monetary Financial Institutions ⁴</i>	58,014	90,298	105,611	156,253
<i>Other sectors</i>	94,155	115,789	125,957	144,858
Money market instruments	72,014	130,731	164,385	169,828
<i>Monetary authority ³</i>	21	0	0	921
<i>General government</i>	0	0	0	0
<i>Monetary Financial Institutions ⁴</i>	67,972	122,738	151,484	146,574
<i>Other sectors</i>	4,021	7,993	12,901	22,333
Other Investment	277,467	306,286	294,237	318,598
Loans, currency and deposits	223,624	237,112	229,521	257,977
<i>Monetary authority ³</i>	0	292	953	2,375
<i>General government</i>	4,637	4,487	709	735
<i>Monetary Financial Institutions ⁴</i>	116,903	123,897	118,536	151,726
<i>Other sectors</i>	102,084	108,436	109,323	103,141
Trade Credits	26,152	37,324	36,590	32,159
<i>General government</i>	0	0	0	0
<i>Other sectors</i>	26,152	37,324	36,590	32,159
Other assets ⁵	27,691	31,850	28,126	28,462
<i>Monetary authority ³</i>	467	467	467	467
<i>General government</i>	465	390	182	128
<i>Monetary Financial Institutions ⁴</i>	16,882	15,398	13,170	10,253
<i>Other sectors</i>	9,877	15,595	14,307	17,614
Reserve assets	5,807	6,400	5,227	3,295
Monetary gold	57	61	63	64
Special drawing rights	51	61	63	62
Reserve Position in the IMF	344	382	448	457
Foreign Exchange	5,355	5,896	4,653	2,712
Other	0	0	0	0
Total Foreign Assets	680,152	850,144	898,171	1,015,561

¹ Revised² Reflecting the so-called directional principle for reclassifying Direct Investment (see background notes)³ Central Bank and Financial Services Authority of Ireland⁴ Excludes the Central Bank and Financial Services Authority of Ireland⁵ Includes financial derivatives

Table 2b - International Investment Position - Detailed Data

€ million

Item	2000 ¹	2001 ¹	2002 ¹	2003
Foreign Liabilities				
Direct Investment in Ireland ²	136,581	152,108	170,281	171,943
Equity capital and reinvested earnings	122,493	146,759	163,844	165,202
Other capital	14,088	5,349	6,437	6,741
Portfolio Investment	310,528	412,082	421,263	481,941
Equity	233,748	316,833	333,807	379,380
<i>Monetary authority ³</i>	0	0	0	0
<i>General government</i>	0	0	0	0
<i>Monetary Financial Institutions ⁴</i>	72,591	116,195	161,936	163,601
<i>Other sectors</i>	161,157	200,638	171,871	215,779
Debt instruments	76,780	95,249	87,456	102,561
Bonds and notes	45,333	50,396	46,995	67,735
<i>Monetary authority ³</i>	0	0	0	0
<i>General government</i>	16,253	18,476	17,373	21,412
<i>Monetary Financial Institutions ⁴</i>	16,605	17,155	19,359	32,359
<i>Other sectors</i>	12,475	14,765	10,263	13,964
Money market instruments	31,447	44,853	40,461	34,826
<i>Monetary authority ³</i>	0	0	0	0
<i>General government</i>	1,684	5,738	4,247	1,992
<i>Monetary Financial Institutions ⁴</i>	22,708	34,107	31,326	27,351
<i>Other sectors</i>	7,055	5,008	4,888	5,483
Other Investment	241,417	303,801	326,684	386,741
Loans, currency and deposits	212,662	261,174	274,646	333,434
<i>Monetary authority ³</i>	3,845	5,113	3,591	10,340
<i>General government</i>	592	568	516	252
<i>Monetary Financial Institutions ⁴</i>	139,224	171,261	195,235	247,158
<i>Other sectors</i>	69,001	84,232	75,304	75,684
Trade Credits	7,460	11,414	12,028	11,417
<i>General government</i>	0	0	0	0
<i>Other sectors</i>	7,460	11,414	12,028	11,417
Other liabilities ⁵	21,295	31,213	40,010	41,890
<i>Monetary authority ³</i>	334	146	133	112
<i>General government</i>	0	0	0	0
<i>Monetary Financial Institutions ⁴</i>	5,806	5,446	5,536	5,753
<i>Other sectors</i>	15,155	25,621	34,341	36,025
Total Foreign Liabilities	688,526	867,991	918,228	1,040,625

