Costa Rica: Integrating Foreign Direct Investment Data and Extended Supply and Use Tables into the National Accounts

Daily economic transactions are increasingly affected by globalization so, from a statistical point of view, it is necessary to enhance efforts on both national accounts and balance of payments in order to highlight and get a better measurement on those accounts engaged with the globalization. In this sense, some actions have been taken in Costa Rica macroeconomics statistics to face globalization such as: 1) and extended supply and use table with a breakdown to highlight companies foreign markets oriented, 2) strengthen the characterization of the enterprises involved in cross-border trade, 3) measurement of foreign direct investment by economic activity and country partner and 4) studies on services exports by product and country partner.

Costa Rica has traditionally been a very open economy: exports and imports represent 32% and 36% of GDP, respectively. Foreign Direct Investment (FDI) represents 5.6% of the GDP and nearly 25% of non-financial private sector value added is produced by foreign controlled companies. A significant share of exports and imports are driven by affiliated enterprises allocated in free zones and other agricultural economic activities whose production is mainly oriented to the international market (80% of its total production). In recent years, the increasing importance of export services firms from free zones is noticeable. Companies in free zones are connected up to different stages within global value chains, resulting in different levels of relation between each firm and the inputs from domestic firms. Most industries have practically no connection with domestic markets while others have some domestic firms as their main suppliers. This dynamic causes heterogeneity in terms of property income paid abroad, production functions and foreign content ratios. In order to face this heterogeneity, the Costa Rican Macroeconomic Statistics Department of the Central Bank of Costa Rica compiled an extended supply-use table which separates free zones within each economic activity; following the accounting guidelines recommended by the System of National Accounts 2008 (SNA 2008). This project is carried out in the context of the OECD Expert Group on Extended Supply and Use Tables (E-SUT).

Additionally, Costa Rica has been looking for an integrated system of macroeconomic accounts based on a set of internationally agreed statistical framework on matters like concepts, definitions, classifications and accounting rules to provide a quantitative description of the economy. This issue is of a major importance given the fact the increasing number and frequency of the country´s transactions with the rest of the world due to imports, exports, FDI, equity, dividends and remittances. This new economic dynamics must be addressed on a consistent path, taking into account basic elements of both the balance of payments as well as its integration into the national accounts. Indeed, the concepts of international accounts are harmonized with the System of National Accounts 2008 (SNA) in order to make comparisons or aggregations with other macroeconomic statistics such as monetary, fiscal and production statistics.

The country has taken actions to strength the links between international and national accounts. In particular, from 2012 the rest of the world account was drawn up, incorporating aspects such as:

Exports and imports of goods and services are detailed with the Standard Classification of Products for Costa Rica (PNCR) following the United Nations´ Central Product Classification (CPC) as well as special needs of the country. In addition, it is feasible to group purchases and sales of goods and services to non-residents by economic category based on the Costa Rica´s PNCR.

Primary and secondary income: The reconciliation is carried out by institutional sector for each component of the national accounts and then integrate them into the standard components of the balance of payments.

Capital and financial accounts: Harmonization is carried out by sector and instrument on the basis of the transactions assigned by the national accounts and which are included in the standard components of the balance of payments.

Foreign Direct investment: Given the analytical importance of this indicator, it has been possible to produce harmonized statistics by economic category, country and trade regime.

In the medium term, efforts will be focus on obtaining a greater integration of the national accounts and balance of payments emphasizing on FDI, which mainly relates to the financial investments made by multinational enterprises in setting up subsidiaries and reflect the link between national economy and the rest of the world. This strengthen the diagnosis and the formulation of policy actions consistent with the economic reality of the country.

The aim of this paper is present a breakdown on the SNA central framework (economic integrated accounts, extended supply and use table and cross-classification by industry and institutional sector) to show explicitly the FDI in order to integrate and improve consistency between national accounts and balance of payments. It is intended to present this interlinkages up from level of the basic data collection including sample design, questioners and surveys.

Additionally, the paper shows a comparison of some Trade in Value Added indicators for each economic activity and for both free zones and non-free zones by using the extended supply and use table. Costa Rica is a very small country with no influence on the global values indicators, but the data points out the already expected differences between the indicators obtained after separating free zones and non-free zones. Therefore, the results indicate that producing trade in value-added estimates without extended input-output tables will derive in biased conclusions and in higher value added on some exports.