

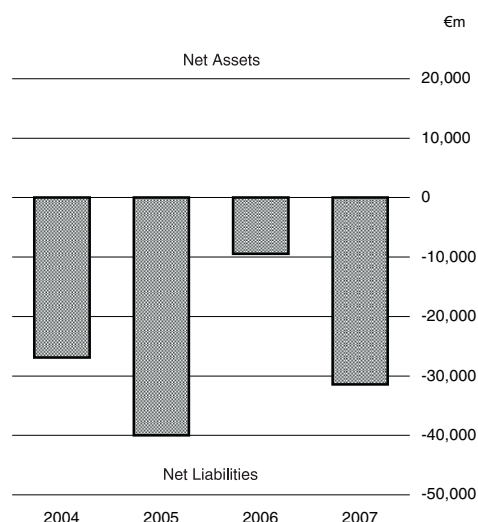


**Central Statistics Office**  
An Phríomh-Oifig Staidrimh

28 October 2008

## International Investment Position 31 December 2007

**Ireland's Net IIP Position**



€ million

	Assets Stock	Liabilities Stock	Net Position
End 2007	2,267,476	2,298,921	-31,445
End 2006	2,011,348	2,020,800	-9,452
End 2005	1,681,440	1,721,428	-39,988
End 2004	1,290,286	1,317,194	-26,908

### Ireland's stocks of foreign financial assets and liabilities approach €2.3 trillion at end-2007

At end-December 2007, Ireland's overall stocks of foreign financial assets amounted to €2,267bn while corresponding liabilities reached €2,299bn. Irish residents therefore had an overall net liability of €31bn to non-residents, up significantly from the previous year's revised figure of €9bn – see *Table 1*. Some additional points of note in the 2007 results are:

- ◆ *Portfolio Investment* assets at €1,338bn were almost €108bn higher than at end-2006. This was mostly due to increases in *debt instruments*. Liabilities at €1,328bn increased by a similar amount, split roughly evenly between *equity* and *debt*.
- ◆ Overall *Other Investment* stocks of both assets and liabilities showed substantial increases in 2007 with assets of €830bn being up €141bn on the 2006 level; liabilities of €839bn were €161bn higher. Net transactions in assets during 2007 accounted for €161bn of the change in stocks but this was offset by valuation and other changes of €20bn (mainly from exchange rate movements). Net transactions in liabilities amounted to almost €171bn with valuation and other changes decreasing the stock level by almost €10bn – see *Table 4a* and the box below.
- ◆ *Direct Investment Abroad* continued its upward trend and at €99bn was up €7.4 billion on 2006. *Direct Investment in Ireland* reversed its downward trend and at €131.4bn in 2007 was up €12.6bn on 2006. This was due to a combination of an increase in equity stocks (including reinvested earnings) to €179.7bn and a decrease in outflows of *other capital* to €48.3bn (mainly loans from IFSC enterprises to their affiliates abroad) – see *Tables 2a, 2b and 4a*.

This Release provides end 2007 data and updates the annual series of international investment position (IIP) statistics for Ireland. It also incorporates revisions to the 2006 data arising partly from revised Balance of Payments statistics released on 30 June 2008 and partly from improved stock data from respondents. In addition, for the years 2006 and 2007, it includes a reclassification of the end-year stocks of the assets of certain securitisation vehicles resident in Ireland from *other investment* to *portfolio investment*. This reclassification has not been applied to the earlier years' results. The change does not affect the overall IIP totals for any year. Its impact has not been reflected in the BOP flows shown in Table 4 but has been absorbed temporarily in the *valuation and other changes* category in this table. It is intended to incorporate the necessary changes to the BOP flows when the annual 2008 results are published in June 2009 – see *Background Notes* for further information.

