

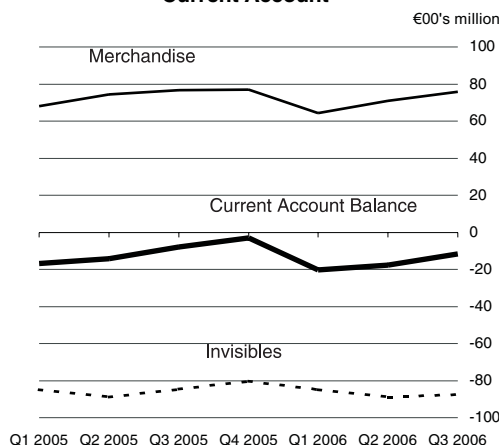


Central Statistics Office
An Phríomh-Oifig Staidrimh

21 December 2006

Balance of International Payments Quarter 3 2006

Current Account



€ million

	Merchandise Balance	Invisibles Balance	Current Account Balance
Q3 2006	7,587	-8,742	-1,155
Q3 2005	7,656	-8,450	-793
Q1-Q3 2006	21,135	-26,084	-4,949
Q1-Q3 2005	21,901	-25,794	-3,893

Smaller current account deficit in the 3rd quarter

The Balance of Payments current account showed a deficit of €1,155m in the third quarter of 2006, significantly lower than the negative balances shown for the previous two quarters but higher than the 2005 third quarter deficit of €793m - see *Table 1*. A notable feature in the latest results is the reduced services deficit of €1,733m. Over the first nine months of 2006, the accumulated current account deficit of €4,949m was over €1 billion higher than that for the same period in 2005. This increased deficit for the nine months can largely be traced to a fall-off in the *merchandise* surplus from €21,901m in 2005 to €21,135m this year. Other points of note in the third quarter's results are:

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

- ◆ *Merchandise* exports at €21,049m continued unchanged on previous quarters this year but were up €0.9 billion on the third quarter of 2005. The same comparison shows that imports at €13,462m were up about €1 billion.
- ◆ *Services* exports continued to grow strongly and at €14,082m were €2.1 billion higher than in the same quarter 2005. This increase was reflected across most service components but *trade related services* at €1,624m showed significant movement. In contrast to some extent, service imports at €15,815m showed marginal change on the second quarter this year and increased by €1 billion compared to one year earlier (mostly royalties, financial services and trade related services).
- ◆ *Income* inflows increased to €14,897m and were up almost €3.4 billion on the third quarter 2005 figure (€11,535m). Portfolio investment income (€7,889m) accounted for €2 billion of this increase, the remainder largely arising from higher interest receipts (€4,921m) on foreign lending and deposits. Income outflows increased by over €4.7 billion to €21,677m, the main movements being in portfolio investment income payments (€7,440m) and profit outflows (€7,819m).

Financial account (see *Table 2b and 3*)

- ◆ Despite an equity disinvestment of €1,630m in the quarter, total *direct investment in Ireland* amounted to €10,744m. This partly arose from *reinvested earnings* of €4,925m combined with *other capital* inflows of €7,448m. The later element reflected an increase in loan advances from direct investors abroad to their Irish affiliates as well as loan repayments by foreign affiliates to other Irish enterprises. It represents a reversal of the recent trend of net outward flows of inter-affiliate loans.
- ◆ There were large acquisitions of foreign portfolio assets of €65,514m (mostly in debt securities) with similar overall liabilities of €65,677m. IFSC enterprises were primarily involved in these transactions.

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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	1182
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	Year	31,423	-10,203	-22,481	393	-32,291	-867	279
2005	Year	29,606	-10,091	-24,316	601	-33,806	-4,200	266
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	8,143	-2,588	-5,601	-61	-8,250	-107	-22
	Quarter 2	8,142	-2,488	-5,867	64	-8,291	-149	-57
	Quarter 3	7,763	-2,700	-5,409	-13	-8,122	-359	19
	Quarter 4	7,375	-2,427	-5,604	403	-7,628	-252	339
2005	Quarter 1	6,805	-2,287	-5,950	-243	-8,480	-1,676	80
	Quarter 2	7,440	-2,082	-7,019	237	-8,864	-1,424	-20
	Quarter 3	7,656	-2,833	-5,391	-226	-8,450	-793	17
	Quarter 4	7,705	-2,889	-5,956	833	-8,012	-307	189
2006	Quarter 1	6,442	-1,905	-6,177	-384	-8,466	-2,024	73
	Quarter 2	7,106	-2,332	-6,263	-281	-8,876	-1,770	3
	Quarter 3	7,587	-1,733	-6,780	-229	-8,742	-1,155	5

