

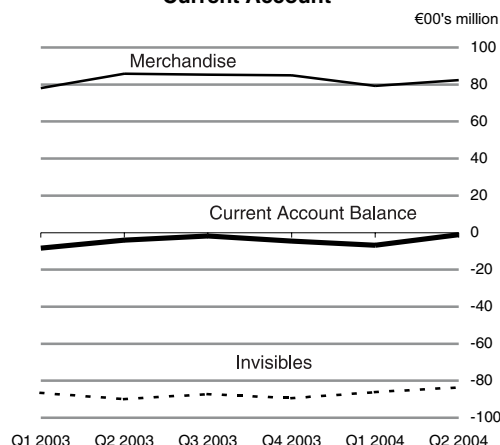


Central Statistics Office
An Phríomh-Oifig Staidrimh

30 September 2004

Balance of International Payments Quarter 2 2004

Current Account



	€ million		
	Merchandise Balance	Invisibles Balance	Current Account Balance
Q2 2004	8,244	-8,353	-110
Q2 2003	8,590	-9,003	-413
Q1-Q2 2004	16,174	-16,968	-795
Q1-Q2 2003	16,402	-17,649	-1,247

Lower Current Account deficit in the 2nd quarter of 2004

The current account of the Balance of Payments showed a small deficit of €110m in the second quarter of 2004 compared to one of €685m in the first quarter. It was also lower than the €413m deficit in the second quarter of 2003 - see Table 1. Over the first six months of 2004, the current account showed a deficit of €795m which was €452m lower than that for the first half of 2003 (€1,247m). The latest deficit resulted from a negative *invisibles* balance of €8,353m slightly exceeding the *merchandise* surplus of €8,244m. Other points of note in the second quarter's results are:

Current account (see Tables 1a and 2a)

- ◆ The *merchandise* surplus (€8,244m) was over €300m higher than that for the first quarter but almost €350m lower than that for the second quarter 2003. Exports at €20,250m were up almost €1 billion on the previous quarter and about €500m on the second quarter in 2003; imports at €12,006m were up about €600m and €900m on the same periods respectively.
- ◆ The *services* deficit of €2,228m was about €200m lower than for the first quarter but over €870m lower than for the second quarter of 2003. These reductions largely reflected significantly increased service exports of €9,777m.
- ◆ Net *income* outflows at €6,173m showed little change on the previous quarter but profits (i.e. *direct investment income - equity*) attributable to foreign direct investors of €8,265m were up €800m on the previous quarter. Within this item, a substantial dividend payment made in the quarter is included under *dividends and distributed branch profits*; its impact is also reflected in the unusually low and negative reinvested earnings figure of €339m.

Financial account (see Tables 1b and 2b)

- ◆ Inward direct investment of €6,017m was up on the previous quarter while outward investment (mostly other capital) at €4,776m was significantly higher.
- ◆ Portfolio investment assets transactions at €19,372m were much lower than for the four previous quarters. This downward movement was also evident on the liabilities side (€22,215m) reflecting lower investment into Irish mutual funds.

Published by the Central Statistics Office, Ireland.

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Ref 196/2004

ISSN 0791-3370

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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	35,442	-14,250	-23,518	707	-37,061	-1,617	512
2003	Year	33,421	-12,642	-23,115	440	-35,317	-1,896	370
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	8,977	-4,029	-5,876	-36	-9,941	-963	-14
	Quarter 2	8,598	-3,789	-6,075	131	-9,733	-1,135	2
	Quarter 3	9,265	-3,581	-5,521	-68	-9,170	95	9
	Quarter 4	8,602	-2,851	-6,046	680	-8,217	386	515
2003	Quarter 1	7,812	-2,747	-5,812	-87	-8,646	-834	5
	Quarter 2	8,590	-3,104	-5,949	50	-9,003	-413	-33
	Quarter 3	8,528	-3,441	-5,190	-87	-8,718	-190	-14
	Quarter 4	8,491	-3,350	-6,164	564	-8,950	-459	412
2004	Quarter 1	7,930	-2,437	-6,105	-73	-8,615	-685	0
	Quarter 2	8,244	-2,228	-6,173	48	-8,353	-110	-35