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

€ million

Item	1998	1999	2000	2001	2002	2003	2004	2005	2006 <sup>1</sup>	2007
<b>Foreign Assets</b>										
Direct Investment Abroad <sup>2</sup>	17,342	25,116	30,011	46,317	56,148	58,054	78,329	88,287	91,669	99,084
Portfolio Investment	163,961 <sup>3</sup>	285,211	366,867	491,141	547,314	660,743	787,249	1,002,129	1,230,234 <sup>5</sup>	1,338,076 <sup>5</sup>
Other Investment <sup>4</sup>	175,943	253,291	277,467	306,286	318,351	358,201	422,568	590,279	688,805 <sup>5</sup>	829,677 <sup>5</sup>
Reserve Assets	6,434 <sup>3</sup>	5,355	5,807	6,400	5,227	3,295	2,140	745	640	639
<b>Total Foreign Assets</b>	<b>363,680</b>	<b>568,973</b>	<b>680,152</b>	<b>850,144</b>	<b>927,040</b>	<b>1,080,293</b>	<b>1,290,286</b>	<b>1,681,440</b>	<b>2,011,348</b>	<b>2,267,476</b>
<b>Foreign Liabilities</b>										
Direct Investment in Ireland <sup>2</sup>	53,315	72,482	136,581	152,108	174,404	176,435	152,446	138,620	118,824	131,411
Portfolio Investment	140,945	224,621	310,528	412,082	447,063	542,200	720,952	1,025,902	1,223,683	1,328,183
Other Investment <sup>4</sup>	149,185	226,185	241,417	303,801	329,002	389,807	443,796	556,906	678,293	839,327
<b>Total Foreign Liabilities</b>	<b>343,445</b>	<b>523,288</b>	<b>688,526</b>	<b>867,991</b>	<b>950,469</b>	<b>1,108,442</b>	<b>1,317,194</b>	<b>1,721,428</b>	<b>2,020,800</b>	<b>2,298,921</b>
<b>Net International Investment Position (IIP)</b>										
Direct Investment <sup>2</sup>	-35,973	-47,366	-106,570	-105,791	-118,256	-118,381	-74,117	-50,333	-27,155	-32,327
Portfolio Investment	23,016 <sup>3</sup>	60,590	56,339	79,059	100,251	118,543	66,297	-23,773	6,551	9,893
Other Investment <sup>4</sup>	26,758	27,106	36,050	2,485	-10,651	-31,606	-21,228	33,373	10,512	-9,650
Reserve Assets	6,434 <sup>3</sup>	5,355	5,807	6,400	5,227	3,295	2,140	745	640	639
<b>Total (Net IIP)</b>	<b>20,235</b>	<b>45,685</b>	<b>-8,374</b>	<b>-17,847</b>	<b>-23,429</b>	<b>-28,149</b>	<b>-26,908</b>	<b>-39,988</b>	<b>-9,452</b>	<b>-31,445</b>

<sup>1</sup> Revised

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

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

<sup>4</sup> Includes financial derivatives and trade credits

<sup>5</sup> Reflects the re-classification of assets of certain Securitisation Vehicles (see box on page 1)

Table 2a - International Investment Position - Detailed Data

€ million

Item	2004	2005	2006 <sup>1</sup>	2007
<b>Foreign Assets</b>				
<b>Direct Investment Abroad <sup>2</sup></b>	<b>78,329</b>	<b>88,287</b>	<b>91,669</b>	<b>99,084</b>
Equity capital and reinvested earnings	67,371	74,327	82,335	86,620
Other capital	10,958	13,960	9,334	12,464
<b>Portfolio Investment</b>	<b>787,249</b>	<b>1,002,129</b>	<b>1,230,234</b>	<b>1,338,076</b>
Equity	223,877	324,790	435,231	441,085
<i>Monetary authority <sup>3</sup></i>	0	0	0	0
<i>General government</i>	8,777	12,191	15,052	16,384
<i>Monetary financial institutions <sup>4</sup></i>	841	1,535	3,006	1,755
<i>Other sectors</i>	214,259	311,064	417,173 <sup>6</sup>	422,946 <sup>6</sup>
Debt instruments	563,372	677,339	795,003	896,991
Bonds and notes	348,713	453,724	518,075	574,935
<i>Monetary authority <sup>3</sup></i>	3,999	6,234	6,124	10,523
<i>General government</i>	1,485	1,762	2,416	3,384
<i>Monetary financial institutions <sup>4</sup></i>	185,803	254,475	306,667	327,514
<i>Other sectors</i>	157,426	191,253	202,868	233,514
Money market instruments	214,659	223,615	276,928	322,056
<i>Monetary authority <sup>3</sup></i>	1,535	1,496	1,956	148
<i>General government</i>	0	0	0	0
<i>Monetary financial institutions <sup>4</sup></i>	181,101	207,385	256,748	296,536
<i>Other sectors</i>	32,023	14,734	18,224	25,372
<b>Other Investment</b>	<b>422,568</b>	<b>590,279</b>	<b>688,805</b>	<b>829,677</b>
Loans, currency and deposits	374,960	510,653	596,866	721,582
<i>Monetary authority <sup>3</sup></i>	2,056	2,321	3,187	705
<i>General government</i>	1,049	1,212	905	124
<i>Monetary financial institutions <sup>4</sup></i>	178,291	248,937	307,402	378,780
<i>Other sectors</i>	193,564	258,183	285,372 <sup>6</sup>	341,973 <sup>6</sup>
Trade Credits	21,318	27,870	32,796	32,777
<i>General government</i>	0	0	0	0
<i>Other sectors</i>	21,318	27,870	32,796	32,777
Other assets <sup>5</sup>	26,290	51,756	59,143	75,318
<i>Monetary authority <sup>3</sup></i>	570	570	558	551
<i>General government</i>	-2	22	-27	-40
<i>Monetary financial institutions <sup>4</sup></i>	5,386	10,168	10,515	26,406
<i>Other sectors</i>	20,336	40,996	48,097	48,401
<b>Reserve assets</b>	<b>2,140</b>	<b>745</b>	<b>640</b>	<b>639</b>
Monetary gold	62	84	93	110
Special drawing rights	65	74	72	77
Reserve Position in the IMF	308	150	100	51
Foreign Exchange	1,705	437	375	401
Other	0	0	0	0
<b>Total Foreign Assets</b>	<b>1,290,286</b>	<b>1,681,440</b>	<b>2,011,348</b>	<b>2,267,476</b>

