

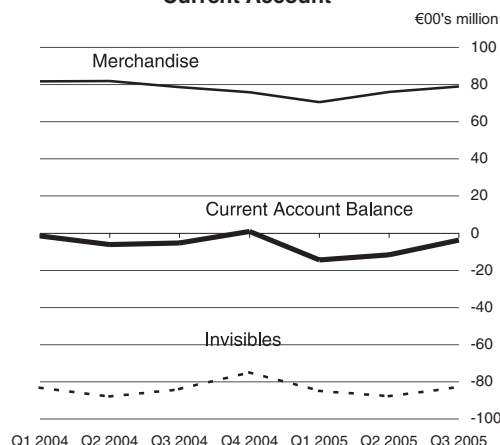


Central Statistics Office
An Phríomh-Oifig Staidrimh

22 December 2005

Balance of International Payments Quarter 3 2005

Current Account



	€ million		
	Merchandise Balance	Invisibles Balance	Current Account Balance
Q3 2005	7,899	-8,281	-381
Q3 2004	7,867	-8,399	-532
Q1-Q3 2005	22,558	-25,549	-2,991
Q1-Q3 2004	24,222	-25,504	-1,282

Smaller current account deficit in the 3rd quarter

The current account of the Balance of Payments showed a deficit of €381m in the third quarter of 2005 but this was significantly lower than the negative balances shown for the previous two quarters, and slightly lower compared to the third quarter deficit of €532m in 2004 - *see Table 1*. However, over the first nine months of 2005, the accumulated deficit of €2,991m was €1.7 billion higher than that for the same period in 2004. This increased deficit can largely be traced to a fall-off in the *merchandise* surplus from €24,222m in the first three quarters of 2004 to €22,558m in the same period this year. The same comparison for the *invisibles* deficit shows little change at €25,549m. Other points of note in the third quarter's results are:

Current account (see Tables 1a and 2a)

- ◆ *Merchandise* exports at €20,001m were up over €0.5 billion on the third quarter in 2004; imports at €12,102m were up a similar amount.
- ◆ *Services* exports increased by over €700m to €11,161m compared to one year earlier, receipts from *operational leasing* at €928m being up almost €400m. Imports of services amounted to €13,927m and showed a similar increase to exports.
- ◆ *Income* inflows amounted to €10,785m and were up €1.9 billion on the third quarter 2004 figure (€8,854m). Income on portfolio investment securities (€5,815m) accounted for €1.2 billion of this increase, the remainder arising from increased interest receipts (€3,388m) mainly on lending and deposits abroad. Income outflows increased by over €1.5 billion to €16,066m. A drop of over €800m in foreign-owned profits (€6,876m) was far exceeded by increases of almost €1.3 billion in income payments to foreign portfolio investors (€4,980m), and about €1 billion in interest payments (€3,616m) to foreign lenders.

Financial account (see Table 2b)

- ◆ *Direct investment* in Ireland showed sizeable net reverse flows amounting to €12,220m. This was essentially accounted for by large loan advances (€12 billion) by Irish-based foreign-owned enterprises to their affiliates abroad. Over the first three quarters of 2005, the impact of such outward loan advances combined with *equity* withdrawal and reduced *reinvested earnings* (the latter due to large dividend repatriations) resulted in net disinvestment in Ireland of about €6 billion.
- ◆ There was unusually low net investment in foreign portfolio assets amounting to €5,726m. This resulted from sizeable redemptions of investment (mostly IFSC) in short-term securities (€19,051m) offsetting much of the acquisitions of equities and bonds/notes i.e. €24,777m in total. Much of the redemption proceeds was used to facilitate some loan advances to affiliates and dividend payments abroad.

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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	-13,779	-23,664	707	-36,736	-1,295	512
2003	Year	32,604	-11,091	-21,947	432	-32,606	-2	93
2004 ²	Year	31,812	-9,721	-23,578	306	-32,993	-1,181	401
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	-3,845	-5,837	-36	-9,718	-741	-14
	Quarter 2	8,598	-3,683	-6,290	131	-9,842	-1,244	2
	Quarter 3	9,265	-3,493	-5,529	-68	-9,090	174	9
	Quarter 4	8,602	-2,758	-6,008	680	-8,086	516	515
2003	Quarter 1	7,622	-2,472	-5,815	-89	-8,376	-753	0
	Quarter 2	8,421	-2,747	-5,634	48	-8,333	88	-38
	Quarter 3	8,338	-3,084	-5,061	-89	-8,234	103	-192
	Quarter 4	8,223	-2,788	-5,437	562	-7,663	560	323
2004	Quarter 1	8,167	-2,354	-5,872	-82	-8,308	-141	5
	Quarter 2	8,188	-2,447	-6,392	42	-8,797	-609	-30
	Quarter 3	7,867	-2,712	-5,653	-34	-8,399	-532	59
	Quarter 4 ²	7,590	-2,208	-5,661	380	-7,489	101	367
2005	Quarter 1	7,054	-2,677	-5,575	-240	-8,492	-1,439	81
	Quarter 2	7,605	-2,050	-6,949	223	-8,776	-1,171	30
	Quarter 3	7,899	-2,766	-5,281	-234	-8,281	-381	13