¹ Adjusted for balance of payment 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	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	Year	-23,095	14,287	11,430	1,177	3,801	-3,212
2005	Year	-35,945	53,560	-20,040	1,472	-954	4,889
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	-8,076	10,665	-5,684	1,189	-1,905	2,035
	Quarter 2	-4,869	9,346	-4,281	135	331	-125
	Quarter 3	158	-4,805	7,694	-129	2,918	-2,578
	Quarter 4	-10,308	-919	13,701	-18	2,457	-2,544
2005	Quarter 1	1,706	5,199	-9,275	48	-2,322	3,918
	Quarter 2	-6,766	-284	10,755	69	3,774	-2,330
	Quarter 3	-16,592	26,402	-11,837	10	-2,018	2,795
	Quarter 4	-14,293	22,243	-9,683	1,345	-388	506
2006	Quarter 1	241	-25,948	28,766	83	3,142	-1,190
	Quarter 2	-5,634	-13,143	20,085	-58	1,250	518
	Quarter 3	4,547	163	-2,292	68	2,486	-1,335

¹ Including financial derivatives and trade credits

Table 2a – Current and Capital Accounts

€ million

Item		2004	2005	2005				2006		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Current Account										
Merchandise ¹	Cr	80,544	83,692	19,829	21,101	20,140	22,622	21,085	21,021	21,049
	Db	49,122	54,086	13,024	13,661	12,484	14,917	14,644	13,914	13,462
Services	Cr	42,424	46,117	10,352	11,439	11,950	12,376	12,440	13,473	14,082
	Db	52,625	56,207	12,639	13,520	14,783	15,265	14,345	15,805	15,815
Transport	Cr	1,895	2,131	410	563	708	450	407	642	785
	Db	1,790	1,934	466	493	448	527	515	496	477
Tourism and Travel ²	Cr	3,536	3,813	633	997	1,335	848	660	1,077	1,559
	Db	4,184	4,882	895	1,180	1,745	1,062	1,011	1,344	1,870
Communications	Cr	343	408	97	107	108	96	100	102	106
	Db	622	651	154	168	165	164	172	170	180
Insurance	Cr	7,821	6,806	1,783	1,595	1,673	1,755	2,149	1,720	1,968
	Db	6,039	5,675	1,580	1,113	1,514	1,468	1,545	1,349	1,470
Financial services	Cr	4,267	4,676	1,110	1,108	1,169	1,289	1,397	1,459	1,481
	Db	2,235	2,660	683	590	707	680	876	879	955
Computer services ³	Cr	15,100	15,015	3,466	3,871	3,415	4,263	3,850	4,190	3,723
	Db	307	336	85	89	87	75	81	83	118
Royalties/Licences	Cr	282	475	102	117	112	144	124	289	248
	Db	15,169	15,648	3,422	3,938	3,870	4,418	4,020	4,414	4,251
Business services	Cr	8,439	12,086	2,574	2,905	3,252	3,355	3,579	3,818	4,036
	Db	22,146	24,296	5,323	5,920	6,215	6,838	6,089	7,036	6,458
Trade related	Cr	2,858	4,196	819	1,015	1,186	1,176	1,197	1,337	1,624
	Db	7,559	7,872	1,737	2,082	1,840	2,213	2,042	2,536	2,023
Operational leasing	Cr	2,110	3,290	639	725	929	997	1,075	1,063	1,101
	Db	130	194	40	46	52	56	67	72	61
Misc. business services ⁴	Cr	3,472	4,600	1,115	1,165	1,138	1,182	1,308	1,418	1,311
	Db	14,456	16,231	3,547	3,793	4,323	4,568	3,981	4,429	4,375
Other services n.e.s.	Cr	739	704	175	175	177	177	177	176	176
	Db	136	122	30	29	31	32	35	33	34