¹ Revised² Reflecting the so-called directional principle for reclassifying Direct Investment (see background notes)³ Central Bank and Financial Services Authority of Ireland⁴ Excludes the Central Bank and Financial Services Authority of Ireland⁵ Includes financial derivatives

Table 3 – International Investment Position (IIP) showing IFSC and non-IFSC activity

€ million

Item	2000 ¹	2001 ¹	2002 ¹	2003
Foreign Assets				
Direct Investment Abroad ²	30,011	46,317	51,518	51,035
- IFSC	0	6,341	13,402	15,651
- non IFSC	30,011	39,976	38,116	35,384
Portfolio Investment	366,867	491,141	547,189	642,633
- IFSC	303,835	424,048	465,090	546,131
- non IFSC	63,032	67,093	82,099	96,502
Other Investment ³	277,467	306,286	294,237	318,598
- IFSC	201,564	224,683	209,842	224,931
- non IFSC	75,903	81,603	84,395	93,667
Reserve Assets	5,807	6,400	5,227	3,295
- IFSC	0	0	0	0
- non IFSC	5,807	6,400	5,227	3,295
Total Foreign Assets	680,152	850,144	898,171	1,015,561
- IFSC	505,399	655,072	688,334	786,713
- non IFSC	174,753	195,072	209,837	228,848
Foreign Liabilities				
Direct Investment in Ireland ²	136,581	152,108	170,281	171,943
- IFSC	57,025	68,950	74,231	72,040
- non IFSC	79,556	83,158	96,050	99,903
Portfolio Investment	310,528	412,082	421,263	481,941
- IFSC	245,837	330,897	347,992	404,026
- non IFSC	64,691	81,185	73,271	77,915
Other Investment ³	241,417	303,801	326,684	386,741
- IFSC	170,416	216,491	226,048	272,659
- non IFSC	71,001	87,310	100,636	114,082
Total Foreign Liabilities	688,526	867,991	918,228	1,040,625
- IFSC	473,278	616,338	648,271	748,725
- non IFSC	215,248	251,653	269,957	291,900
Net International Investment Position (IIP)				
Direct Investment ²	-106,570	-105,791	-118,763	-120,908
- IFSC	-57,025	-62,609	-60,829	-56,389
- non IFSC	-49,545	-43,182	-57,934	-64,519
Portfolio Investment	56,339	79,059	125,926	160,692
- IFSC	57,998	93,152	117,099	142,106
- non IFSC	-1,659	-14,092	8,828	18,587
Other Investment ³	36,050	2,485	-32,447	-68,143
- IFSC	31,148	8,192	-16,206	-47,728
- non IFSC	4,902	-5,707	-16,241	-20,415
Reserve Assets	5,807	6,400	5,227	3,295
- IFSC	0	0	0	0
- non IFSC	5,807	6,400	5,227	3,295
Total (Net IIP)	-8,374	-17,847	-20,057	-25,064
- IFSC	32,121	38,734	40,063	37,989
- non IFSC	-40,495	-56,581	-60,120	-63,053

¹ Revised² Reflecting the so-called directional principle for reclassifying Direct Investment (see background notes)³ Includes financial derivatives and trade credits

Table 4a - International Investment Position (IIP) - 2002 ¹ - Reconciliation of IIP and BOP Flows