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	21,794	-38,373	18,820	343	2,586	-1,481
2003	Year	20,686	-49,114	29,258	1,770	2,596	-1,070
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	6,226	-13,965	9,527	265	2,053	-1,076
	Quarter 2	3,322	982	-2,599	236	1,941	-808
	Quarter 3	8,557	-11,480	4,549	-130	1,497	-1,601
	Quarter 4	3,689	-13,910	7,343	-28	-2,905	2,004
2003	Quarter 1	4,684	-9,413	6,111	1,818	3,199	-2,370
	Quarter 2	12,315	-13,520	379	-43	-869	1,314
	Quarter 3	4,583	-25,246	19,456	-84	-1,292	1,497
	Quarter 4	-896	-935	3,312	79	1,558	-1,511
2004	Quarter 1	3,729	-789	-5,425	1,189	-1,296	1,982
	Quarter 2	1,241	2,843	-696	135	3,523	-3,378

¹ Including financial derivatives and trade credits

Table 2a – Current and Capital Accounts

€ million

		2002	2003	2003				2004	
Item		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Current Account									
Merchandise ¹	Cr	89,495	79,186	19,372	19,719	19,328	20,767	19,301	20,250
	Db	54,052	45,765	11,560	11,129	10,799	12,277	11,371	12,006
Services	Cr	30,206	33,573	7,816	8,450	8,435	8,872	8,035	9,777
	Db	44,456	46,216	10,563	11,554	11,877	12,222	10,472	12,005
Transport	Cr	1,710	1,763	392	442	544	385	360	492
	Db	1,908	1,729	429	426	419	455	429	456
Tourism and Travel ²	Cr	3,256	3,409	520	882	1,273	734	564	934
	Db	3,942	4,188	739	1,071	1,528	850	764	1,049
Communications	Cr	1,040	1,025	261	206	277	281	251	236
	Db	634	947	215	207	227	298	225	260
Insurance	Cr	3,864	4,632	1,159	1,192	968	1,313	1,021	1,322
	Db	3,285	3,144	716	798	731	899	713	714
Financial services	Cr	2,886	3,289	746	722	886	935	881	907
	Db	1,695	1,739	352	372	516	499	484	511
Computer services ³	Cr	11,056	12,686	2,968	3,293	2,880	3,545	3,178	3,853
	Db	589	342	94	109	65	74	72	82
Royalties/Licences	Cr	298	182	41	52	42	47	46	39
	Db	11,697	14,278	3,263	3,486	3,811	3,718	3,113	3,814
Business services	Cr	5,494	5,970	1,576	1,508	1,410	1,476	1,583	1,845
	Db	20,519	19,658	4,709	5,037	4,531	5,381	4,623	5,078
Trade related	Cr	612	970	188	229	263	290	439	560
	Db	10,333	10,570	2,471	2,823	2,404	2,872	2,442	2,446
Operational leasing	Cr	1,682	1,647	434	407	406	400	416	510
	Db	76	69	21	15	15	18	15	18
Misc. business services ⁴	Cr	3,200	3,353	953	872	742	786	729	775
	Db	10,109	9,017	2,217	2,198	2,112	2,490	2,166	2,615
Other services n.e.s.	Cr	603	618	153	154	155	156	150	148
	Db	187	190	47	48	48	47	49	41

Table 2a – Current and Capital Accounts - continued

€ million

		2002	2003	2003				2004	
Item		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Current Account - continued									
Income	Cr	28,862	28,456	6,819	7,109	7,201	7,327	7,040	8,153
	Db	52,380	51,571	12,631	13,058	12,391	13,491	13,146	14,326
Compensation of Employees	Cr	289	269	59	59	92	59	59	59
	Db	450	478	115	121	125	117	115	118
Investment Income	Cr	28,575	28,188	6,760	7,050	7,110	7,268	6,982	8,094
	Db	51,929	51,091	12,515	12,937	12,266	13,373	13,031	14,208
Direct investment income	Cr	3,926	4,079	964	922	1,140	1,053	768	1,099
	Db	30,986	31,549	7,732	8,133	7,433	8,251	7,813	8,624
Income on equity	Cr	2,635	2,543	551	535	801	656	353	632
	Db	29,700	30,052	7,417	7,763	7,014	7,858	7,460	8,265
Dividends & distributed									
branch profits	Cr	385	182	95	28	23	36	26	*
	Db	15,156	12,858	2,312	3,081	3,546	3,919	1,892	8,604
Reinvested earnings	Cr	2,249	2,360	455	507	779	619	327	*
	Db	14,546	17,193	5,104	4,682	3,468	3,939	5,569	-339
Income on debt	Cr	1,292	1,537	413	388	339	397	415	467
	Db	1,285	1,498	315	370	419	394	353	359
Portfolio investment income	Cr	14,778	15,967	3,803	4,104	3,968	4,092	4,250	4,760
	Db	11,161	10,874	2,801	2,622	2,634	2,817	2,877	3,105
Income on equity	Cr	2,184	2,084	479	671	494	440	486	883
	Db	7,816	7,707	1,937	1,859	1,919	1,992	1,947	2,031
Income on debt	Cr	12,594	13,884	3,324	3,434	3,474	3,652	3,764	3,877
	Db	3,343	3,168	864	763	715	826	931	1,075
Other investment income	Cr	9,869	8,143	1,994	2,024	2,001	2,124	1,963	2,235
	Db	9,783	8,669	1,983	2,182	2,199	2,305	2,340	2,478
Current Transfers	Cr	8,130	6,296	1,304	1,583	1,368	2,041	1,320	1,333
	Db	7,422	5,856	1,391	1,533	1,455	1,477	1,393	1,286
Current Account - Total	Cr	156,696	147,512	35,310	36,861	36,333	39,008	35,697	39,513
	Db	158,312	149,408	36,144	37,274	36,523	39,467	36,382	39,623
Current Account Balance		-1,617	-1,896	-834	-413	-190	-459	-685	-110
Capital Account Balance		512	370	5	-33	-14	412	0	-35