Table 2a – Current and Capital Accounts - continued

€ million

Item		2004	2005	2005				2006		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Current Account - continued										
Income	Cr	34,966	43,449	9,255	10,480	11,535	12,179	12,833	14,516	14,897
	Db	57,447	67,766	15,205	17,499	16,926	18,136	19,010	20,779	21,677
Compensation of Employees	Cr	312	503	117	131	141	114	100	108	143
	Db	590	711	174	164	180	193	187	189	190
Investment Income	Cr	34,654	42,946	9,138	10,349	11,394	12,065	12,733	14,408	14,754
	Db	56,856	67,055	15,031	17,335	16,746	17,943	18,823	20,590	21,488
Direct investment income	Cr	6,018	6,682	1,397	1,475	1,788	2,022	1,973	1,993	1,945
	Db	31,956	32,586	7,784	9,230	7,263	8,309	8,197	7,835	8,214
Income on equity	Cr	3,731	4,059	714	882	1,203	1,260	990	927	1,012
	Db	30,214	30,466	7,244	8,740	6,745	7,737	7,718	7,484	7,819
Dividends & distributed										
branch profits	Cr	1,011	*	37	46	54	*	113	*	37
	Db	20,925	25,713	4,648	4,130	7,925	9,010	2,266	7,123	2,893
Reinvested earnings	Cr	2,719	*	678	836	1,149	*	878	*	975
	Db	9,291	4,752	2,596	4,610	-1,180	-1,274	5,452	362	4,925
Income on debt	Cr	2,286	2,624	683	593	586	762	983	1,065	933
	Db	1,741	2,119	540	490	517	572	479	350	396
Portfolio investment income	Cr	18,525	22,097	4,767	5,403	5,893	6,034	6,846	7,874	7,889
	Db	14,814	18,920	4,058	4,427	5,262	5,173	6,050	7,194	7,440
Income on equity	Cr	2,753	3,545	777	1,047	904	817	989	1,692	1,183
	Db	8,700	10,863	2,380	2,493	3,127	2,863	3,510	4,378	4,173
Income on debt	Cr	15,769	18,552	3,990	4,356	4,989	5,217	5,857	6,182	6,705
	Db	6,113	8,058	1,678	1,934	2,136	2,310	2,540	2,816	3,267
Other investment income	Cr	10,113	14,165	2,973	3,470	3,713	4,009	3,914	4,541	4,921
	Db	10,088	15,549	3,189	3,678	4,221	4,461	4,576	5,561	5,833
Current Transfers	Cr	5,314	5,699	1,022	1,231	1,029	2,417	888	923	917
	Db	4,921	5,098	1,265	994	1,255	1,584	1,272	1,204	1,146
Current Account - Total	Cr	163,248	178,955	40,456	44,250	44,655	49,594	47,247	49,933	50,945
	Db	164,116	183,156	42,132	45,674	45,448	49,902	49,271	51,703	52,100
Current Account Balance		-867	-4,200	-1,676	-1,424	-793	-307	-2,024	-1,770	-1,155
Capital Account Balance		279	266	80	-20	17	189	73	3	5

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 advertising, research and development and inter-affiliate management charges

* Suppressed for confidentiality reasons

Table 2b – Financial Account¹

€ million

Item		2004	2005	2005				2006		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Direct Investment	Abroad	-14,552	-10,910	-5,058	-1,535	-1,556	-2,761	-4,081	965	-6,197
	In Ireland	-8,543	-25,034	6,765	-5,231	-15,036	-11,532	4,322	-6,599	10,744
Equity	Abroad	-5,038	-4,121	-957	132	-1,021	-2,275	-1,178	-2,375	-4,784
	In Ireland	-4,662	1,271	715	-2,198	-835	3,589	-785	-365	-1,630
Reinvested Earnings	Abroad	-2,719	*	-678	-836	-1,149	*	-878	*	-975
	In Ireland	9,291	4,752	2,596	4,610	-1,180	-1,274	5,452	362	4,925
Other Capital	Abroad	-6,793	*	-3,424	-830	614	*	-2,025	*	-438
	In Ireland	-13,171	-31,057	3,454	-7,643	-13,021	-13,847	-344	-6,596	7,448
Portfolio Investment	Assets	-135,116	-118,591	-35,169	-40,551	-6,293	-36,578	-65,824	-37,261	-65,514
	Liabilities	149,403	172,151	40,368	40,267	32,695	58,821	39,876	24,117	65,677
Equity	Assets	-36,818	-46,485	-9,321	-8,587	-13,881	-14,696	-26,449	-6,139	-9,557
	Liabilities	65,254	74,183	13,742	21,886	14,374	24,181	44,530	15,368	35,413
Debt Instruments	Assets	-98,299	-72,104	-25,848	-31,963	7,588	-21,881	-39,376	-31,122	-55,957
	Liabilities	84,149	97,969	26,626	18,381	18,322	34,640	-4,654	8,749	30,264
Bonds and notes	Assets	-63,235	-74,019	-20,563	-25,927	-11,328	-16,201	-27,885	-19,229	-26,438
	Liabilities	65,074	61,048	19,508	16,690	11,416	13,434	1,963	16,341	18,804
Money market instruments	Assets	-35,062	1,915	-5,285	-6,036	18,916	-5,680	-11,491	-11,893	-29,519
	Liabilities	19,075	36,921	7,118	1,691	6,906	21,206	-6,617	-7,592	11,460