<sup>1</sup> Revised<sup>2</sup> Reflecting the so-called directional principle for reclassifying Direct Investment (see background notes)<sup>3</sup> Central Bank and Financial Services Authority of Ireland<sup>4</sup> Excludes the Central Bank and Financial Services Authority of Ireland<sup>5</sup> Includes financial derivatives<sup>6</sup> Reflects the re-classification of assets of certain Securitisation Vehicles (see box on page 1)

Table 2b - International Investment Position - Detailed Data

€ million

Item	2004	2005 <sup>1</sup>	2006 <sup>1</sup>	2007
<b>Foreign Liabilities</b>				
<b>Direct Investment in Ireland <sup>2</sup></b>	<b>152,446</b>	<b>138,620</b>	<b>118,824</b>	<b>131,411</b>
Equity capital and reinvested earnings	167,661	184,457	171,920	179,745
Other capital	-15,215	-45,837	-53,096	-48,334
<b>Portfolio Investment</b>	<b>720,952</b>	<b>1,025,902</b>	<b>1,223,683</b>	<b>1,328,183</b>
Equity	450,650	603,823	721,940	779,639
<i>Monetary authority <sup>3</sup></i>	0	0	0	0
<i>General government</i>	0	0	0	0
<i>Monetary financial institutions <sup>4</sup></i>	189,073	235,244	286,768	319,294
<i>Other sectors</i>	261,577	368,579	435,172	460,345
Debt instruments	270,302	422,079	501,743	548,544
Bonds and notes	209,995	324,055	399,681	442,424
<i>Monetary authority <sup>3</sup></i>	0	0	0	0
<i>General government</i>	25,166	26,852	27,119	29,199
<i>Monetary financial institutions <sup>4</sup></i>	68,505	111,051	136,877	135,805
<i>Other sectors</i>	116,324	186,152	235,685	277,420
Money market instruments	60,307	98,024	102,062	106,120
<i>Monetary authority <sup>3</sup></i>	0	0	0	0
<i>General government</i>	204	0	0	589
<i>Monetary financial institutions <sup>4</sup></i>	41,354	68,157	77,962	86,971
<i>Other sectors</i>	18,749	29,867	24,100	18,560
<b>Other Investment</b>	<b>443,796</b>	<b>556,906</b>	<b>678,293</b>	<b>839,327</b>
Loans, currency and deposits	371,658	476,859	571,591	696,640
<i>Monetary authority <sup>3</sup></i>	6,681	4,509	2,545	595
<i>General government</i>	283	135	159	368
<i>Monetary financial institutions <sup>4</sup></i>	285,404	373,516	452,018	550,083
<i>Other sectors</i>	79,290	98,699	116,869	145,594
Trade Credits	13,386	16,955	21,864	22,631
<i>General government</i>	0	0	0	0
<i>Other sectors</i>	13,386	16,955	21,864	22,631
Other liabilities <sup>5</sup>	58,752	63,092	84,838	120,056
<i>Monetary authority <sup>3</sup></i>	115	116	109	92
<i>General government</i>	0	0	0	0
<i>Monetary financial institutions <sup>4</sup></i>	11,873	5,010	9,605	35,983
<i>Other sectors</i>	46,764	57,966	75,124	83,981
<b>Total Foreign Liabilities</b>	<b>1,317,194</b>	<b>1,721,428</b>	<b>2,020,800</b>	<b>2,298,921</b>

<sup>1</sup> Revised<sup>2</sup> Reflecting the so-called directional principle for reclassifying Direct Investment (see background notes)<sup>3</sup> Central Bank and Financial Services Authority of Ireland<sup>4</sup> Excludes the Central Bank and Financial Services Authority of Ireland<sup>5</sup> Includes financial derivatives