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

* Suppressed for confidentiality reasons

Table 2b – Financial Account¹

€ million

Item		2002	2003	2003				2004	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Direct Investment	Abroad	-8,999	-3,139	-788	-686	-1,058	-607	-1,831	-4,776
	In Ireland	30,795	23,823	5,472	13,001	5,640	-290	5,560	6,017
Equity	Abroad	-9,449	-616	-221	923	-642	-676	-1,123	*
	In Ireland	14,650	5,296	-1,720	3,316	1,135	2,565	144	-873
Reinvested Earnings	Abroad	-2,249	-2,360	-455	-507	-779	-619	-327	*
	In Ireland	14,546	17,193	5,104	4,682	3,468	3,939	5,569	-339
Other Capital	Abroad	2,699	-164	-112	-1,103	363	688	-381	-4,541
	In Ireland	1,600	1,332	2,087	5,002	1,037	-6,794	-153	7,229
Portfolio Investment	Assets	-112,930	-142,348	-27,133	-46,011	-35,053	-34,151	-42,061	-19,372
	Liabilities	74,557	93,234	17,720	32,491	9,807	33,216	41,272	22,215
Equity	Assets	-29,233	-23,472	-2,895	-7,641	-4,834	-8,102	-13,329	-4,567
	Liabilities	73,923	67,527	12,652	21,249	6,817	26,809	20,976	10,619
Debt Instruments	Assets	-83,697	-118,877	-24,238	-38,371	-30,219	-26,049	-28,731	-14,805
	Liabilities	634	25,705	5,067	11,242	2,990	6,406	20,296	11,595
Bonds and notes	Assets	-38,105	-83,214	-17,079	-25,722	-25,843	-14,570	-17,217	-8,460
	Liabilities	676	25,080	1,483	9,603	4,762	9,232	16,190	14,278
Money market instruments	Assets	-45,591	-35,663	-7,159	-12,649	-4,376	-11,479	-11,515	-6,345
	Liabilities	-44	626	3,584	1,639	-1,772	-2,825	4,106	-2,683

Table 2b – Financial Account¹ - continued

€ million

Item		2002	2003	2003				2004	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Other Investment	Assets	-32,719	-44,975	-13,806	-9,818	-2,686	-18,665	-19,716	-10,028
	Liabilities	51,539	74,231	19,917	10,197	22,141	21,976	14,290	9,332
Loans, currency and deposits	Assets	-26,849	-42,708	-13,123	-9,743	-3,112	-16,730	-19,965	-7,684
	Liabilities	38,514	72,055	18,283	10,170	22,816	20,786	14,119	7,786
Other ²	Assets	-5,869	-2,266	-683	-75	427	-1,935	249	-2,344
	Liabilities	13,025	2,176	1,634	27	-675	1,190	171	1,546
Reserve Assets		343	1,770	1,818	-43	-84	79	1,189	135
Monetary gold		0	-1	0	0	-1	0	-2	8
Special drawing rights		-8	-2	-2	-1	-2	3	-2	0
Reserve position in the IMF		-106	-42	27	1	-26	-44	65	39
Foreign exchange		457	1,815	1,793	-43	-55	120	1,128	88
Other		0	0	0	0	0	0	0	0
Balance on Financial Account		2,586	2,596	3,199	-869	-1,292	1,558	-1,296	3,523
Net errors and omissions		-1,481	-1,070	-2,370	1,314	1,497	-1,511	1,982	-3,378
Memorandum Item:									
Government financial transactions	Assets	-2,974	-2,187	-908	-934	-102	-243	-789	-243
	Liabilities	969	1,785	385	2,122	-192	-530	1,461	3,379