Table 2b – Financial Account¹ - continued

€ million

Item		2004	2005	2005				2006		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Other Investment	Assets	-47,858	-111,829	-32,063	-21,289	-30,884	-27,593	6,736	-30,890	-12,212
	Liabilities	59,288	91,789	22,788	32,044	19,047	17,910	22,030	50,975	9,920
Loans, currency and deposits	Assets	-45,731	-88,575	-27,345	-15,681	-23,710	-21,839	10,212	-21,268	-20,162
	Liabilities	50,947	86,396	18,039	28,873	21,426	18,058	6,292	42,828	12,842
Other ²	Assets	-2,126	-23,253	-4,718	-5,608	-7,174	-5,753	-3,476	-9,622	7,949
	Liabilities	8,342	5,391	4,748	3,170	-2,379	-148	15,738	8,147	-2,922
Reserve Assets		1,177	1,472	48	69	10	1,345	83	-58	68
Monetary gold		7	14	14	0	0	0	0	0	0
Special drawing rights		0	-8	-2	-4	-1	-1	-1	0	-1
Reserve position in the IMF		162	165	3	45	9	108	62	-45	17
Foreign exchange		1,008	1,301	33	28	2	1,238	22	-13	52
Other		0	0	0	0	0	0	0	0	0
Balance on Financial Account		3,801	-954	-2,322	3,774	-2,018	-388	3,142	1,250	2,486
Net errors and omissions		-3,212	4,889	3,918	-2,330	2,795	506	-1,190	518	-1,335
Memorandum Item:										
Government financial transactions	Assets	-1,964	-1,500	-588	-314	-330	-268	-960	-838	317
	Liabilities	2,054	1,319	91	721	425	82	107	-87	457

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		2004	2005	2005				2006		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Current Account - Total	Cr	163,248	178,955	40,456	44,250	44,655	49,594	47,247	49,933	50,945
	Db	164,116	183,156	42,132	45,674	45,448	49,902	49,271	51,703	52,100
Merchandise ²	Cr	80,544	83,692	19,829	21,101	20,140	22,622	21,085	21,021	21,049
	Db	49,122	54,086	13,024	13,661	12,484	14,917	14,644	13,914	13,462
Services	Cr	42,424	46,117	10,352	11,439	11,950	12,376	12,440	13,473	14,082
	Db	52,625	56,207	12,639	13,520	14,783	15,265	14,345	15,805	15,815
- IFSC	Cr	14,356	14,780	3,521	3,454	3,771	4,034	4,643	4,258	4,543
	Db	9,563	9,570	2,562	1,950	2,495	2,563	2,859	2,454	2,754
- non IFSC	Cr	28,067	31,336	6,831	7,985	8,178	8,342	7,797	9,215	9,538
	Db	43,063	46,635	10,076	11,570	12,287	12,702	11,486	13,351	13,061
Income	Cr	34,966	43,449	9,255	10,480	11,535	12,179	12,833	14,516	14,897
	Db	57,447	67,766	15,205	17,499	16,926	18,136	19,010	20,779	21,677
- IFSC	Cr	26,691	33,789	7,363	7,980	8,870	9,576	10,248	11,715	11,790
	Db	26,269	34,147	7,443	8,371	8,804	9,529	10,312	12,071	12,110
- non IFSC	Cr	8,275	9,660	1,892	2,500	2,665	2,603	2,586	2,801	3,107
	Db	31,177	33,619	7,762	9,128	8,122	8,607	8,698	8,708	9,568
Current Transfers	Cr	5,314	5,699	1,022	1,231	1,029	2,417	888	923	917
	Db	4,921	5,098	1,265	994	1,255	1,584	1,272	1,204	1,146
- IFSC ³	Cr	2,870	2,797	557	521	704	1,015	528	649	585
	Db	2,870	2,797	557	521	704	1,015	528	649	585
- non IFSC	Cr	2,444	2,903	465	710	326	1,402	360	275	332
	Db	2,051	2,302	708	473	552	569	744	556	561
Balance on Current Account		-867	-4,200	-1,676	-1,424	-793	-307	-2,024	-1,770	-1,155
Balance on Capital Account		279	266	80	-20	17	189	73	3	5