¹ Adjusted for balance of payments purposes² Revised

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

Period		Direct Investment	Portfolio Investment	Other ¹ Investment	Reserve Assets	Balance on Financial Account	Net errors and omissions
1998	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	19,444	-37,979	19,263	343	1,070	-287
2003	Year	15,270	-39,977	21,567	1,770	-1,372	1,280
2004 ²	Year	-3,739	-5,705	13,699	1,177	5,431	-4,652
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	6,205	-13,891	9,680	265	2,258	-1,503
	Quarter 2	1,379	941	-2,345	236	211	1,032
	Quarter 3	8,473	-11,496	4,692	-130	1,539	-1,723
	Quarter 4	3,387	-13,533	7,236	-28	-2,938	1,907
2003	Quarter 1	4,065	-8,773	3,197	1,818	308	445
	Quarter 2	11,407	-10,431	-1,876	-43	-943	893
	Quarter 3	3,830	-23,201	18,913	-84	-544	633
	Quarter 4	-4,032	2,428	1,333	79	-193	-691
2004	Quarter 1	1,930	23	-3,976	1,189	-834	970
	Quarter 2	-1,847	6,096	-3,662	135	722	-84
	Quarter 3	3,022	-6,945	6,875	-129	2,822	-2,349
	Quarter 4 ²	-6,844	-4,879	14,462	-18	2,721	-3,189
2005	Quarter 1	1,216	2,058	-5,731	48	-2,408	3,766
	Quarter 2	-822	-5,340	10,769	69	4,675	-3,534
	Quarter 3	-13,993	24,606	-11,838	11	-1,213	1,582

¹ Including financial derivatives and trade credits² Revised

Table 2a – Current and Capital Accounts

€ million

Item		2003	2004 ¹	2004				2005		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4 ¹	Quarter 1	Quarter 2	Quarter 3
Current Account										
Merchandise ²	Cr	78,314	80,229	19,889	20,430	19,441	20,469	19,457	20,703	20,001
	Db	45,709	48,417	11,722	12,242	11,574	12,879	12,403	13,098	12,102
Services	Cr	37,133	42,203	9,534	10,951	10,456	11,262	9,596	10,797	11,161
	Db	48,223	51,923	11,888	13,398	13,168	13,469	12,274	12,847	13,927
Transport	Cr	1,708	1,895	359	492	620	424	409	569	708
	Db	1,725	1,788	435	458	427	468	465	483	446
Tourism and Travel ³	Cr	3,409	3,445	564	934	1,209	738	590	967	1,303
	Db	4,188	4,181	767	1,049	1,523	842	795	1,131	1,710
Communications	Cr	622	761	198	184	178	201	189	185	188
	Db	757	985	244	261	239	241	209	221	222
Insurance	Cr	7,691	8,166	1,998	2,030	1,841	2,297	1,636	1,549	1,643
	Db	5,547	6,325	1,483	1,699	1,474	1,669	1,461	1,087	1,499
Financial services	Cr	3,365	4,048	916	1,057	992	1,083	982	978	1,090
	Db	1,806	2,028	507	517	506	498	521	475	667
Computer services ⁴	Cr	12,575	14,972	3,319	4,038	3,439	4,176	3,531	3,840	3,381
	Db	329	293	70	78	69	76	79	78	80
Royalties/Licences	Cr	186	177	64	35	30	48	47	61	53
	Db	14,208	14,848	3,456	3,899	3,721	3,772	3,491	3,602	3,495
Business services	Cr	6,957	8,141	1,966	2,032	1,997	2,146	2,060	2,463	2,609
	Db	19,472	21,303	4,876	5,396	5,168	5,863	5,212	5,728	5,766
Trade related	Cr	2,483	3,235	753	767	777	938	758	844	851
	Db	10,382	10,666	2,534	2,531	2,520	3,081	2,684	2,703	2,619
Operational leasing	Cr	1,752	2,083	504	498	552	529	496	712	928
	Db	161	126	27	35	31	33	38	44	51
Misc. business services ⁵	Cr	2,724	2,823	709	767	668	679	806	907	831
	Db	8,929	10,512	2,316	2,829	2,618	2,749	2,490	2,982	3,096
Other services n.e.s.	Cr	619	600	151	149	150	150	152	184	186
	Db	190	172	49	41	41	41	40	40	42