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

* Suppressed for confidentiality reasons

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

€ million

Item		2002	2003	2003				2004	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Current Account - Total	Cr	156,696	147,512	35,310	36,861	36,333	39,008	35,697	39,513
	Db	158,312	149,408	36,144	37,274	36,523	39,467	36,382	39,623
Merchandise ²	Cr	89,495	79,186	19,372	19,719	19,328	20,767	19,301	20,250
	Db	54,052	45,765	11,560	11,129	10,799	12,277	11,371	12,006
Services	Cr	30,206	33,573	7,816	8,450	8,435	8,872	8,035	9,777
	Db	44,456	46,216	10,563	11,554	11,877	12,222	10,472	12,005
- IFSC	Cr	8,475	9,955	2,474	2,422	2,299	2,760	2,456	2,897
	Db	6,356	5,721	1,348	1,373	1,378	1,622	1,419	1,612
- non IFSC	Cr	21,732	23,619	5,342	6,029	6,136	6,112	5,579	6,880
	Db	38,101	40,496	9,216	10,181	10,499	10,600	9,053	10,393
Income	Cr	28,862	28,456	6,819	7,109	7,201	7,327	7,040	8,153
	Db	52,380	51,571	12,631	13,058	12,391	13,491	13,146	14,326
- IFSC	Cr	23,719	22,511	5,471	5,781	5,513	5,746	5,767	6,311
	Db	23,186	22,812	5,604	5,851	5,473	5,884	5,872	6,237
- non IFSC	Cr	5,143	5,945	1,348	1,328	1,688	1,581	1,273	1,842
	Db	29,193	28,759	7,026	7,207	6,919	7,607	7,273	8,089
Current Transfers	Cr	8,130	6,296	1,304	1,583	1,368	2,041	1,320	1,333
	Db	7,422	5,856	1,391	1,533	1,455	1,477	1,393	1,286
- IFSC ³	Cr	5,624	3,853	883	1,025	943	1,002	829	823
	Db	5,624	3,853	883	1,025	943	1,002	829	823
- non IFSC	Cr	2,505	2,443	420	558	425	1,040	491	510
	Db	1,798	2,005	507	509	513	476	564	462
Balance on Current Account		-1,617	-1,896	-834	-413	-190	-459	-685	-110
Balance on Capital Account		512	370	5	-33	-14	412	0	-35

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

Item		2002	2003	2003				2004	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Financial Account ⁴									
Direct investment	Abroad	-8,999	-3,139	-788	-686	-1,058	-607	-1,831	-4,776
	In Ireland	30,795	23,823	5,472	13,001	5,640	-290	5,560	6,017
- IFSC	Abroad	-5,769	-1,459	92	-63	-740	-748	-641	891
	In Ireland	14,662	6,005	119	5,307	3,535	-2,956	3,642	3,166
- non IFSC	Abroad	-3,232	-1,679	-880	-623	-317	141	-1,191	-5,667
	In Ireland	16,132	17,817	5,353	7,694	2,104	2,666	1,918	2,851
Portfolio investment	Assets	-112,930	-142,348	-27,133	-46,011	-35,053	-34,151	-42,061	-19,372
	Liabilities	74,557	93,234	17,720	32,491	9,807	33,216	41,272	22,215
- IFSC	Assets	-92,348	-126,101	-23,854	-41,437	-28,542	-32,268	-31,180	-22,390
	Liabilities	70,083	79,127	11,943	27,259	7,564	32,361	35,447	15,807
- non IFSC	Assets	-20,580	-16,247	-3,279	-4,574	-6,511	-1,883	-10,881	3,018
	Liabilities	4,474	14,106	5,777	5,231	2,243	855	5,825	6,408
Other investment ⁵	Assets	-32,719	-44,975	-13,806	-9,818	-2,686	-18,665	-19,716	-10,028
	Liabilities	51,539	74,231	19,917	10,197	22,141	21,976	14,290	9,332
- IFSC	Assets	-16,408	-27,712	-11,743	-1,334	-1,234	-13,401	-12,272	3
	Liabilities	28,714	55,142	18,054	3,737	14,616	18,735	933	280
- non IFSC	Assets	-16,311	-17,261	-2,063	-8,483	-1,451	-5,264	-7,443	-10,032
	Liabilities	22,824	19,089	1,862	6,460	7,526	3,241	13,357	9,052
Reserve Assets		343	1,770	1,818	-43	-84	79	1,189	135
Balance on Financial Account		2,586	2,596	3,199	-869	-1,292	1,558	-1,296	3,523
Net errors and omissions		-1,481	-1,070	-2,370	1,314	1,497	-1,511	1,982	-3,378