€ million

Item	Opening Position 1/1/02	Bop Flows in Year	Valuation and Other Changes	Closing Position 31/12/02
Foreign Assets				
Direct Investment Abroad ²	46,317	8,999	-3,798	51,518
Equity capital and reinvested earnings	40,506	11,698	-3,728	48,476
Other capital	5,811	-2,699	-70	3,042
Portfolio Investment	491,141	112,930	-56,882	547,189
Equity	151,774	29,233	-33,829	147,178
Debt instruments	339,367	83,697	-23,053	400,011
<i>Bonds and notes</i>	<i>208,636</i>	<i>38,105</i>	<i>-11,115</i>	<i>235,626</i>
<i>Money market instruments</i>	<i>130,731</i>	<i>45,591</i>	<i>-11,937</i>	<i>164,385</i>
Other Investment	306,286	32,719	-44,768	294,237
Loans, currency and deposits	237,112	26,849	-34,440	229,521
Other ³	69,174	5,869	-10,327	64,716
Reserve Assets	6,400	-343	-830	5,227
Total Foreign Assets	850,144	154,305	-106,278	898,171
Foreign Liabilities				
Direct Investment in Ireland ²	152,108	30,795	-12,622	170,281
Equity capital and reinvested earnings	146,759	29,196	-12,111	163,844
Other capital	5,349	1,600	-512	6,437
Portfolio Investment	412,082	74,557	-65,376	421,263
Equity	316,833	73,923	-56,949	333,807
Debt instruments	95,249	634	-8,427	87,456
<i>Bonds and notes</i>	<i>50,396</i>	<i>676</i>	<i>-4,077</i>	<i>46,995</i>
<i>Money market instruments</i>	<i>44,853</i>	<i>-44</i>	<i>-4,348</i>	<i>40,461</i>
Other Investment	303,801	51,539	-28,656	326,684
Loans, currency and deposits	261,174	38,514	-25,042	274,646
Other ³	42,627	13,025	-3,614	52,038
Total Foreign Liabilities	867,991	156,891	-106,654	918,228

¹ Revised

² Reflecting the so-called directional principle for reclassifying Direct Investment (see background notes)

³ Includes financial derivatives and trade credits

Table 4b - International Investment Position (IIP) - 2003 - Reconciliation of IIP and BOP Flows

€ million

Item	Opening Position 1/1/03	Bop Flows in Year	Valuation and Other Changes	Closing Position 31/12/03
Foreign Assets				
Direct Investment Abroad ¹	51,518	3,139	-3,622	51,035
Equity capital and reinvested earnings	48,476	2,976	-3,436	48,016
Other capital	3,042	164	-187	3,019
Portfolio Investment	547,189	142,348	-46,904	642,633
Equity	147,178	23,472	-3,258	167,392
Debt instruments	400,011	118,877	-43,647	475,241
<i>Bonds and notes</i>	<i>235,626</i>	<i>83,214</i>	<i>-13,427</i>	<i>305,413</i>
<i>Money market instruments</i>	<i>164,385</i>	<i>35,663</i>	<i>-30,220</i>	<i>169,828</i>
Other Investment	294,237	44,975	-20,614	318,598
Loans, currency and deposits	229,521	42,708	-14,252	257,977
Other ²	64,716	2,266	-6,361	60,621
Reserve Assets	5,227	-1,770	-162	3,295
Total Foreign Assets	898,171	188,692	-71,302	1,015,561
Foreign Liabilities				
Direct Investment in Ireland ¹	170,281	23,823	-22,161	171,943
Equity capital and reinvested earnings	163,844	22,489	-21,131	165,202
Other capital	6,437	1,332	-1,028	6,741
Portfolio Investment	421,263	93,234	-32,556	481,941
Equity	333,807	67,527	-21,954	379,380
Debt instruments	87,456	25,705	-10,600	102,561
<i>Bonds and notes</i>	<i>46,995</i>	<i>25,080</i>	<i>-4,340</i>	<i>67,735</i>
<i>Money market instruments</i>	<i>40,461</i>	<i>626</i>	<i>-6,261</i>	<i>34,826</i>
Other Investment	326,684	74,231	-14,174	386,741
Loans, currency and deposits	274,646	72,055	-13,267	333,434
Other ²	52,038	2,176	-907	53,307
Total Foreign Liabilities	918,228	191,288	-68,891	1,040,625