Table 2a – Current and Capital Accounts - continued

€ million

Item		2003	2004 ¹	2004				2005		
	Year			Quarter 1	Quarter 2	Quarter 3	Quarter 4 ¹	Quarter 1	Quarter 2	Quarter 3
Current Account - continued										
Income	Cr	30,131	33,783	7,630	8,409	8,854	8,890	8,764	9,928	10,785
	Db	52,078	57,360	13,502	14,800	14,507	14,551	14,339	16,877	16,066
Compensation of Employees	Cr	269	269	59	59	92	59	59	60	94
	Db	485	477	116	120	122	119	139	126	127
Investment Income	Cr	29,863	33,514	7,571	8,350	8,762	8,831	8,705	9,868	10,692
	Db	51,593	56,883	13,386	14,680	14,385	14,432	14,200	16,750	15,939
Direct investment income	Cr	4,425	5,372	1,091	1,213	1,446	1,622	1,215	1,305	1,488
	Db	30,624	32,431	7,788	8,819	8,056	7,768	7,479	9,204	7,343
Income on equity	Cr	2,918	3,835	657	793	1,135	1,250	694	844	1,205
	Db	29,132	30,883	7,414	8,450	7,692	7,327	6,992	8,769	6,876
Dividends & distributed										
branch profits	Cr	249	1,026	28	*	*	58	32	49	52
	Db	13,238	21,738	2,523	9,475	3,772	5,968	3,950	3,740	7,756
Reinvested earnings	Cr	2,669	2,809	630	*	*	1,192	663	795	1,153
	Db	15,893	9,145	4,891	-1,025	3,920	1,359	3,043	5,030	-880
Income on debt	Cr	1,506	1,537	434	420	311	372	521	461	283
	Db	1,494	1,548	375	368	364	441	486	434	466
Portfolio investment income	Cr	16,285	18,073	4,266	4,607	4,616	4,584	4,626	5,288	5,815
	Db	12,247	14,448	3,193	3,455	3,701	4,099	3,792	4,187	4,980
Income on equity	Cr	2,111	2,414	484	873	539	518	713	956	831
	Db	7,978	8,659	1,943	2,040	2,206	2,470	2,292	2,445	3,106
Income on debt	Cr	14,175	15,659	3,782	3,735	4,076	4,066	3,913	4,331	4,984
	Db	4,269	5,788	1,250	1,415	1,494	1,629	1,500	1,742	1,874
Other investment income	Cr	9,153	10,069	2,214	2,529	2,701	2,625	2,863	3,276	3,388
	Db	8,721	10,006	2,405	2,407	2,629	2,565	2,930	3,360	3,616
Current Transfers	Cr	6,177	5,363	1,261	1,323	1,117	1,662	1,089	1,332	1,101
	Db	5,745	5,056	1,343	1,280	1,151	1,282	1,329	1,109	1,335
Current Account - Total	Cr	151,753	161,577	38,314	41,112	39,868	42,283	38,906	42,759	43,049
	Db	151,755	162,758	38,455	41,721	40,400	42,182	40,345	43,930	43,430
Current Account Balance		-2	-1,181	-141	-609	-532	101	-1,439	-1,171	-381
Capital Account Balance		93	401	5	-30	59	367	81	30	13

¹ Revised² Adjusted for balance of payments purposes³ Excluding passenger fare receipts⁴ Covers exports and imports of software that was not incorporated as part of computer hardware or physical media but separately transmitted by electronic means. The value of sales and purchases of additional software licences is also included⁵ Covers mainly inter-affiliate charges (e.g. management fees), in particular on the debit side