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

² 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	2003				2004	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Current Account - Total	Cr	156,696	147,512	35,310	36,861	36,333	39,008	35,697	39,513
	Db	158,312	149,408	36,144	37,274	36,523	39,467	36,382	39,623
Merchandise ²	Cr	89,495	79,186	19,372	19,719	19,328	20,767	19,301	20,250
	Db	54,052	45,765	11,560	11,129	10,799	12,277	11,371	12,006
- EMU	Cr	34,725	32,982	7,447	8,330	8,291	8,914	8,127	8,887
	Db	11,188	10,488	2,938	2,492	2,299	2,759	2,819	2,769
- non EMU	Cr	54,770	46,204	11,924	11,389	11,037	11,854	11,174	11,363
	Db	42,866	35,276	8,621	8,636	8,501	9,518	8,552	9,237
- EU 15	Cr	59,521	49,683	11,717	12,393	12,228	13,345	12,065	12,906
	Db	36,334	29,202	7,556	7,052	6,745	7,849	7,335	7,515
- non EU 15	Cr	29,974	29,503	7,655	7,326	7,100	7,422	7,236	7,343
	Db	17,719	16,566	4,005	4,077	4,055	4,429	4,036	4,491
- EU 25	Cr	60,328	50,419	11,884	12,583	12,402	13,550	12,258	13,075
	Db	36,802	29,686	7,677	7,167	6,857	7,985	7,471	7,625
- non EU 25	Cr	29,168	28,766	7,488	7,135	6,926	7,217	7,043	7,174
	Db	17,251	16,079	3,882	3,962	3,943	4,292	3,900	4,381
Services	Cr	30,206	33,573	7,816	8,450	8,435	8,872	8,035	9,777
	Db	44,456	46,216	10,563	11,554	11,877	12,222	10,472	12,005
- EMU	Cr	9,769	11,246	2,617	2,834	2,843	2,952	2,819	3,457
	Db	13,443	15,178	3,208	3,956	4,262	3,752	3,247	3,815
- non EMU	Cr	20,439	22,328	5,199	5,617	5,592	5,920	5,216	6,320
	Db	31,013	31,038	7,355	7,598	7,615	8,470	7,225	8,191
- EU 15	Cr	19,212	21,107	4,795	5,346	5,454	5,512	5,026	6,482
	Db	22,772	23,819	5,231	6,192	6,256	6,140	5,121	6,078
- non EU 15	Cr	10,997	12,468	3,022	3,105	2,981	3,360	3,009	3,295
	Db	21,686	22,398	5,333	5,362	5,621	6,082	5,350	5,927
- EU 25	Cr	19,460	21,404	4,867	5,410	5,483	5,644	5,157	6,582
	Db	23,145	24,224	5,326	6,293	6,359	6,246	5,186	6,190
- non EU 25	Cr	10,749	12,170	2,949	3,041	2,952	3,228	2,878	3,195
	Db	21,313	21,992	5,237	5,261	5,518	5,976	5,286	5,815