¹ Reflecting the so-called directional principle for reclassifying Direct Investment (see background notes)

² Includes financial derivatives and trade credits

Background Notes (Updated September 2004)

Introduction Ireland's balance of payments (BOP) quarterly statistical compilation system was completely overhauled in the late 1990's in order to: (a) strengthen sectoral and enterprise coverage in basic data collection; (b) adopt best international methodological standards; (c) conform more closely with international presentation formats; and, (d) 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.

As part of the overall expansion of the information available, a new annual series showing Ireland's *International Investment Position* (IIP) as at 31 December for the years 1998 – 2001 was introduced in a release published on 11 December 2002. This series is updated annually and this Release presents the 2003 data. The data presented concern the economy's end of year stocks of foreign assets and liabilities and, in essence, represent that element of Ireland's aggregate balance sheet which shows Irish residents' financial claims (assets) on non-residents along with their financial obligations (liabilities) to non-residents. It may be noted that the data presented on the liabilities side is consistent with the data published in the quarterly *External Debt* Release. As for the balance of payments and external debt statistics, the international investment position statistics shown in this Release distinguish direct investment, portfolio investment and other investment (including financial derivatives) along with reserve assets – see *Types of Investment* below. This presentation conforms closely with international presentation formats and the information is disseminated to different international organisations (i.e. the ECB, Eurostat, IMF and OECD) to meet their varied requirements.

International statistical standards 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) concerning compilation of international investment position statistics. This Manual was prepared in close co-operation with the European Commission (Eurostat), the OECD and other international organisations. It was 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*). The BOP/IIP compilation methodology recommended by the IMF is consistent with its *External Debt (2003)* Manual recommendations on compiling external debt statistics.

Data collection The data required are collected quarterly on a statutory basis by means of surveys and other data collection arrangements conducted under the Statistics (Balance of Payments) Order, 2001 made under the Statistics Act, 1993. These surveys are also used to collect quarterly balance of payments information, the combination of both stock and the related flow data reporting on a single form greatly facilitating the quality checking and reconciliation of both types of information. While the balance of payments flow data are published quarterly, the stock or international investment position (IIP) statistics are being published annually with a reference date of 31 December.

The survey collection system covers both financial and non-financial enterprises and was largely introduced in 1998. The financial enterprise surveys cover banking, insurance, asset financing, treasury, institutional investment, activities of mutual funds, unit trusts and similar collective investment operations, broking and other service provision. Financial enterprises, including those operating in the International Financial Services Centre (IFSC) in Dublin, engaged in transactions with non-residents are required to make returns. Respondents are required to supply the data 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 5,000 financial entities are surveyed.

Manufacturing and non-financial service enterprises have been reporting for balance of payments purposes to CSO for a number of years. The surveys directed towards these enterprises were re-designed to meet the conceptual and geographical analysis requirements specified in the international standards. Coverage is on a sample selection basis, those surveyed being selected

using CSO statistical register information concerning transactions with non-residents. About 500 companies make quarterly and/or annual returns.

The survey information collected for all types of enterprises covers transactions with non-residents concerning purchases and sales of services, income flows, and acquisitions and disposals of foreign assets or liabilities along with the opening and closing stocks of these assets and liabilities. While much of this information is used to compile the BOP flow data published quarterly, the latter balance sheet information is used to compile the IIP results shown in this Release.