* Suppressed for confidentiality reasons

Table 2b – Financial Account¹

€ million

Item		2003	2004 ²	2004				2005		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4 ²	Quarter 1	Quarter 2	Quarter 3
Direct Investment	Abroad	-4,917	-12,728	-3,178	-4,812	-1,084	-3,654	-4,786	-1,252	-1,773
	In Ireland	20,185	8,987	5,108	2,964	4,105	-3,190	6,002	430	-12,220
Equity	Abroad	-2,318	-4,631	-1,051	*	*	-1,588	-677	373	-1,152
	In Ireland	3,494	-7,043	-2,263	-2,041	762	-3,501	-243	-1,013	662
Reinvested Earnings	Abroad	-2,669	-2,809	-630	*	*	-1,192	-663	-795	-1,153
	In Ireland	15,893	9,145	4,891	-1,025	3,920	1,359	3,043	5,030	-880
Other Capital	Abroad	71	-5,286	-1,497	-3,884	968	-873	-3,446	-830	532
	In Ireland	798	6,887	2,480	6,030	-576	-1,047	3,202	-3,587	-12,003
Portfolio Investment	Assets	-144,682	-132,710	-44,868	-18,747	-29,551	-39,544	-34,019	-38,856	-5,726
	Liabilities	104,705	127,005	44,891	24,843	22,606	34,665	36,077	33,515	30,333
Equity	Assets	-25,875	-36,385	-14,203	-5,043	-6,444	-10,695	-8,969	-8,045	-13,617
	Liabilities	67,044	65,972	21,021	10,446	13,000	21,505	13,866	20,761	14,083
Debt Instruments	Assets	-118,806	-96,326	-30,665	-13,704	-23,107	-28,850	-25,050	-30,811	7,891
	Liabilities	37,660	61,033	23,870	14,397	9,606	13,160	22,211	12,754	16,250
Bonds and notes	Assets	-82,541	-62,450	-16,322	-7,921	-12,638	-25,569	-19,970	-25,819	-11,160
	Liabilities	38,468	46,803	18,273	16,479	8,117	3,934	16,382	12,655	9,726
Money market instruments	Assets	-36,265	-33,876	-14,343	-5,783	-10,469	-3,281	-5,080	-4,992	19,051
	Liabilities	-807	14,232	5,598	-2,082	1,489	9,227	5,829	99	6,524

Table 2b – Financial Account¹ - continued

€ million

Item		2003	2004 ²	2004				2005		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4 ²	Quarter 1	Quarter 2	Quarter 3
Other Investment	Assets	-58,354	-45,504	-21,485	-13,483	-5,575	-4,961	-28,601	-21,387	-30,119
	Liabilities	79,922	59,203	17,509	9,821	12,450	19,423	22,870	32,156	18,281
Loans, currency and deposits	Assets	-56,570	-44,180	-21,338	-12,616	-5,528	-4,698	-26,771	-15,711	-22,651
	Liabilities	75,062	51,064	16,740	7,942	10,174	16,208	18,809	29,196	20,791
Other ³	Assets	-1,785	-1,324	-147	-867	-47	-263	-1,830	-5,676	-7,467
	Liabilities	4,860	8,141	770	1,880	2,276	3,215	4,061	2,960	-2,510
Reserve Assets		1,770	1,177	1,189	135	-129	-18	48	69	11
Monetary gold		-1	7	-2	8	1	0	14	0	1
Special drawing rights		-2	0	-2	0	-2	4	-2	-4	-1
Reserve position in the IMF		-42	162	65	39	19	39	3	45	9
Foreign exchange		1,815	1,008	1,128	88	-147	-61	33	28	2
Other		0	0	0	0	0	0	0	0	0
Balance on Financial Account		-1,372	5,431	-834	722	2,822	2,721	-2,408	4,675	-1,213
Net errors and omissions		1,280	-4,652	970	-84	-2,349	-3,189	3,766	-3,534	1,582
Memorandum Item:										
Government financial transactions	Assets	-2,030	-1,964	-949	-243	-346	-426	-588	-314	-330
	Liabilities	1,785	1,940	1,461	3,379	-1,958	-942	120	721	425