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

€ million

Item	2004	2005	2006 <sup>1</sup>	2007
<b>Foreign Assets</b>				
Direct Investment Abroad <sup>2</sup>	78,329	88,287	91,669	99,084
- IFSC	18,864	19,791	19,224	14,280
- non IFSC	59,468	68,495	72,445	84,804
Portfolio Investment	787,249	1,002,129	1,230,234	1,338,076
- IFSC	673,245	850,955	1,052,930 <sup>4</sup>	1,138,155 <sup>4</sup>
- non IFSC	114,003	151,174	177,304	199,921
Other Investment <sup>3</sup>	422,568	590,279	688,805	829,677
- IFSC	349,628	481,410	557,444 <sup>4</sup>	658,261 <sup>4</sup>
- non IFSC	72,938	108,870	131,361	171,416
Reserve Assets	2,140	745	640	639
- IFSC	0	0	0	0
- non IFSC	2,140	745	640	639
<b>Total Foreign Assets</b>	<b>1,290,286</b>	<b>1,681,440</b>	<b>2,011,348</b>	<b>2,267,476</b>
- IFSC	<b>1,041,737</b>	<b>1,352,156</b>	<b>1,629,598</b>	<b>1,810,696</b>
- non IFSC	<b>248,549</b>	<b>329,284</b>	<b>381,750</b>	<b>456,780</b>
<b>Foreign Liabilities</b>				
Direct Investment in Ireland <sup>2</sup>	152,446	138,620	118,824	131,411
- IFSC	61,755	40,548	52,574	48,277
- non IFSC	90,693	98,072	66,250	83,134
Portfolio Investment	720,952	1,025,902	1,223,683	1,328,183
- IFSC	610,797	878,908	1,039,957	1,120,842
- non IFSC	110,154	146,993	183,726	207,341
Other Investment <sup>3</sup>	443,796	556,906	678,293	839,327
- IFSC	302,805	380,767	474,137	549,749
- non IFSC	140,990	176,139	204,156	289,578
<b>Total Foreign Liabilities</b>	<b>1,317,194</b>	<b>1,721,428</b>	<b>2,020,800</b>	<b>2,298,921</b>
- IFSC	<b>975,357</b>	<b>1,300,223</b>	<b>1,566,668</b>	<b>1,718,868</b>
- non IFSC	<b>341,837</b>	<b>421,205</b>	<b>454,132</b>	<b>580,053</b>
<b>Net International Investment Position (IIP)</b>				
Direct Investment <sup>2</sup>	-74,117	-50,333	-27,155	-32,327
- IFSC	-42,891	-20,757	-33,350	-33,997
- non IFSC	-31,226	-29,576	6,195	1,670
Portfolio Investment	66,297	-23,773	6,550	9,892
- IFSC	62,449	-27,953	12,973	17,313
- non IFSC	3,848	4,180	-6,423	-7,421
Other Investment <sup>3</sup>	-21,228	33,373	10,513	-9,649
- IFSC	46,823	100,643	83,307	108,512
- non IFSC	-68,052	-67,270	-72,794	-118,161
Reserve Assets	2,140	745	640	639
- IFSC	0	0	0	0
- non IFSC	2,140	745	640	639
<b>Total (Net IIP)</b>	<b>-26,908</b>	<b>-39,988</b>	<b>-9,452</b>	<b>-31,445</b>
- IFSC	<b>66,381</b>	<b>51,933</b>	<b>62,930</b>	<b>91,828</b>
- non IFSC	<b>-93,289</b>	<b>-91,921</b>	<b>-72,382</b>	<b>-123,273</b>

<sup>1</sup> Revised

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

<sup>3</sup> Includes financial derivatives and trade credits

<sup>4</sup> Reflects the re-classification of assets of certain Securitisation Vehicles (see box on page 1)

**Table 4a - International Investment Position (IIP) - 2007- Reconciliation of IIP and BOP Flows**

€ million

Item	Opening Position 1/1/07	Bop Flows in Year	Valuation and Other Changes	Closing Position 31/12/07
<b>Foreign Assets</b>				
<b>Direct Investment Abroad <sup>1</sup></b>	<b>91,669</b>	<b>15,178</b>	<b>-7,763</b>	<b>99,084</b>
Equity capital and reinvested earnings	82,335	10,371	-6,086	86,620
Other capital	9,334	4,806	-1,676	12,464
<b>Portfolio Investment</b>	<b>1,230,234</b>	<b>164,288</b>	<b>-56,446</b>	<b>1,338,076</b>
Equity	435,231 <sup>3</sup>	14,295	-8,441	441,085 <sup>3</sup>
Debt instruments	795,003	149,992	-48,004	896,991
<i>Bonds and notes</i>	<i>518,075</i>	<i>85,417</i>	<i>-28,557</i>	<i>574,935</i>
<i>Money market instruments</i>	<i>276,928</i>	<i>64,574</i>	<i>-19,446</i>	<i>322,056</i>
<b>Other Investment</b>	<b>688,805</b>	<b>161,363</b>	<b>-20,491</b>	<b>829,677</b>
Loans, currency and deposits	596,866 <sup>3</sup>	145,820	-21,104	721,582 <sup>3</sup>
Other <sup>2</sup>	91,939	15,543	613	108,095
<b>Reserve Assets</b>	<b>640</b>	<b>12</b>	<b>-13</b>	<b>639</b>
<b>Total Foreign Assets</b>	<b>2,011,348</b>	<b>340,841</b>	<b>-84,713</b>	<b>2,267,476</b>
<b>Foreign Liabilities</b>				
<b>Direct Investment in Ireland <sup>1</sup></b>	<b>118,824</b>	<b>22,351</b>	<b>-9,764</b>	<b>131,411</b>
Equity capital and reinvested earnings	171,920	16,094	-8,269	179,745
Other capital	-53,096	6,258	-1,496	-48,334
<b>Portfolio Investment</b>	<b>1,223,683</b>	<b>161,677</b>	<b>-57,177</b>	<b>1,328,183</b>
Equity	721,940	98,951	-41,252	779,639
Debt instruments	501,743	62,726	-15,925	548,544
<i>Bonds and notes</i>	<i>399,681</i>	<i>51,253</i>	<i>-8,510</i>	<i>442,424</i>
<i>Money market instruments</i>	<i>102,062</i>	<i>11,474</i>	<i>-7,416</i>	<i>106,120</i>
<b>Other Investment</b>	<b>678,293</b>	<b>170,646</b>	<b>-9,612</b>	<b>839,327</b>
Loans, currency and deposits	571,591	157,373	-32,324	696,640
Other <sup>2</sup>	106,702	13,274	22,711	142,687
<b>Total Foreign Liabilities</b>	<b>2,020,800</b>	<b>354,674</b>	<b>-76,553</b>	<b>2,298,921</b>