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

Item		2004	2005	2005				2006		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Financial Account ⁴										
Direct investment	Abroad	-14,552	-10,910	-5,058	-1,535	-1,556	-2,761	-4,081	965	-6,197
	In Ireland	-8,543	-25,034	6,765	-5,231	-15,036	-11,532	4,322	-6,599	10,744
- IFSC	Abroad	526	-441	-356	1,452	-356	-1,181	348	-1,386	-3,879
	In Ireland	-13,939	-26,432	6,444	-8,610	-14,526	-9,740	-684	1,684	5,068
- non IFSC	Abroad	-15,079	-10,469	-4,703	-2,986	-1,200	-1,580	-4,428	2,351	-2,318
	In Ireland	5,397	1,398	321	3,379	-510	-1,792	5,006	-8,283	5,676
Portfolio investment	Assets	-135,116	-118,591	-35,169	-40,551	-6,293	-36,578	-65,824	-37,261	-65,514
	Liabilities	149,403	172,151	40,368	40,267	32,695	58,821	39,876	24,117	65,677
- IFSC	Assets	-116,736	-93,352	-26,787	-33,250	-1,515	-31,800	-58,590	-29,978	-58,622
	Liabilities	126,491	142,303	34,568	36,377	24,744	46,614	31,438	26,318	51,520
- non IFSC	Assets	-18,379	-25,240	-8,383	-7,301	-4,778	-4,778	-7,234	-7,283	-6,892
	Liabilities	22,913	29,848	5,800	3,890	7,951	12,207	8,438	-2,200	14,156
Other investment ⁵	Assets	-47,858	-111,829	-32,063	-21,289	-30,884	-27,593	6,736	-30,890	-12,212
	Liabilities	59,288	91,789	22,788	32,044	19,047	17,910	22,030	50,975	9,920
- IFSC	Assets	-39,850	-80,116	-25,443	-19,423	-20,043	-15,207	5,946	-25,984	-3,649
	Liabilities	29,998	57,878	11,791	29,899	4,055	12,133	16,556	22,542	6,119
- non IFSC	Assets	-8,007	-31,714	-6,620	-1,866	-10,842	-12,386	790	-4,906	-8,564
	Liabilities	29,291	33,911	10,997	2,145	14,992	5,777	5,474	28,432	3,801
Reserve Assets		1,177	1,472	48	69	10	1,345	83	-58	68
Balance on Financial Account		3,801	-954	-2,322	3,774	-2,018	-388	3,142	1,250	2,486
Net errors and omissions		-3,212	4,889	3,918	-2,330	2,795	506	-1,190	518	-1,335

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		2004	2005	2005				2006		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Current Account - Total	Cr	163,248	178,955	40,456	44,250	44,655	49,594	47,247	49,933	50,945
	Db	164,116	183,156	42,132	45,674	45,448	49,902	49,271	51,703	52,100
Merchandise ²	Cr	80,544	83,692	19,829	21,101	20,140	22,622	21,085	21,021	21,049
	Db	49,122	54,086	13,024	13,661	12,484	14,917	14,644	13,914	13,462
- EMU	Cr	34,653	37,739	8,719	9,593	8,754	10,673	9,402	8,971	9,027
	Db	11,928	13,068	3,455	3,219	2,905	3,489	3,690	3,482	3,271
- non EMU	Cr	45,892	45,954	11,110	11,508	11,386	11,950	11,684	12,049	12,022
	Db	37,194	41,017	9,568	10,442	9,579	11,428	10,953	10,433	10,191
- EU 15	Cr	51,351	54,367	12,798	13,791	12,638	15,140	13,434	13,042	13,308
	Db	31,293	33,610	8,333	8,345	7,835	9,097	9,069	8,720	8,545
- non EU 15	Cr	29,193	29,324	7,030	7,310	7,502	7,482	7,652	7,979	7,741
	Db	17,828	20,476	4,690	5,316	4,649	5,821	5,575	5,194	4,917
- EU 25	Cr	52,120	55,173	12,972	13,993	12,818	15,390	13,673	13,327	13,585
	Db	31,804	34,138	8,464	8,479	7,956	9,239	9,263	8,926	8,767
- non EU 25	Cr	28,426	28,518	6,856	7,107	7,322	7,233	7,413	7,693	7,464
	Db	17,318	19,949	4,560	5,182	4,528	5,679	5,381	4,988	4,695
Services	Cr	42,424	46,117	10,352	11,439	11,950	12,376	12,440	13,473	14,082
	Db	52,625	56,207	12,639	13,520	14,783	15,265	14,345	15,805	15,815
- EMU	Cr	16,003	17,037	3,922	4,366	4,063	4,686	4,375	4,894	4,524
	Db	17,736	17,000	3,845	4,167	4,363	4,625	4,041	4,454	4,716
- non EMU	Cr	26,421	29,080	6,430	7,073	7,887	7,690	8,065	8,579	9,558
	Db	34,889	39,207	8,794	9,354	10,419	10,640	10,304	11,351	11,099
- EU 15	Cr	28,224	30,027	6,581	7,754	7,666	8,026	7,624	8,005	8,515
	Db	26,133	26,423	6,027	6,625	6,870	6,901	6,166	7,242	7,437
- non EU 15	Cr	14,200	16,090	3,771	3,685	4,284	4,350	4,816	5,468	5,567
	Db	26,493	29,784	6,612	6,895	7,913	8,364	8,179	8,563	8,378
- EU 25	Cr	28,821	30,932	6,766	7,944	7,923	8,299	7,866	8,277	8,828
	Db	26,654	27,432	6,208	6,810	7,163	7,251	6,412	7,600	7,703
- non EU 25	Cr	13,601	15,183	3,585	3,494	4,027	4,077	4,574	5,196	5,254
	Db	25,973	28,774	6,431	6,710	7,620	8,013	7,933	8,205	8,111