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

² Revised

³ Including financial derivatives and trade credits

* Suppressed for confidentiality reasons

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

€ million

Item		2003	2004 ²	2004				2005		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4 ²	Quarter 1	Quarter 2	Quarter 3
Current Account - Total	Cr	151,753	161,577	38,314	41,112	39,868	42,283	38,906	42,759	43,049
	Db	151,755	162,758	38,455	41,721	40,400	42,182	40,345	43,930	43,430
Merchandise ³	Cr	78,314	80,229	19,889	20,430	19,441	20,469	19,457	20,703	20,001
	Db	45,709	48,417	11,722	12,242	11,574	12,879	12,403	13,098	12,102
Services	Cr	37,133	42,203	9,534	10,951	10,456	11,262	9,596	10,797	11,161
	Db	48,223	51,923	11,888	13,398	13,168	13,469	12,274	12,847	13,927
- IFSC	Cr	13,108	14,546	3,548	3,709	3,426	3,863	3,112	3,327	3,688
	Db	8,740	9,692	2,336	2,610	2,276	2,470	2,248	1,839	2,374
- non IFSC	Cr	24,025	27,657	5,986	7,242	7,030	7,399	6,485	7,470	7,473
	Db	39,482	42,231	9,552	10,788	10,892	10,999	10,026	11,008	11,554
Income	Cr	30,131	33,783	7,630	8,409	8,854	8,890	8,764	9,928	10,785
	Db	52,078	57,360	13,502	14,800	14,507	14,551	14,339	16,877	16,066
- IFSC	Cr	23,743	25,782	6,076	6,423	6,555	6,728	6,962	7,487	8,259
	Db	22,926	25,680	6,079	6,423	6,508	6,670	6,950	7,853	8,131
- non IFSC	Cr	6,388	8,001	1,554	1,986	2,299	2,162	1,802	2,441	2,526
	Db	29,151	31,679	7,423	8,377	7,998	7,881	7,389	9,024	7,935
Current Transfers	Cr	6,177	5,363	1,261	1,323	1,117	1,662	1,089	1,332	1,101
	Db	5,745	5,056	1,343	1,280	1,151	1,282	1,329	1,109	1,335
- IFSC ⁴	Cr	3,730	2,925	770	812	626	717	631	635	786
	Db	3,730	2,925	770	812	626	717	631	635	786
- non IFSC	Cr	2,447	2,437	491	510	491	945	458	697	315
	Db	2,014	2,131	573	468	525	565	698	474	548
Balance on Current Account		-2	-1,181	-141	-609	-532	101	-1,439	-1,171	-381
Balance on Capital Account		93	401	5	-30	59	367	81	30	13

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

€ million

Item		2003	2004 ²	2004				2005		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4 ²	Quarter 1	Quarter 2	Quarter 3
Financial Account ⁵										
Direct investment	Abroad	-4,917	-12,728	-3,178	-4,812	-1,084	-3,654	-4,786	-1,252	-1,773
	In Ireland	20,185	8,987	5,108	2,964	4,105	-3,190	6,002	430	-12,220
- IFSC	Abroad	-1,414	422	-70	857	121	-486	-388	1,432	-388
	In Ireland	4,445	7,513	3,758	3,342	1,681	-1,268	5,021	-3,143	-12,034
- non IFSC	Abroad	-3,503	-13,149	-3,107	-5,669	-1,205	-3,168	-4,398	-2,684	-1,384
	In Ireland	15,740	1,476	1,351	-378	2,425	-1,922	981	3,573	-186
Portfolio investment	Assets	-144,682	-132,710	-44,868	-18,747	-29,551	-39,544	-34,019	-38,856	-5,726
	Liabilities	104,705	127,005	44,891	24,843	22,606	34,665	36,077	33,515	30,333
- IFSC	Assets	-127,093	-113,625	-33,941	-21,742	-24,624	-33,318	-25,688	-31,605	-944
	Liabilities	91,703	104,173	38,611	17,634	17,380	30,548	30,264	29,560	22,656
- non IFSC	Assets	-17,590	-19,085	-10,927	2,995	-4,927	-6,226	-8,331	-7,250	-4,782
	Liabilities	13,002	22,833	6,281	7,209	5,226	4,117	5,813	3,955	7,677
Other investment ⁶	Assets	-58,354	-45,504	-21,485	-13,483	-5,575	-4,961	-28,601	-21,387	-30,119
	Liabilities	79,922	59,203	17,509	9,821	12,450	19,423	22,870	32,156	18,281
- IFSC	Assets	-39,226	-37,502	-13,517	-3,068	-11,787	-9,130	-21,989	-19,395	-19,416
	Liabilities	59,368	30,125	4,229	1,001	9,366	15,529	11,891	30,125	2,961
- non IFSC	Assets	-19,130	-8,001	-7,968	-10,415	6,212	4,170	-6,612	-1,992	-10,703
	Liabilities	20,553	29,077	13,280	8,820	3,084	3,893	10,979	2,031	15,320
Reserve Assets		1,770	1,177	1,189	135	-129	-18	48	69	11
Balance on Financial Account		-1,372	5,431	-834	722	2,822	2,721	-2,408	4,675	-1,213
Net errors and omissions		1,280	-4,652	970	-84	-2,349	-3,189	3,766	-3,534	1,582