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

<sup>2</sup> Includes financial derivatives and trade credits

<sup>3</sup> Reflects the re-classification of assets of certain Securitisation Vehicles (see box on page 1)

**Table 4b - International Investment Position (IIP) - 2006<sup>1</sup> - Reconciliation of IIP and BOP Flows**

€ million

Item	Opening Position 1/1/06	Bop Flows in Year	Valuation and Other Changes	Closing Position 31/12/06
<b>Foreign Assets</b>				
<b>Direct Investment Abroad <sup>2</sup></b>	<b>88,287</b>	<b>12,215</b>	<b>-8,833</b>	<b>91,669</b>
Equity capital and reinvested earnings	74,327	15,267	-7,259	82,335
Other capital	13,960	-3,055	-1,571	9,334
<b>Portfolio Investment</b>	<b>1,002,129</b>	<b>213,418</b>	<b>14,687</b>	<b>1,230,234</b>
Equity	324,790	59,647	50,794	435,231 <sup>4</sup>
Debt instruments	677,339	153,771	-36,107	795,003
<i>Bonds and notes</i>	<i>453,724</i>	<i>87,541</i>	<i>-23,190</i>	<i>518,075</i>
<i>Money market instruments</i>	<i>223,615</i>	<i>66,231</i>	<i>-12,918</i>	<i>276,928</i>
<b>Other Investment</b>	<b>590,279</b>	<b>118,968</b>	<b>-20,442</b>	<b>688,805</b>
Loans, currency and deposits	510,653	110,839	-24,626	596,866 <sup>4</sup>
Other <sup>3</sup>	79,626	8,128	4,185	91,939
<b>Reserve Assets</b>	<b>745</b>	<b>-87</b>	<b>-18</b>	<b>640</b>
<b>Total Foreign Assets</b>	<b>1,681,440</b>	<b>344,514</b>	<b>-14,606</b>	<b>2,011,348</b>
<b>Foreign Liabilities</b>				
<b>Direct Investment in Ireland <sup>2</sup></b>	<b>138,620</b>	<b>-4,418</b>	<b>-15,378</b>	<b>118,824</b>
Equity capital and reinvested earnings	184,457	5,233	-17,770	171,920
Other capital	-45,837	-9,651	2,392	-53,096
<b>Portfolio Investment</b>	<b>1,025,902</b>	<b>221,553</b>	<b>-23,772</b>	<b>1,223,683</b>
Equity	603,823	128,215	-10,098	721,940
Debt instruments	422,079	93,338	-13,674	501,743
<i>Bonds and notes</i>	<i>324,055</i>	<i>86,644</i>	<i>-11,018</i>	<i>399,681</i>
<i>Money market instruments</i>	<i>98,024</i>	<i>6,693</i>	<i>-2,655</i>	<i>102,062</i>
<b>Other Investment</b>	<b>556,906</b>	<b>132,149</b>	<b>-10,762</b>	<b>678,293</b>
Loans, currency and deposits	476,859	106,972	-12,240	571,591
Other <sup>3</sup>	80,047	25,178	1,477	106,702
<b>Total Foreign Liabilities</b>	<b>1,721,428</b>	<b>349,284</b>	<b>-49,912</b>	<b>2,020,800</b>

<sup>1</sup> Revised

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

<sup>3</sup> Includes financial derivatives and trade credits

<sup>4</sup> Reflects the re-classification of assets of certain Securitisation Vehicles (see box on page 1)



## Background Notes (updated October 2008)

**Introduction** Ireland's balance of payments (BOP) quarterly statistical compilation system was completely overhauled in the late 1990's in order to: (a) strengthen sectoral and enterprise coverage in basic data collection; (b) adopt best international methodological standards; (c) conform more closely with international presentation formats; and, (d) provide for geographical analysis of the results. The improvements facilitate the production of data required by the European Central Bank (ECB) and the EU Commission (EUROSTAT) to compile balance of payments statistics for the EMU and EU areas. The needs of other international organisations (such as IMF and OECD) as well as those of national users have also been catered for.