Table 4a – Current and Capital Accounts showing geographical¹ detail - continued

€ million

Item		2002	2003	2003				2004	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Income	Cr	28,862	28,456	6,819	7,109	7,201	7,327	7,040	8,153
	Db	52,380	51,571	12,631	13,058	12,391	13,491	13,146	14,326
- EMU	Cr	9,540	11,226	2,610	2,715	2,874	3,027	2,911	3,527
	Db	19,012	20,026	4,917	4,771	4,826	5,512	4,719	5,549
- non EMU	Cr	19,322	17,229	4,209	4,394	4,327	4,299	4,129	4,626
	Db	33,367	31,545	7,713	8,287	7,566	7,979	8,427	8,777
- EU 15	Cr	16,870	18,285	4,304	4,399	4,715	4,867	4,743	5,543
	Db	28,266	29,932	7,249	7,284	7,122	8,277	7,581	8,645
- non EU 15	Cr	11,994	10,171	2,515	2,710	2,486	2,460	2,297	2,610
	Db	24,115	21,639	5,382	5,774	5,269	5,214	5,565	5,681
- EU 25	Cr	17,023	18,377	4,318	4,435	4,741	4,883	4,765	5,641
	Db	28,327	30,047	7,270	7,313	7,169	8,295	7,602	8,671
- non EU 25	Cr	11,840	10,079	2,501	2,674	2,460	2,444	2,275	2,512
	Db	24,052	21,525	5,361	5,745	5,223	5,196	5,544	5,655
Current Transfers	Cr	8,130	6,296	1,304	1,583	1,368	2,041	1,320	1,333
	Db	7,422	5,856	1,391	1,533	1,455	1,477	1,393	1,286
- EMU	Cr	1,248	1,115	190	250	248	427	317	282
	Db	1,232	1,099	186	246	244	423	313	278
- non EMU	Cr	6,883	5,182	1,114	1,333	1,120	1,615	1,003	1,052
	Db	6,191	4,758	1,205	1,287	1,211	1,055	1,081	1,008
- EU 15	Cr	4,572	4,391	821	1,045	826	1,699	872	916
	Db	3,556	3,609	828	908	826	1,047	857	783
- non EU 15	Cr	3,558	1,906	482	538	543	343	448	418
	Db	3,866	2,249	563	625	630	431	536	502
- EU 25	Cr	4,588	4,404	824	1,050	827	1,703	874	916
	Db	3,608	3,665	841	924	838	1,062	870	795
- non EU 25	Cr	3,543	1,892	480	533	541	338	446	417
	Db	3,814	2,192	549	609	618	416	523	491
Balance on Current Account		-1,617	-1,896	-834	-413	-190	-459	-685	-110
Balance on Capital Account		512	370	5	-33	-14	412	0	-35

¹ The term 'EMU' means the area represented by the 12 Member States participating in Monetary Union. For analytical purposes, additional details are given of transactions between residents of Ireland and residents of the EU25 area. With the expansion of the EU on 1 May 2004, the EU25 area comprises the former EU15 area along with Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovakia and Slovenia

² Adjusted for balance of payments purposes

Table 4b – Financial Account¹ showing geographical² detail

€ million

Item		2002	2003	2003				2004	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Direct Investment	Abroad	-8,999	-3,139	-788	-686	-1,058	-607	-1,831	-4,776
	In Ireland	30,795	23,823	5,472	13,001	5,640	-290	5,560	6,017
- EMU	Abroad	-2,626	-1,733	4	-1,208	-69	-460	-642	-192
	In Ireland	14,897	18,154	4,014	7,110	6,232	798	5,724	4,278
- non EMU	Abroad	-6,372	-1,406	-792	522	-988	-148	-1,189	-4,584
	In Ireland	15,898	5,669	1,458	5,891	-592	-1,088	-164	1,740
- EU 15	Abroad	-2,084	-2,731	-513	-1,429	-332	-457	-1,707	204
	In Ireland	14,151	18,976	3,331	8,385	5,881	1,379	1,727	6,754
- non EU 15	Abroad	-6,917	-407	-276	744	-725	-150	-125	-4,980
	In Ireland	16,644	4,845	2,140	4,616	-242	-1,669	3,833	-736
- EU 25	Abroad	-2,141	-2,712	-490	-1,427	-369	-426	-1,812	117
	In Ireland	14,426	18,601	3,335	8,401	5,900	965	1,771	6,787
- non EU 25	Abroad	-6,859	-427	-298	741	-689	-181	-19	-4,894
	In Ireland	16,368	5,221	2,137	4,600	-261	-1,255	3,789	-770
Portfolio Investment	Assets	-112,930	-142,348	-27,133	-46,011	-35,053	-34,151	-42,061	-19,372
	Liabilities	74,557	93,234	17,720	32,491	9,807	33,216	41,272	22,215
- EMU	Assets	-34,799	-65,695	-16,311	-16,293	-22,569	-10,522	-17,794	-7,650
	Liabilities	5,578	17,817	5,064	5,997	-118	6,874	11,949	3,985
- non EMU	Assets	-78,130	-76,653	-10,822	-29,718	-12,484	-23,629	-24,267	-11,722
	Liabilities	68,979	75,416	12,656	26,494	9,925	26,341	29,323	18,229
- EU 15	Assets	-59,811	-94,361	-19,735	-27,118	-28,601	-18,907	-25,812	-10,348
	Liabilities	26,472	61,968	15,819	21,318	3,015	21,816	30,283	16,192
- non EU 15	Assets	-53,119	-47,987	-7,398	-18,893	-6,452	-15,244	-16,249	-9,024
	Liabilities	48,085	31,267	1,902	11,173	6,792	11,400	10,989	6,023
- EU 25	Assets	-59,823	-95,144	-20,072	-27,193	-28,818	-19,061	-26,076	-10,827
	Liabilities	27,190	61,874	15,774	21,267	2,953	21,880	30,565	16,394
- non EU 25	Assets	-53,106	-47,205	-7,061	-18,819	-6,235	-15,090	-15,984	-8,545
	Liabilities	47,366	31,359	1,945	11,224	6,854	11,336	10,707	5,821