Apart from survey data, administrative sources also provide information on non-resident transactions and stocks. For example, the National Treasury Management Agency (NTMA) provides flows and stocks information on Ireland's foreign debt and on other asset and liability transactions engaged in including those of the National Pensions Reserve Fund. In addition, the Central Bank and Financial Services Authority of Ireland supplies information on reserve assets and other foreign assets/liabilities flows and stocks.

Latest developments

The compilation system has recently been further developed and refined to include the estimated values of a variety of cross-border transactions. Some of these relate to the current and capital accounts of the balance of payments but new data have also been collected and compiled on certain financial transactions which affect the financial account and, consequently, the international investment position statistics. These cover investment in residential and commercial property abroad by Irish residents.

Definition of the International Investment Position (IIP)

The *international investment position* (or IIP) is a point in time statistical statement of: the value and composition of the stock of an economy's foreign financial assets, or the economy's claims on the rest of the world, and the value and composition of the stock of an economy's financial liabilities (or obligations) to the rest of the world.

These assets and liabilities include land, other real property and other immovable items. In addition, monetary gold and special drawing rights (SDRs) owned by residents of the economy are included.

It may be of analytical interest to compute the difference between the two sides of the balance sheet, i.e. the net position. This gives a measure of that portion of an economy's net worth attributable to, or derived from, its relationship with the rest of the world.

A change in stocks during any defined period can be attributable to transactions (i.e. BOP flows), to revaluations reflecting changes in exchange rates, prices, etc. or to other adjustments (e.g. reclassifications, corrections, etc.).

As indicated above, the methodologies for compiling both the IIP liabilities and the External Debt statistics are consistent. However, the latter statement by definition covers all external debt liabilities other than those arising from transactions in equity and financial derivative contracts. Hence, for *Portfolio Investment*, the end-year IIP liability levels for *debt instruments* (i.e. *bonds and notes* and *money market instruments*) should be identical to the external debt stocks data for these instruments shown in the *External Debt* Release. Similarly, for *other investment*, the IIP liability figures under the items *loans*, *currency and deposits* and *trade credits* should be identical to the external debt stocks data obtained by aggregating the relevant long-term and short-term instrument details. Because of the exclusion of financial derivative contracts from the external debt statistics, this equivalence does not exist for the IIP liability under the item *other liabilities*. In addition, due to the adoption of the *directional principle* for recording direct investment IIP stocks (and BOP transactions), the end-year stocks under *direct investment in Ireland – other capital* are shown on a net basis i.e. inter-affiliate positions (transactions) are offset. In the *External Debt* Release, the relevant liability positions are shown on a gross basis and, hence, cannot be compared with the relevant IIP data.

Types of financial instrument

Equity securities are shares issued by companies to shareholders and cover all instruments representing claims on the residual value of incorporated enterprises after the claims of all creditors have been met. Shares, stocks, preferred stocks or shares and participation shares usually denote ownership of equity and are included. Also included are depositary receipts (e.g. American depositary receipts) denoting ownership of equity securities issued as well as equity securities that have been sold under repurchase agreements and equity securities that have been lent under

securities lending arrangements. Units issued by collective investment institutions, e.g. investment funds, are regarded as equity instruments and are included. Non-participating preference shares are treated as debt securities under bonds and notes in Portfolio Investment. Positions in equity in which the investor holds less than 10% of the share capital of the company are recorded under Portfolio Investment. Otherwise, they are recorded under Direct Investment.

Reinvested earnings within Direct Investment consist of the offsetting entry to the direct investor's share of earnings not distributed as dividends by subsidiaries or associates and earnings of branches not remitted to the direct investor, but recorded under investment income.

Other capital within Direct Investment covers all inter-company financial transactions (borrowing and lending of funds) – including debt securities and suppliers' credits (i.e. trade credits) – between direct investors and subsidiaries, branches and associates.