As part of the overall expansion of the information available, a new annual series showing Ireland's *International Investment Position* (IIP) as at 31 December for the years 1998 – 2001 was introduced in a release published on 11 December 2002. This series is updated annually and this Release presents the 2007 data. The data presented concern the economy's end of year stocks of foreign assets and liabilities and, in essence, represent that element of Ireland's aggregate balance sheet which shows Irish residents' financial claims (assets) on non-residents along with their financial obligations (liabilities) to non-residents. It may be noted that the data presented on the liabilities side is consistent with the data published in the quarterly *External Debt* Release. As for the balance of payments and external debt statistics, the international investment position statistics shown in this Release distinguish direct investment, portfolio investment and other investment (including financial derivatives) along with reserve assets – see *Types of Investment* below. This presentation conforms closely with international presentation formats and the information is disseminated to different international organisations (i.e. the ECB, Eurostat, IMF and OECD) to meet their varied requirements.

**International statistical standards** A description of the methodology is given below. It follows as far as possible the recommendations of the IMF's *Balance of Payments Manual - 5<sup>th</sup> Edition* (BPM5) concerning compilation of international investment position statistics. This Manual was prepared in close co-operation with the European Commission (Eurostat), the OECD and other international organisations. It was published by the IMF in 1993. Since then certain modifications to the treatment of financial derivatives have been approved internationally and were published in 2000 by the IMF (*Financial Derivatives: A Supplement to the 5<sup>th</sup> Edition (1993) of the Balance of Payments Manual*). The BOP/IIP compilation methodology recommended by the IMF is consistent with its *External Debt (2003)* Manual recommendations on compiling external debt statistics.

**Data collection** The data required are collected quarterly on a statutory basis by means of surveys and other data collection arrangements conducted under the Statistics (Balance of Payments and Financial Accounts) Order, 2005 (S.I. No. 124 of 2005) made under the Statistics Act, 1993. These surveys are also used to collect quarterly balance of payments information, the combination of both stock and the related flow data reporting on a single form greatly facilitating the quality checking and reconciliation of both types of information. While the balance of payments flow data are published quarterly, the stock or international investment position (IIP) statistics are being published annually with a reference date of 31 December.

The survey collection system covers both financial and non-financial enterprises and was largely introduced in 1998. The financial enterprise surveys cover banking, insurance, asset financing, treasury, institutional investment, activities of mutual funds, unit trusts and similar collective investment operations, broking and other service provision. Financial enterprises, including those operating in the International Financial Services Centre (IFSC) in Dublin, engaged in transactions with non-residents are required to make returns. Respondents are required to supply the data using either paper or electronic media. Exhaustive coverage is aimed at but, in order to reduce reporting burden, companies with low activity volumes may, on approval from the CSO, provide annual data. Overall, about 5,000 financial entities are surveyed.

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

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

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

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

The compilation system covers investment in residential and commercial property abroad by Irish residents and has recently included revised estimates for investment in Special Purpose Vehicles (SPVs) used for the purpose of securitising corporate assets from 2002 onwards. The securities issued by SPVs are mostly included under the *Bonds and Notes* heading in *Portfolio Investment - Liabilities* and the securitised assets are recorded mostly in *Other Investment - Assets* but some assets are categorised under *Equity*.

#### **Definition of the International Investment Position (IIP)**

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

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

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

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

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

#### **Types of financial instrument**

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

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

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

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

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

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

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

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

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

Stocks of all other financial instruments i.e. other than trade credits, loans and currency and deposits such as capital subscriptions of the participating Member States to international non-monetary organisations, changes in insurance technical reserves, offsets in respect of unsettled securities transactions are included in *other assets/other liabilities* within Other Investment (except

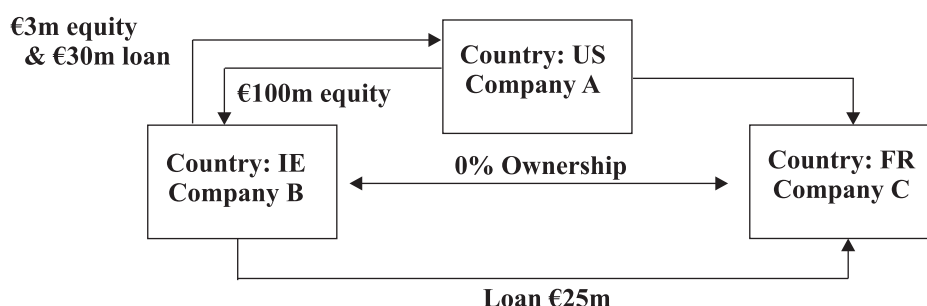
where such positions arise from transactions between affiliated enterprises other than financial intermediaries) in which cases they are included under Direct Investment.