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

€ million

Item		2004	2005	2005				2006		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Income	Cr	34,966	43,449	9,255	10,480	11,535	12,179	12,833	14,516	14,897
	Db	57,447	67,766	15,205	17,499	16,926	18,136	19,010	20,779	21,677
- EMU	Cr	14,243	16,088	3,564	3,993	4,157	4,374	4,281	5,103	5,143
	Db	21,791	23,361	5,050	6,234	5,532	6,545	6,060	5,698	6,011
- non EMU	Cr	20,723	27,361	5,691	6,487	7,378	7,805	8,550	9,413	9,754
	Db	35,656	44,405	10,155	11,265	11,394	11,591	12,950	15,081	15,667
- EU 15	Cr	22,903	26,560	5,936	6,574	6,993	7,057	7,626	8,500	8,731
	Db	34,267	39,670	8,638	10,136	9,988	10,908	10,982	11,276	11,967
- non EU 15	Cr	12,062	16,888	3,318	3,905	4,542	5,123	5,205	6,016	6,167
	Db	23,180	28,095	6,567	7,362	6,938	7,228	8,028	9,503	9,710
- EU 25	Cr	23,222	26,938	6,052	6,633	7,093	7,160	7,762	8,639	8,911
	Db	34,372	39,883	8,685	10,196	10,038	10,964	11,029	11,331	12,037
- non EU 25	Cr	11,743	16,511	3,203	3,847	4,442	5,019	5,068	5,876	5,986
	Db	23,074	27,882	6,520	7,303	6,888	7,171	7,981	9,448	9,641
Current Transfers	Cr	5,314	5,699	1,022	1,231	1,029	2,417	888	923	917
	Db	4,921	5,098	1,265	994	1,255	1,584	1,272	1,204	1,146
- EMU	Cr	789	831	181	201	199	250	290	158	188
	Db	773	817	177	197	195	248	289	158	188
- non EMU	Cr	4,525	4,869	841	1,030	831	2,167	598	765	729
	Db	4,147	4,281	1,088	797	1,060	1,336	983	1,047	959
- EU 15	Cr	3,629	4,261	770	1,041	635	1,815	742	560	536
	Db	2,794	3,341	901	714	753	973	980	679	656
- non EU 15	Cr	1,686	1,439	252	191	395	601	146	363	381
	Db	2,126	1,758	364	280	503	611	292	525	490
- EU 25	Cr	3,638	4,265	771	1,041	637	1,816	743	562	542
	Db	2,846	3,374	910	721	762	981	988	720	702
- non EU 25	Cr	1,677	1,433	250	190	392	601	145	362	375
	Db	2,073	1,724	355	273	493	603	284	484	445
Balance on Current Account		-867	-4,200	-1,676	-1,424	-793	-307	-2,024	-1,770	-1,155
Balance on Capital Account		279	266	80	-20	17	189	73	3	5