Table 4b – Financial Account¹ showing geographical² detail - continued

€ million

Item		2002	2003	2003				2004	
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Other Investment ³	Assets	-32,719	-44,975	-13,806	-9,818	-2,686	-18,665	-19,716	-10,028
	Liabilities	51,539	74,231	19,917	10,197	22,141	21,976	14,290	9,332
- EMU	Assets	-9,085	-15,824	-5,807	-4,470	-1,274	-4,273	-4,509	-5,349
	Liabilities	30,210	41,181	14,489	7,836	14,828	4,028	-1,152	371
- non EMU	Assets	-23,633	-29,149	-7,999	-5,348	-1,411	-14,391	-15,207	-4,679
	Liabilities	21,328	33,052	5,428	2,361	7,314	17,949	15,442	8,961
- EU 15	Assets	-20,619	-43,980	-14,180	-8,424	-8,166	-13,210	-16,228	-8,290
	Liabilities	44,920	62,382	14,105	10,162	24,262	13,853	11,264	9,834
- non EU 15	Assets	-12,100	-995	374	-1,394	5,480	-5,455	-3,487	-1,738
	Liabilities	6,619	11,848	5,812	35	-2,121	8,122	3,026	-502
- EU 25	Assets	-21,436	-43,969	-14,322	-8,520	-7,909	-13,218	-16,836	-9,393
	Liabilities	45,607	62,614	14,154	10,002	24,269	14,189	11,168	10,044
- non EU 25	Assets	-11,284	-1,005	516	-1,297	5,223	-5,447	-2,880	-636
	Liabilities	5,931	11,618	5,763	195	-2,127	7,787	3,123	-712
Reserve Assets		343	1,770	1,818	-43	-84	79	1,189	135
Balance on Financial Account		2,586	2,596	3,199	-869	-1,292	1,558	-1,296	3,523
<i>Net errors and omissions</i>		<i>-1,481</i>	<i>-1,070</i>	<i>-2,370</i>	<i>1,314</i>	<i>1,497</i>	<i>-1,511</i>	<i>1,982</i>	<i>-3,378</i>

¹ See footnote 1 on Table 2b² The term 'EMU' means the area represented by the 12 Member States participating in Monetary Union. For analytical purposes, additional details are given of transactions between residents of Ireland and residents of the EU25 area. With the expansion of the EU on 1 May 2004, the EU25 area comprises the former EU15 area along with Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovakia and Slovenia³ Including financial derivatives and trade credits

Background Notes *(updated July 2004)*

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) published in 1993 and its supplement *Financial Derivatives: A Supplement to the 5th Edition (1993) of the Balance of Payments Manual* published in 2000. These recommendations were prepared in close co-operation with the European Commission (Eurostat), the OECD and other international organisations.

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.

Latest developments

The compilation system has recently been further developed and refined to include the estimated values of a variety of cross-border transactions which, because of the lack of data, were either not captured formerly or not adequately captured. These cover (a) direct imports and exports of goods for consumption of private households and not included in the official merchandise trade statistics; (b) improved data on transactions in services (tourism and travel; communications; construction; diplomatic and consular services; cultural services; bloodstock breeding); (c) new estimates for income receipts from Irish resident investment in residential and commercial property abroad and for income remittances to the foreign owners of breeding bloodstock based in Ireland, along with improved estimates of the earnings (credits and debits) of students, other cross-border workers and local employees of embassies; (d) new estimates for income taxes paid on the earnings of students and other cross-border workers and for the remittances abroad of earnings of immigrant workers in Ireland; and (e) new estimates for investment in residential and commercial property abroad by Irish residents.

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 (including transactions in financial derivatives) 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 (i.e. as 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 some transactions may not be captured or because of differences in coverage, valuation and timing of transactions, exact symmetry does not occur and a balancing item *net errors and omissions* is inserted to balance the overall account. Ideally, the magnitude of this item should be relatively small in relation to the combined value of all credit and debit transactions expressed in absolute terms (i.e. ignoring their signs) over all three accounts. It should also fluctuate frequently from positive to negative values.

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 be reported on a cash rather than an accruals basis.