Bonds and notes are tradable debt securities issued with an initial maturity of more than one year which usually give the holder (i) the unconditional right to a fixed monetary income or contractually determined variable monetary income and (ii) the unconditional right to a fixed sum in repayment of principal on a specified date or dates. These instruments may be issued by companies or by governments. Positions held between affiliated enterprises (other than financial intermediaries) in bonds and notes are classified under Direct Investment. All other transactions are classified as Portfolio Investment (or under Reserve Assets if appropriate – see note on Reserve Assets below).

Money market instruments are debt securities issued with an initial maturity of one year or less. They generally give the holder the unconditional right to receive a stated, fixed sum of money on a specified date. These instruments are generally traded at a discount in organised markets, the discount being dependent upon the interest rate of the instrument relative to the market interest rate and the time remaining to maturity. Examples of such instruments are treasury bills, commercial and financial paper and bankers' acceptances. Transactions and positions between affiliated enterprises (other than financial intermediaries) in money market instruments are classified under Direct Investment. All other transactions are classified as Portfolio Investment (or under Reserve Assets if appropriate – see note on Reserve Assets below).

Financial derivative contract stocks (and transactions) cover (a) over-the-counter (OTC) instruments such as options, interest rate swaps, forward rate agreements (FRAs), cross-currency interest rate swaps and forward foreign exchange contracts and (b) exchange-traded futures and options. They should be valued at marked-to-market prices and exclusive of the value of the underlying good, financial instrument or currency to which they relate. Derivative positions between affiliated enterprises (other than financial intermediaries) are recorded under Direct Investment while positions between third parties are recorded in this Release under Other Investment.

Trade credits consist of claims or liabilities arising from the direct extension of credit relating to transactions in goods and services and advance payments for work in progress (or to be undertaken) associated with such transactions. Trade credits between affiliated enterprises (other than financial intermediaries) are classified under Direct Investment. Otherwise, they are classified under Other Investment.

Loans/currency and deposits cover the following financial instruments: loans, i.e. those financial assets created through the direct lending of funds by a creditor (lender) to a debtor (borrower); cash deposits and currency (i.e. notes and coins which are in circulation and commonly used to make payments). Included are loans to finance trade, other loans and advances (including mortgages) as well as financial leases. Positions in these instruments are generally recorded under Other Investment. However, in the case of transactions between affiliated enterprises (other than financial intermediaries), the resulting positions are included under Direct Investment. In particular, positions in permanent debt or subordinated loan capital between affiliated financial intermediaries is recorded under Direct Investment.

Stocks of all other financial instruments i.e. other than trade credits, loans and currency and deposits such as capital subscriptions of the participating Member States to international non-monetary organisations, changes in insurance technical reserves, offsets in respect of unsettled

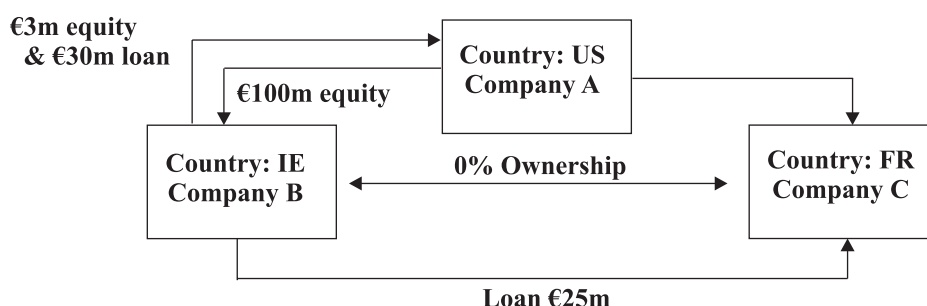
securities transactions are included in *other assets/other liabilities* within Other Investment (except where such positions arise from transactions between affiliated enterprises other than financial intermediaries) in which cases they are included under Direct Investment.

Types of investment

Four categories of functional investment are distinguished in the tables presented (i.e. *direct investment*, *portfolio investment*, *other investment* and *reserve assets*) and are based primarily on the relationship between the parties and secondly on the nature of the instrument involved. The category *other investment* includes the marked-to-market values of financial derivative positions.