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

² Revised

³ Adjusted for balance of payments purposes

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

⁵ See footnote 1 on Table 2b

⁶ Including financial derivatives and trade credits

Table 4a – Current and Capital Accounts showing geographical¹ detail

€ million

Item		2003	2004 ²	2004				2005		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4 ²	Quarter 1	Quarter 2	Quarter 3
Current Account - Total	Cr	151,753	161,577	38,314	41,112	39,868	42,283	38,906	42,759	43,049
	Db	151,755	162,758	38,455	41,721	40,400	42,182	40,345	43,930	43,430
Merchandise ³	Cr	78,314	80,229	19,889	20,430	19,441	20,469	19,457	20,703	20,001
	Db	45,709	48,417	11,722	12,242	11,574	12,879	12,403	13,098	12,102
- EMU	Cr	33,729	34,726	8,822	9,006	8,047	8,851	8,483	9,408	8,659
	Db	10,615	11,770	3,029	2,866	2,732	3,143	3,203	3,021	2,785
- non EMU	Cr	44,585	45,504	11,067	11,424	11,394	11,619	10,974	11,295	11,342
	Db	35,093	36,648	8,693	9,376	8,842	9,737	9,201	10,077	9,317
- EU 15	Cr	50,212	51,420	12,936	13,103	12,144	13,237	12,418	13,390	12,505
	Db	29,184	31,531	7,694	7,764	7,652	8,421	7,994	7,832	7,481
- non EU 15	Cr	28,100	28,809	6,953	7,327	7,297	7,232	7,040	7,313	7,497
	Db	16,525	16,888	4,028	4,479	3,922	4,459	4,409	5,266	4,621
- EU 25	Cr	50,955	52,163	13,131	13,290	12,313	13,429	12,578	13,584	12,683
	Db	29,670	31,988	7,831	7,879	7,743	8,535	8,099	7,951	7,601
- non EU 25	Cr	27,359	28,066	6,758	7,140	7,128	7,040	6,880	7,118	7,319
	Db	16,038	16,430	3,891	4,363	3,831	4,345	4,305	5,146	4,502
Services	Cr	37,133	42,203	9,534	10,951	10,456	11,262	9,596	10,797	11,161
	Db	48,223	51,923	11,888	13,398	13,168	13,469	12,274	12,847	13,927
- EMU	Cr	12,437	14,136	3,262	3,709	3,354	3,811	3,304	3,783	3,503
	Db	16,060	17,151	3,880	4,490	4,442	4,339	4,031	4,129	4,361
- non EMU	Cr	24,695	28,066	6,272	7,242	7,102	7,450	6,292	7,014	7,659
	Db	32,164	34,773	8,008	8,908	8,726	9,131	8,243	8,718	9,567
- EU 15	Cr	22,837	25,906	5,806	7,044	6,400	6,656	5,693	6,861	6,802
	Db	24,867	26,382	6,183	6,961	6,679	6,559	6,087	6,464	6,720
- non EU 15	Cr	14,296	16,296	3,727	3,907	4,056	4,606	3,903	3,935	4,360
	Db	23,356	25,542	5,705	6,437	6,489	6,911	6,186	6,383	7,208
- EU 25	Cr	23,143	26,403	5,943	7,149	6,522	6,789	5,815	6,972	6,949
	Db	25,317	26,777	6,263	7,051	6,776	6,687	6,185	6,561	6,894
- non EU 25	Cr	13,989	15,799	3,590	3,802	3,934	4,473	3,781	3,825	4,213
	Db	22,907	25,147	5,625	6,348	6,392	6,782	6,089	6,286	7,033

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

€ million

Item		2003	2004 ²	2004				2005		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4 ²	Quarter 1	Quarter 2	Quarter 3
Income	Cr	30,131	33,783	7,630	8,409	8,854	8,890	8,764	9,928	10,785
	Db	52,078	57,360	13,502	14,800	14,507	14,551	14,339	16,877	16,066
- EMU	Cr	11,823	13,905	3,067	3,668	3,564	3,606	3,493	4,013	4,069
	Db	18,929	21,872	4,683	5,822	5,677	5,690	5,008	6,464	5,548
- non EMU	Cr	18,308	19,877	4,563	4,740	5,290	5,284	5,270	5,915	6,716
	Db	33,149	35,489	8,819	8,979	8,830	8,861	9,331	10,412	10,518
- EU 15	Cr	19,541	22,344	4,999	5,745	5,714	5,886	5,819	6,488	6,769
	Db	29,037	34,000	7,517	8,849	8,643	8,991	8,248	10,143	9,718
- non EU 15	Cr	10,590	11,438	2,631	2,664	3,139	3,004	2,945	3,440	4,016
	Db	23,041	23,360	5,985	5,951	5,864	5,560	6,091	6,733	6,348
- EU 25	Cr	19,634	22,659	5,022	5,845	5,807	5,985	5,930	6,542	6,867
	Db	29,159	34,105	7,538	8,875	8,670	9,022	8,283	10,192	9,756
- non EU 25	Cr	10,497	11,123	2,608	2,564	3,046	2,905	2,834	3,386	3,918
	Db	22,921	23,256	5,964	5,925	5,837	5,530	6,056	6,684	6,309
Current Transfers	Cr	6,177	5,363	1,261	1,323	1,117	1,662	1,089	1,332	1,101
	Db	5,745	5,056	1,343	1,280	1,151	1,282	1,329	1,109	1,335
- EMU	Cr	1,067	844	270	253	155	166	246	292	267
	Db	1,051	828	266	249	151	162	242	288	263
- non EMU	Cr	5,110	4,518	991	1,069	962	1,496	842	1,040	834
	Db	4,694	4,228	1,077	1,031	1,000	1,120	1,087	821	1,071
- EU 15	Cr	4,313	3,625	853	897	681	1,194	812	1,104	683
	Db	3,538	2,871	847	770	620	634	955	782	797
- non EU 15	Cr	1,864	1,738	408	426	436	468	277	228	418
	Db	2,208	2,186	497	510	531	648	375	327	537
- EU 25	Cr	4,325	3,627	854	897	682	1,194	813	1,104	685
	Db	3,593	2,918	859	781	632	646	966	793	810
- non EU 25	Cr	1,853	1,735	407	425	436	467	276	228	416
	Db	2,153	2,138	484	499	519	636	363	316	525
Balance on Current Account		-2	-1,181	-141	-609	-532	101	-1,439	-1,171	-381
Balance on Capital Account		93	401	5	-30	59	367	81	30	13