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		2004	2005	2005				2006		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Direct Investment	Abroad	-14,552	-10,910	-5,058	-1,535	-1,556	-2,761	-4,081	965	-6,197
	In Ireland	-8,543	-25,034	6,765	-5,231	-15,036	-11,532	4,322	-6,599	10,744
	- EMU									
	Abroad	-4,570	-5,529	-2,392	-546	1,491	-4,082	64	2,976	-3,409
	In Ireland	13,962	-14,549	-2,950	-1,093	1,218	-11,724	-678	-7,730	8,984
	- non EMU									
	Abroad	-9,983	-5,381	-2,666	-988	-3,047	1,320	-4,145	-2,012	-2,787
	In Ireland	-22,505	-10,486	9,714	-4,138	-16,254	192	5,000	1,131	1,760
	- EU 15									
	Abroad	-8,737	-10,250	-2,975	-1,985	177	-5,467	905	-1,121	-4,749
	In Ireland	3,221	-19,956	-6,069	-1,670	1,404	-13,621	-1,537	-6,664	10,115
	- non EU 15									
	Abroad	-5,815	-659	-2,083	451	-1,733	2,706	-4,985	2,085	-1,448
	In Ireland	-11,764	-5,078	12,834	-3,561	-16,440	2,089	5,859	65	629
Portfolio Investment	- EU 25									
	Abroad	-8,566	-8,979	-3,043	-645	171	-5,462	1,009	-1,122	-4,780
	In Ireland	3,435	-20,382	-6,330	-1,815	1,953	-14,190	-1,428	-6,554	10,061
	- non EU 25									
	Abroad	-5,987	-1,930	-2,015	-889	-1,727	2,701	-5,090	2,087	-1,417
	In Ireland	-11,977	-4,652	13,095	-3,416	-16,989	2,658	5,750	-45	683
	Assets	-135,116	-118,591	-35,169	-40,551	-6,293	-36,578	-65,824	-37,261	-65,514
	Liabilities	149,403	172,151	40,368	40,267	32,695	58,821	39,876	24,117	65,677
	- EMU									
	Assets	-49,672	-37,976	-13,035	-14,203	-1,613	-9,125	-19,332	-16,578	-17,114
	Liabilities	31,943	31,136	6,457	5,154	3,641	15,884	513	22,132	9,552
	- non EMU									
	Assets	-85,442	-80,611	-22,130	-26,348	-4,681	-27,452	-46,493	-20,682	-48,399
	Liabilities	117,460	141,016	33,912	35,113	29,054	42,937	39,363	1,985	56,125
Portfolio Investment	- EU 15									
	Assets	-77,123	-78,184	-24,199	-22,334	-9,855	-21,796	-28,292	-20,976	-31,556
	Liabilities	114,911	118,516	29,696	27,216	20,648	40,956	22,834	16,639	34,700
	- non EU 15									
	Assets	-57,993	-40,404	-10,966	-18,217	3,561	-14,782	-37,532	-16,284	-33,958
	Liabilities	34,492	53,636	10,673	13,051	12,047	17,865	17,042	7,478	30,976
	- EU 25									
	Assets	-78,261	-80,895	-25,216	-23,622	-10,574	-21,483	-29,946	-20,626	-31,917
	Liabilities	115,833	118,835	30,105	27,117	20,793	40,820	22,748	16,741	34,905
	- non EU 25									
	Assets	-56,855	-37,692	-9,949	-16,929	4,280	-15,094	-35,879	-16,635	-33,596
	Liabilities	33,570	53,316	10,263	13,150	11,902	18,001	17,128	7,376	30,772

Table 4b – Financial Account¹ showing geographical² detail - continued

€ million

Item		2004	2005	2005				2006		
		Year		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3
Other Investment ³	Assets	-47,858	-111,829	-32,063	-21,289	-30,884	-27,593	6,736	-30,890	-12,212
	Liabilities	59,288	91,789	22,788	32,044	19,047	17,910	22,030	50,975	9,920
- EMU	Assets	-22,397	-32,156	-12,052	-3,614	-6,235	-10,255	-1,192	-11,562	-4,034
	Liabilities	25,627	34,528	6,848	21,648	6,329	-297	8,539	22,202	-132
- non EMU	Assets	-25,460	-79,674	-20,011	-17,676	-24,649	-17,338	7,928	-19,328	-8,179
	Liabilities	33,661	57,260	15,940	10,395	12,718	18,207	13,491	28,773	10,052
- EU 15	Assets	-40,985	-82,705	-23,510	-10,615	-19,098	-29,482	11,020	-12,322	-8,513
	Liabilities	56,343	72,115	19,738	26,565	11,961	13,851	15,500	29,666	14,564
- non EU 15	Assets	-6,871	-29,124	-8,553	-10,674	-11,786	1,889	-4,284	-18,568	-3,699
	Liabilities	2,945	19,672	3,050	5,478	7,086	4,058	6,530	21,309	-4,644
- EU 25	Assets	-42,272	-85,664	-23,897	-10,848	-20,604	-30,315	9,683	-13,770	-8,683
	Liabilities	56,507	73,684	20,166	27,432	12,158	13,928	15,779	30,418	14,678
- non EU 25	Assets	-5,585	-26,163	-8,165	-10,441	-10,280	2,723	-2,947	-17,119	-3,529
	Liabilities	2,782	18,104	2,622	4,612	6,889	3,981	6,251	20,557	-4,757
Reserve Assets		1,177	1,472	48	69	10	1,345	83	-58	68
Balance on Financial Account		3,801	-954	-2,322	3,774	-2,018	-388	3,142	1,250	2,486
<i>Net errors and omissions</i>		<i>-3,212</i>	<i>4,889</i>	<i>3,918</i>	<i>-2,330</i>	<i>2,795</i>	<i>506</i>	<i>-1,190</i>	<i>518</i>	<i>-1,335</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 December 2006)*