### Types of investment

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

**Direct investment** is a category of international investment that, based on an equity ownership of at least 10%, reflects a lasting interest by a resident in one economy (the direct investor) in an enterprise resident in another economy (the direct investment enterprise). Using this criterion, a direct investment relationship can exist between a number of affiliated enterprises whether the linkage involves a single chain or a number of chains. It can extend to a direct investment enterprise's subsidiaries, sub-subsidiaries and associates. Once the direct investment relationship is established, all subsequent financial flows between the related entities are recorded as direct investment transactions, regardless of the type of financial instrument used in the financing arrangement (except for financial intermediary affiliates among which direct investment transactions are limited to those involving equity and permanent debt). The components of direct investment transactions are *equity capital*, *reinvested earnings*, and *other capital*. *Equity capital* comprises investment in branches, shares in subsidiaries and associates (except non-participating preferred shares which are treated as debt securities) and other capital contributions. *Reinvested earnings* consists of the off-setting entry to the corresponding current account income item: it is the direct investor's share of the undistributed earnings of its branches, subsidiaries and associates. *Other capital* covers all other inter-affiliate financial transactions (borrowing and lending of funds), including debt securities and suppliers' credits (i.e. trade credits). Following the recommendations of the IMF, ECB, Eurostat and OECD, direct investment flows are recorded on a 'directional basis' rather than the more usual assets/liabilities basis. *Direct investment abroad* covers the *net* investment by parent companies resident in Ireland in their foreign branches, subsidiaries and associated companies. *Direct investment in Ireland* covers the *net* investment by foreign companies in their affiliates located in Ireland. The essential difference between the directional principle and the assets/liabilities approach centres on the treatment of reverse investment by a direct investment enterprise in its parent (direct investor) and on the treatment of transactions with other foreign affiliates covered by a direct investment relationship. In the Irish context, reverse *equity* investment in a parent enterprise is rare and tends to be relatively small. However, substantial flows (and positions) under the category *direct investment – other capital* can take place. These predominantly take the form of inter-affiliate loans but trade credits and transactions in financial securities between affiliates are also included. The treatment of reverse investment has to be considered under three scenarios. First, for *reverse equity investment for holdings of 10% or more of the voting capital*, such transactions are regarded as separate direct investment in their own right for both the equity and non-equity involved. Second, for *reverse equity investment for holdings of less than 10% of the voting capital*, the transactions involved, whether in equity or non-equity instruments, are regarded as offsetting (or netted against) any existing direct investment by the parent in the enterprise. For example, if a US direct investor A invests €100m in a direct investment enterprise B located in Ireland and B acquires a small reverse equity investment of €3m in its parent (A) then the value of *direct investment in Ireland-equity* is €97m (i.e. €100m less €3m). Extending this example, if B advances a €30m loan to parent, A, *direct investment in Ireland-other capital* is €30m lower. Overall *direct investment in Ireland* from A to B is therefore €67m (i.e. €100m - €3m - €30m). The third scenario concerns a *non-equity transaction between enterprises related other than through equity ownership* (e.g. between 'sister' or 'cousin' companies). Given a number of considerations, there is some flexibility in the international standards regarding the treatment of this situation. In Ireland's case and in order to ensure that all inward and outward flows (and stocks) arising from an initial inward direct investment are retained within the *direct investment in Ireland* category, the same principle as for reverse equity or non-equity investment with a parent company is applied. The transaction referred to is therefore treated as offsetting any existing *other capital* investment. Again extending the earlier example, if resident direct investment enterprise, B, advances a loan of €25m to a sister company, C, located in France, *direct investment in Ireland – other capital* is lowered by €25m and overall *direct investment in Ireland* from A to B amounts to €42m (i.e. €100m - €3m - €30m - €25m) – see diagram below. Cases occur on an ongoing basis where the outward investment flows or positions of B (or other sister direct investment enterprises located in Ireland) exceed the amounts attributable to A under *direct investment in Ireland*. The equivalent treatment is applied for similar situations categorised under *direct investment abroad*.





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

**Portfolio investment** covers the acquisition and disposal of equity and debt securities which cannot be classified under direct investment or reserve assets transactions. The securities involved are traded (or tradable) in organised and other financial markets. *Debt instruments* cover *bonds and notes* which have an original maturity term of more than one year and *money market instruments* with original maturity of one year or less. Investment by resident investors in commercial property abroad is also included in portfolio investment. Stocks, as presented in the tables, are valued at current market values on the reference date inclusive of any accrued income.

**Other investment** covers assets and liabilities other than those classifiable to direct investment, portfolio investment or reserve assets. It comprises loans, currency and deposits, short and long-term trade credits, financial derivatives and other accounts receivable and payable. Derivatives contracts refer to over-the-counter (OTC) and exchange-traded contracts and include options, futures, swaps, forwards, etc. For IIP purposes, all receipts and payments concerning financial derivative contracts are recorded appropriately as either assets or liabilities under *other investment*<sup>1</sup>. It should be noted that stocks of the underlying financial instruments to which financial derivative contracts relate are categorised under the appropriate type of investment headings in the IIP. In principle, other investment transactions are valued at market valuation inclusive of accrued income. For loans, book values are accepted as a proxy for market values.