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 which 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 the *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. The treatment of reverse investment has to be considered under three scenarios. First, for *reverse equity investment for holdings of 10% or more of the voting capital*, such transactions are regarded as separate direct investment in their own right for both the equity and non-equity involved. Second, for *reverse equity investment for holdings of less than 10% of the voting capital*, the transactions involved, whether in equity or non-equity instruments, are regarded as offsetting (or netted against) any existing direct investment by the parent in the enterprise. 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). Extending this 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). The third scenario concerns a *non-equity transaction between enterprises related other than through equity ownership* (e.g. between 'sister' or 'cousin' companies). Given a number of considerations, there is some flexibility in the international standards regarding the treatment of this situation. 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. The transaction referred to is therefore treated as offsetting any existing *other capital* investment. Again extending the earlier 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*.



The compilation system for direct investment now includes investment by Irish residents (households) in residential property abroad. Such properties are regarded as constituting notional direct investment enterprises overseas and are treated accordingly in the system i.e. any relevant investment flows and stocks are included in the balance of payments and international investment statistics (current account flows - services or income are also of course, included in the balance of payments).

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 instruments* 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. Investment by resident investors in commercial property abroad is also included in portfolio investment. Stocks, as presented in the tables, are valued at current market values on the reference date inclusive of any 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 contracts refer to over-the-counter (OTC) and exchange-traded contracts and include options, futures, swaps, forwards, etc. For IIP purposes, all receipts and payments concerning financial derivative contracts are recorded appropriately as either assets or liabilities under *other investment*¹. It should be noted that stocks of the underlying financial instruments to which financial derivative contracts relate are categorised under the appropriate type of investment headings in the IIP. 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, the definition of reserve assets covered all foreign currency (non Irish Pound) denominated claims on non-residents of Ireland together with gold, SDRs and the reserve position in the IMF. Therefore, all claims on euro-area residents outside Ireland as well as euro-denominated claims on non euro-area residents, which prior to 1999 would have been classified as reserve assets, were from 1999 onwards classified to *portfolio investment* or to *other investment* as appropriate.

Broad sectoral analysis

This Release presents a broad institutional sector analysis of the portfolio investment and the other investment stocks. The sectors identified are: (i) *monetary authority* (i.e. the Central Bank and Financial Services Authority of Ireland), (ii) *general government*, (iii) *monetary financial institutions excluding the monetary authority* (i.e. credit institutions and money market funds) and (iv) *other sectors*.

Structure of the International Investment Position (IIP) tables

Within the overall categorisation of *assets* and *liabilities*, Table 1 of the Release shows the main components of the IIP covering the broad functional headings: *direct investment*, *portfolio investment*, *other investment* (including financial derivatives) and *reserve assets*. In the case of direct investment and in line with the quarterly BOP flow data for such transactions, the directional

presentation referred to above is used i.e. *direct investment abroad* (which approximates to the assets concept) and *direct investment in Ireland* (which closely equates to liabilities). As described above, 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. In this Release, under international standards, *direct investment abroad* is categorised under assets while *direct investment in Ireland* is included under liabilities. A further breakdown of the main functional investment headings by type of instrument (e.g. equities, bonds/notes, loans/deposits) is provided. For further analytical purposes, Table 2 shows a breakdown of the results by type of instrument and by institutional sector while Table 3 provides an analysis of IFSC and non-IFSC foreign assets and liabilities. Table 4 of the Release shows a reconciliation of the annual stocks and BOP flows over individual reference calendar year periods. In essence, this table attempts to directly link the IIP data to the Financial Account of the Balance of Payments and explains how the difference between two end-year positions can be accounted for by two main elements i.e. the relevant net BOP flows in the period (shown under '*BOP Flows in Year*') and the impact of valuation and other changes (shown under the heading '*Valuation and Other Changes*') occurring in the same period. Valuation changes can arise from movements in market prices or currency exchanges rates or from stock revaluations, reclassifications or corrections. For any year, the opening position for each item is the IIP figure for the corresponding item at 31 December of the previous year; the closing position for an item is the IIP for that item at 31 December of that same year.