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 Revised

³ Adjusted for balance of payments purposes

Table 4b – Financial Account¹ showing geographical² detail

€ million

Item		2003	2004 ³	2004				2005		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4 ³	Quarter 1	Quarter 2	Quarter 3
Direct Investment	Abroad	-4,917	-12,728	-3,178	-4,812	-1,084	-3,654	-4,786	-1,252	-1,773
	In Ireland	20,185	8,987	5,108	2,964	4,105	-3,190	6,002	430	-12,220
- EMU	Abroad	-2,022	-4,603	-1,585	178	-667	-2,529	-2,267	-486	1,544
	In Ireland	17,311	15,652	6,568	4,509	4,137	438	-981	-190	1,543
- non EMU	Abroad	-2,895	-8,125	-1,593	-4,990	-417	-1,125	-2,518	-767	-3,317
	In Ireland	2,875	-6,664	-1,460	-1,545	-31	-3,628	6,983	620	-13,763
- EU 15	Abroad	-3,816	-8,074	-2,575	-139	-1,645	-3,715	-2,677	-1,586	174
	In Ireland	21,674	10,037	203	6,729	5,829	-2,724	-3,142	259	3,063
- non EU 15	Abroad	-1,099	-4,653	-602	-4,673	561	61	-2,109	333	-1,947
	In Ireland	-1,488	-1,048	4,905	-3,765	-1,723	-465	9,143	171	-15,283
- EU 25	Abroad	-3,796	-7,902	-2,682	-225	-1,246	-3,749	-2,747	-239	169
	In Ireland	21,455	10,279	306	6,793	5,854	-2,674	-3,366	110	3,590
- non EU 25	Abroad	-1,120	-4,825	-495	-4,587	162	95	-2,039	-1,013	-1,941
	In Ireland	-1,270	-1,290	4,803	-3,829	-1,749	-515	9,368	320	-15,810
Portfolio Investment	Assets	-144,682	-132,710	-44,868	-18,747	-29,551	-39,544	-34,019	-38,856	-5,726
	Liabilities	104,705	127,005	44,891	24,843	22,606	34,665	36,077	33,515	30,333
- EMU	Assets	-65,510	-48,512	-18,788	-7,493	-8,950	-13,281	-18,150	-12,918	-1,136
	Liabilities	20,186	31,199	12,239	4,365	7,318	7,277	6,673	4,659	3,434
- non EMU	Assets	-79,170	-84,198	-26,080	-11,254	-20,601	-26,263	-15,864	-25,938	-4,590
	Liabilities	84,518	95,807	32,653	20,478	15,288	27,388	29,404	28,856	26,898
- EU 15	Assets	-95,731	-76,209	-26,739	-10,093	-12,236	-27,141	-24,419	-20,612	-9,359
	Liabilities	68,035	92,416	33,046	17,931	16,253	25,186	25,342	20,720	18,675
- non EU 15	Assets	-48,951	-56,499	-18,129	-8,653	-17,314	-12,403	-9,596	-18,244	3,633
	Liabilities	36,669	34,588	11,845	6,912	6,352	9,479	10,735	12,795	11,658
- EU 25	Assets	-96,501	-77,350	-27,000	-10,572	-12,475	-27,303	-25,437	-21,899	-10,078
	Liabilities	67,952	93,338	33,328	18,105	16,321	25,584	25,753	20,621	18,820
- non EU 25	Assets	-48,180	-55,361	-17,868	-8,175	-17,076	-12,242	-8,578	-16,957	4,352
	Liabilities	36,754	33,667	11,564	6,738	6,284	9,081	10,324	12,894	11,513