Introduction	<p>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.</p> <p>A description of the methodology is given below. It follows as far as possible the recommendations of the IMF's <i>Balance of Payments Manual - 5th Edition</i> (BPM5) published in 1993 and its supplement <i>Financial Derivatives: A Supplement to the 5th Edition (1993) of the Balance of Payments Manual</i> published in 2000. These recommendations were prepared in close co-operation with the European Commission (Eurostat), the OECD and other international organisations.</p>
Definition of balance of payments	The balance of payments (BOP) is a statistical statement that summarises, for a specific time period, the economic transactions of the residents of an economy with the rest of the world.
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.
Structure of the Balance of Payments accounts	The balance of payments presentation consists of three tables or accounts, the <i>Current Account</i> , the <i>Capital Account</i> and the <i>Financial Account</i> . The current account consists of trade in merchandise and services, income inflows and outflows and current transfers. The capital account covers capital transfers and the acquisition and disposal of non-produced, non-financial assets. The financial account is concerned with transactions in foreign financial assets and liabilities, distinguishing the functional type of investment i.e. direct, portfolio and other investment (including transactions in financial derivatives) and reserve assets.
Valuation	BOP transactions, in principle, should be recorded on an accruals basis using market valuation. In practice, the collection system (see below) 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.
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.
Sign convention and symbols	<p>The BOP presentation follows the standard double entry accounting treatment for a transaction i.e. in principle, every credit entry is matched by a corresponding debit entry elsewhere in the system.</p> <p>In the current account, credit items are exports of merchandise and services, income inflows and current transfer receivables while debit items are imports, income outflows and transfer payables. In the capital account, capital transfer receivables are recorded as credits and payables as debits. Both credit (denoted by the symbol 'Cr') and debit (denoted by 'Db') items are shown as positive numbers and the net balances are calculated as <i>credit – debit</i>.</p> <p>The transactions in the financial account are implicitly recorded on a credit/debit basis but are 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 <i>net change in assets transactions + net change in liabilities transactions</i>. In the case of direct investment, the asset/liability presentation is replaced by the so-called 'directional' one, i.e. <i>direct investment abroad</i> (which approximates to the assets concept) and</p>

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.

Data collection

BOP data collection is statutory and surveys or other data collection arrangements are conducted under the Statistics (Balance of Payments and Financial Accounts) Order, 2005 (S.I. No. 124 of 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.

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) *merchanting and other trade-related services*, (b) *operational leasing* and (c) *miscellaneous business services*.

Merchanting consists of the sales net of purchases by Irish merchants of foreign goods bought from and sold to non-residents without entering or leaving Ireland; 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

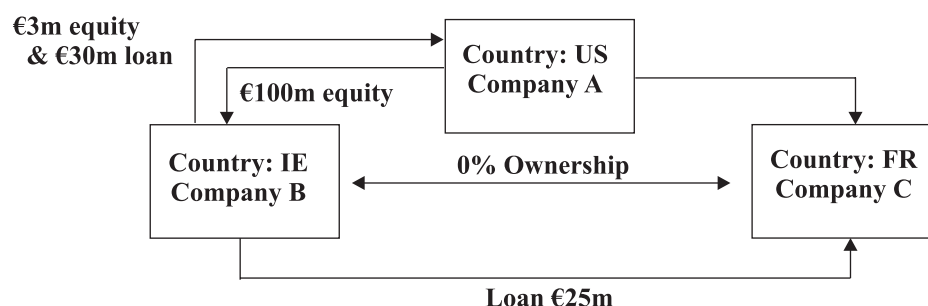
The capital account largely covers capital transfers, in particular amounts receivable under the EU Regional Development Fund and the Cohesion Fund and all other transfers intended for capital purposes. Estimates of migrants' transfers (i.e. the transfer of the net worth of immigrants and emigrants) 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.