Reconciliation of stocks and flows

It is generally difficult to satisfactorily reconcile aggregate IIP stock data with the corresponding BOP flows over the reference period particularly if the BOP balancing item 'net errors and omissions' (which is not shown in this Release) is large. The net BOP flows shown are obtained from and compatible with the data published in the CSO's quarterly Release Balance of International Payments. The figures shown under valuation and other changes are in many cases quite significant but it is not possible at this point to distinguish the impact of market price changes in securities from those arising from currency exchange rate changes, most notably in relation to movements in the Euro rate against the US Dollar and against the £Sterling.

Sign convention and symbols

In all tables both assets and liability stocks are unsigned i.e. they are shown as positive numbers. The net IIP figures are calculated as assets less liabilities. Those having a negative sign represent net liability positions of Irish residents to non-residents while unsigned (or positive) figures represent net asset positions vis-à-vis non-residents. In Table 4 in which a reconciliation of IIP stocks and BOP flows is shown, a net BOP transactions increase in assets is shown as a positive (unsigned) number and a corresponding net decrease as a negative number. This conflicts with the standard sign convention for representing BOP asset flows in the quarterly Release (in which transactions increases in assets are shown as negative quantities and decreases as positive quantities) but this is unavoidable in a table reconciling assets stocks and flows. The sign convention for liability flows in Table 4 coincides with the normal BOP sign convention for liability transactions in the quarterly Release (i.e. transaction increases in liabilities are shown as positive quantities while transaction decreases are shown as negative quantities).

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.

Valuation

In principle, IIP statistics (like BOP flows) should be recorded using current market values at the reference date (31 December) and data providers are requested to report their data on this basis. In practice, this may not be possible in certain cases. Direct investment in equity capital is a particular case in point. Market valuation where not directly available is generally approximated using one of the following in order of preference: (a) a recent transaction price, (b) directors' valuation, or (c) net asset value.

Where stock data are converted from foreign currency to the Euro equivalent, data providers are required to use the spot rate for the relevant currency against the Euro on the reference date. Where positions are returned in non-Euro currency, the equivalent Euro valuation is obtained by applying the reference date spot exchange rate.

Valuation of stocks should also reflect accruals recording principles particularly in relation to unpaid interest and trade credits.

Residence	As for BOP transactions, IIP asset and liability positions are created 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 of Ireland and appropriate account is taken of such transactions (when known) in the compilation of the IIP (and the Financial Account of the BOP).
Geographical allocation principle	The so-called ‘debtor/creditor’ principle is used as the basic guideline for geographical allocation of foreign assets and liabilities. Asset positions are allocated to the country of residence of the debtor counterpart. As examples, (i) investment in a foreign security should be reported and classified to the country of residence of the issuer of the security; (ii) a loan advanced to a non-resident borrower should be reported and classified to the country of residence of the borrower. Liability positions should be allocated to the country of residence of the creditor counterpart. As examples: (i) investments by non-resident creditors in securities issued by a resident of Ireland should be allocated to the country of residence of the investor; (ii) take up of a loan advanced by a foreign bank should be allocated to the country of residence of the lending bank. Correct country allocation can sometimes be difficult on the liabilities side. In particular, it may not be possible to determine the residency of the actual owner/holder of bearer securities issued by an Irish resident since such securities can change hands without any re-registration of the new ownership. Similarly, correct geographical allocation can be difficult and sometimes impossible in the case of acquisitions by non-resident investors of Irish resident issued securities purchased through resident or non-resident nominee accounts. In such cases respondents give best estimates of the information required if the required details cannot be obtained from third party sources. 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.

¹The 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.