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

Merchandise exports and imports are valued f.o.b. (*free on board*) for BOP purposes. While imports are valued c.i.f. [*cost, insurance and freight*] in the official external trade statistics, adjustments are made to reflect an estimated f.o.b. valuation (formerly the c.i.f. valuation for imports was used in the BOP). These adjustments result from the application of different c.i.f./f.o.b. conversion ratios to the values of imports from within the European Union and from outside the European Union. In addition and in line with EU and ECB requirements, merchandise imports from within European Union member states are compiled on the basis of country of consignment rather than country of ultimate origin (as was the case formerly). 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 are included in BOP service exports and not in BOP merchandise exports (as was the case formerly). The BOP merchandise figures now include the estimated values of (unrecorded) retail exports of fuel to Northern Ireland and of unrecorded imports of goods for personal consumption from Northern Ireland and elsewhere.

Services exports and imports are presented to show nine categories of service types: *transport, tourism and travel, communications, insurance services, financial services, computer services, royalties and licences, business services* and *other services not elsewhere specified*. Some specific points of note are:

- (i) Because of the presentation of merchandise imports on a f.o.b. (rather than c.i.f.) basis, the freight element of the c.i.f. to f.o.b. adjustment is included in *transport*.
- (ii) The value of *insurance services* provided to non-residents by resident insurers (credit) is estimated as the value of direct and supplementary premiums earned less the value of claims payable less increases in the actuarial element of insurance technical reserves. Supplementary premiums consist of investment income earned on investing the insurance technical reserves. For BOP purposes, this income is attributed to the policy holders and is 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 recorded under *computer services*.
- (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 chartering, 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 as well as agricultural 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. The last sub-category includes credit and debit entries for (a) the estimated expenditures of embassy and consular staff in the host countries, (b) non-labour expenditures by governments towards the provision of embassy and consular services in the host countries, and (c) receipts i.e. credits, 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 (i.e. students and other short-term cross-border workers) 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 their 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. Apart from excluding capital and exchange gains and losses, it also excludes the value of unusual provisions and write-offs and 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 earned in the reference period and the distributions (dividends, etc.) made in the same period. As it is an income flow in the BOP current account but without a counterpart cash flow in the financial account, an offset (i.e. with the opposite sign) 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). This item also includes (a) the (net) income generated from investment in residential property abroad, and (b) the profits attributable to the foreign owners of breeding bloodstock – see *Direct Investment* below.

- (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 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. This item includes income generated from investment by private individuals in commercial property abroad.
- (iii) *Other investment income* covers interest on loans, deposits and trade credits. The flows recorded under this item relate largely to interest flows of credit institutions but also cover the income generated from the holdings of the Central Bank and Financial Services Authority of Ireland in external reserve assets and income arising from its non-reserve assets and liabilities.

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*'). This item also includes income taxes receivable or payable on the earnings of cross-border workers.

The **current account balance** is the total of all current account credits less the total of all current account debits.

Capital account

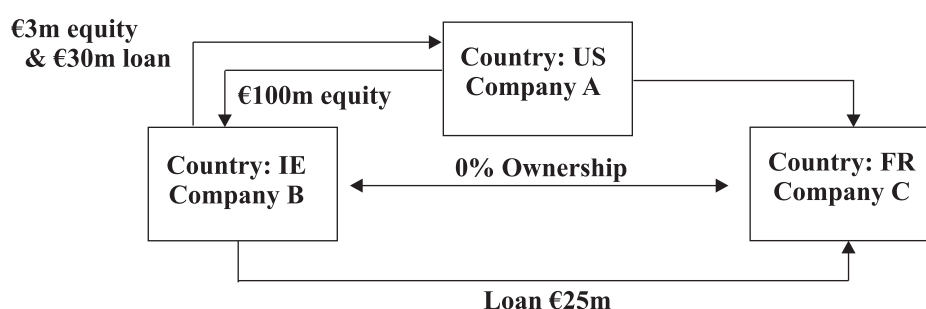
The capital account largely covers capital transfers, in particular amounts receivable under the EU Regional Development Fund and the Cohesion Fund and all other transfers intended for capital purposes. Estimates of migrants' transfers (i.e. the transfer of the net worth of immigrants and emigrants) 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. 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, both in terms of any relevant financial account investment flows and any current account flows (services or income). In addition, foreign investment in bloodstock breeding activities in Ireland as well as associated income flows are now reflected in the BOP statistics.

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. Investment by resident investors in commercial property abroad is also included in portfolio investment as are any relevant service and income flows. 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.