**Reserve assets** at national level in the context of EMU have been defined by the European Central Bank from 1 January 1999, the date of introduction of the euro currency, as: (a) qualifying assets which are under the effective control of the national monetary authority (i.e. the Central Bank and Financial Services Authority of Ireland), and (b) consisting of highly liquid, marketable and credit-worthy foreign (non-euro) currency denominated claims on non euro-area residents together with gold, special drawing rights (SDRs) and the reserve position in the IMF. Up to 31 December 1998, the definition of reserve assets covered all foreign currency (non Irish Pound) denominated claims on non-residents of Ireland together with gold, SDRs and the reserve position in the IMF. Therefore, all claims on euro-area residents outside Ireland as well as euro-denominated claims on non euro-area residents, which prior to 1999 would have been classified as reserve assets, were from 1999 onwards classified to *portfolio investment* or to *other investment* as appropriate.

#### Broad sectoral analysis

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

### Structure of the International Investment Position (IIP) tables

Within the overall categorisation of *assets* and *liabilities*, Table 1 of the Release shows the main components of the IIP covering the broad functional headings: *direct investment*, *portfolio investment*, *other investment* (including financial derivatives) and *reserve assets*. In the case of direct investment and in line with the quarterly BOP flow data for such transactions, the directional presentation referred to above is used i.e. *direct investment abroad* (which approximates to the assets concept) and *direct investment in Ireland* (which closely equates to liabilities). As described above, the difference between the two approaches centres on the treatment of reverse investment by a direct investment enterprise in its parent (direct investor); these transactions are generally relatively small. In this Release, under international standards, *direct investment abroad* is categorised under assets while *direct investment in Ireland* is included under liabilities. A further breakdown of the main functional investment headings by type of instrument (e.g. equities, bonds/notes, loans/deposits) is provided. For further analytical purposes, Table 2 shows a breakdown of the results by type of instrument and by institutional sector while Table 3 provides an analysis of IFSC and non-IFSC foreign assets and liabilities. Table 4 of the Release shows a reconciliation of the annual stocks and BOP flows over individual reference calendar year periods. In essence, this table attempts to directly link the IIP data to the Financial Account of the Balance of Payments and explains how the difference between two end-year positions can be accounted for by two main elements i.e. the relevant net BOP flows in the period (shown under '*BOP Flows in Year*') and the impact of valuation and other changes (shown under the heading '*Valuation and Other Changes*') occurring in the same period. Valuation changes can arise from movements in market prices or currency exchanges rates or from stock revaluations, reclassifications or corrections. For any year, the opening position for each item is the IIP figure for the corresponding item at 31 December of the previous year; the closing position for an item is the IIP for that item at 31 December of that same year.

### Reconciliation of stocks and flows

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

### Sign convention and symbols

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

Amounts are shown in millions of Euro; '0' means amounts of less than 500,000 units of currency; '-' means 'not relevant'. Cell entries may not add to totals due to rounding.

### Valuation

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

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

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

**Residence** As for BOP transactions, IIP asset and liability positions are created between residents of Ireland and non-residents. The term ‘resident’ covers (a) individuals, including foreign nationals, living in Ireland for at least one year as well as Irish embassy staff and military staff located abroad, (b) Irish government enclaves located abroad (embassies, consulates, etc.), and (c) corporate bodies who have a centre of economic interest located here, including branches of foreign-registered companies. It is important to note that transactions in foreign assets and liabilities can occur between residents of Ireland and appropriate account is taken of such transactions (when known) in the compilation of the IIP (and the Financial Account of the BOP).

**Geographical allocation principle** The so-called ‘debtor/creditor’ principle is used as the basic guideline for geographical allocation of foreign assets and liabilities. Asset positions are allocated to the country of residence of the debtor counterpart. As examples, (i) investment in a foreign security should be reported and classified to the country of residence of the issuer of the security; (ii) a loan advanced to a non-resident borrower should be reported and classified to the country of residence of the borrower. Liability positions should be allocated to the country of residence of the creditor counterpart. As examples: (i) investments by non-resident creditors in securities issued by a resident of Ireland should be allocated to the country of residence of the investor; (ii) take up of a loan advanced by a foreign bank should be allocated to the country of residence of the lending bank. Correct country allocation can sometimes be difficult on the liabilities side. In particular, it may not be possible to determine the residency of the actual owner/holder of bearer securities issued by an Irish resident since such securities can change hands without any re-registration of the new ownership. Similarly, correct geographical allocation can be difficult and sometimes impossible in the case of acquisitions by non-resident investors of Irish resident issued securities purchased through resident or non-resident nominee accounts. In such cases respondents give best estimates of the information required if the required details cannot be obtained from third party sources. In the case of direct investment, transactions are geographically attributed on the basis of country of location of immediate ownership of the direct investment enterprise rather than that of the ultimate beneficial owner. Therefore, if a US investor directly invests in a direct investment enterprise located in Ireland, the origin of the investment as presented in these statistics is US. If the US investor indirectly invests, through its Cayman Islands subsidiary, in an enterprise located in Ireland then the origin of the investment is Cayman Islands. In both cases, the country of location of the ultimate beneficial owner is US. This may have a significant impact on the geographic analysis of FDI statistics.

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