Table 4b – Financial Account¹ showing geographical² detail - continued

€ million

Item		2003	2004 ³	2004				2005		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4 ³	Quarter 1	Quarter 2	Quarter 3
Other Investment⁴	Assets	-58,354	-45,504	-21,485	-13,483	-5,575	-4,961	-28,601	-21,387	-30,119
	Liabilities	79,922	59,203	17,509	9,821	12,450	19,423	22,870	32,156	18,281
- EMU	Assets	-21,913	-20,978	-6,980	-7,041	-4,751	-2,206	-9,650	-2,914	-5,176
	Liabilities	41,897	24,933	1,513	736	12,556	10,128	7,576	21,343	6,134
- non EMU	Assets	-36,443	-24,526	-14,505	-6,442	-824	-2,755	-18,951	-18,473	-24,943
	Liabilities	38,025	34,270	15,996	9,085	-106	9,295	15,294	10,813	12,147
- EU 15	Assets	-55,032	-39,390	-18,944	-10,318	-2,959	-7,169	-21,688	-10,040	-18,538
	Liabilities	65,011	55,932	14,941	10,347	9,177	21,467	19,180	26,515	11,891
- non EU 15	Assets	-3,324	-6,115	-2,541	-3,165	-2,617	2,208	-6,913	-11,346	-11,580
	Liabilities	14,911	3,271	2,568	-526	3,273	-2,044	3,690	5,641	6,390
- EU 25	Assets	-55,064	-41,123	-19,505	-11,404	-3,353	-6,861	-21,942	-10,272	-20,047
	Liabilities	65,232	56,102	14,703	10,419	9,673	21,307	19,559	27,290	11,998
- non EU 25	Assets	-3,291	-4,381	-1,980	-2,080	-2,222	1,901	-6,658	-11,115	-10,072
	Liabilities	14,691	3,102	2,807	-598	2,777	-1,884	3,311	4,866	6,283
Reserve Assets		1,770	1,177	1,189	135	-129	-18	48	69	11
Balance on Financial Account		-1,372	5,431	-834	722	2,822	2,721	-2,408	4,675	-1,213
<i>Net errors and omissions</i>		<i>1,280</i>	<i>-4,652</i>	<i>970</i>	<i>-84</i>	<i>-2,349</i>	<i>-3,189</i>	<i>3,766</i>	<i>-3,534</i>	<i>1,582</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 Revised⁴ Including financial derivatives and trade credits

Background Notes *(updated June 2005)*

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, 2005 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 was further developed and refined in 2004 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. To date, reinsurance transactions (e.g. premiums and claims) were consolidated (i.e. netted) in the estimates compiled. In this release reinsurance is treated on a gross basis and, hence, insurance service credits and debits have been increased accordingly. This gross recording treatment of reinsurance transactions has no net impact on the insurance service balance as the reinsurance element on the credit and debit sides are offsetting. 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 estimates of (a) the (net) income generated from investment by private individuals in residential and commercial 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.
- (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

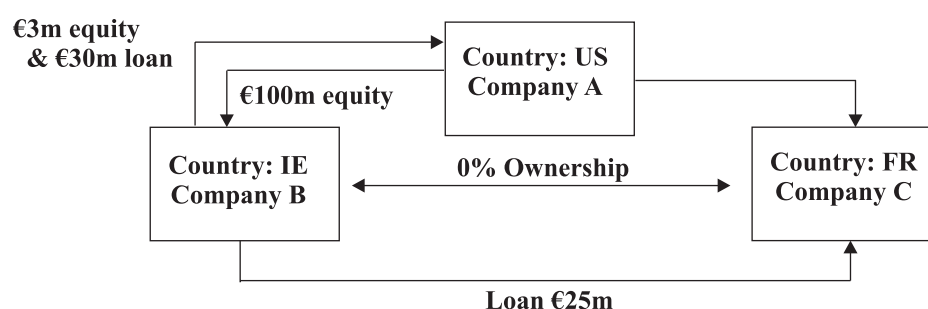
The capital account largely covers capital transfers, in particular amounts receivable under the EU Regional Development Fund and the Cohesion Fund and all other transfers intended for capital purposes. Estimates of migrants' transfers (i.e. the transfer of the net worth of immigrants and emigrants) 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 also includes investment by Irish private residents (households) in residential and commercial 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 private resident investors in commercial property abroad which was formerly included in portfolio investment is now included instead under direct investment. 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.

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.