BOX 01
Refining External Sector Statistics: Key Insights on Services Trade

Introduction

Sri Lanka's services trade, a crucial component in the current account of the country's balance of payments (BOP), has grown significantly, outpacing the expansion of merchandise exports in recent years. As a key contributor to foreign exchange earnings, the growth in services exports is driven by sectors such as tourism, computer and information technology (IT)/business process outsourcing (BPO), and port and airport services. However, unlike merchandise trade where physical products are traded across borders, capturing cross-border data on services trade with precision is generally considered more challenging. While merchandise trade statistics are primarily reported through Sri Lanka Customs, the compilation of services trade statistics requires detailed transaction level reporting via the banking system, adding complexity to data collection processes.

International transactions in the services sector, as defined in the System of National Accounts 2008 (SNA 2008),[1] encompass a heterogeneous

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1 The System of National Accounts (SNA) is an internationally agreed framework for measuring a country's economic activity, such as Gross Domestic Product (GDP) in accordance with strict accounting conventions based on economic principles (SNA 2008).

range of intangible products and activities, broadly classified into two forms, namely, 'change effecting services' and 'margin services'. Change effecting services are produced on demand and can directly alter the conditions of the consumer. These services are inseparable from their production. For instance, the service involved in delivering a software product by a Sri Lankan software development firm cannot be detached from the final product and sold separately. Margin services, on the other hand, involve the value added by intermediaries in distributing goods, such as transport services provided by Sri Lankan container terminals to facilitate merchandise imports and exports. Globally, the most comprehensive method for collecting data on international transactions in the services sector is through payment flows between residents and non-residents via the banking system. However, in the absence of such an advanced and sophisticated system, compilation of services sector trade statistics in the BOP would be based on direct surveys of identified companies. However, the effectiveness of the direct survey methodology in compiling services sector statistics was debatable due to numerous challenges, including the difficulties in identifying

Figure B 1.1: **Statistics on Merchandise and Services Exports**
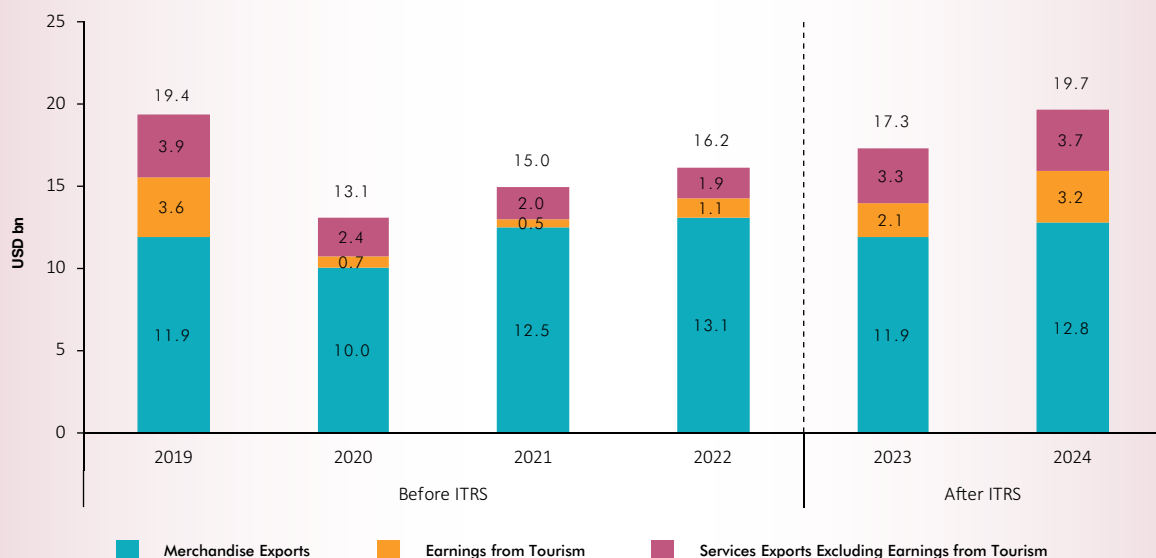
Sources: Sri Lanka Customs, Sri Lanka Tourism Development Authority, Central Bank of Sri Lanka

such service providers, low survey response rates, human resource constraints in BOP compilation and severe limitations in engaging with companies, especially during the COVID-19 pandemic and the subsequent economic crisis. In an attempt to enhance the accuracy and granularity of external sector statistics, the Central Bank commenced developing the International Transactions Reporting System (ITRS) in 2019, which collects and classifies cross border transactions based on actual foreign exchange inflows and outflows reported in the banking system. Despite the obstacles posed by the COVID-19 pandemic and the economic crisis, the ITRS project was successfully completed through extensive online collaboration between the Central Bank and licensed banks. After four years of development, data collection through ITRS commenced in January 2023. Based on this data, the Central Bank commenced dissemination of services sector statistics on a monthly basis in January 2024.[2]

Key Takeaways on Sri Lanka's Services Trade based on ITRS Data

The implementation of the ITRS enabled the Central Bank to report monthly services trade statistics, which were previously available only on a quarterly basis, along with the release of quarterly BOP. Additionally, a more detailed categorisation

2   Monthly services sector statistics are available at: https://www.cbsl.gov.lk/en statistics/statistical-tables/external-sector → Services Sector

was introduced with data reported under new categories, while data on existing categories was improved with accuracy, enabling better sectoral analysis.

The impact of changes in the services sector data collection methodology on BOP statistics before and after the implementation of the ITRS is illustrated in Figure B 1.2 below. All services sector data, other than tourism inflows and tourism outflows, in 2023 and 2024 were based on the ITRS. Hence, post 2022 services sector data collection has transitioned from a sample-based approach, which relied on statistical inference based on sample survey data, to a census-based methodology under the ITRS. However, there was no overlap between methodologies from 2023 onwards as direct surveys were discontinued.

For comparison purposes, tourism inflows and outflows were excluded, as tourism outflows are partially based on the ITRS data and tourism inflows are based on an estimation by the Sri Lanka Tourism Development Authority (SLTDA). As illustrated in Figure B 1.2 below, gross inflows recorded under services exports other than tourism inflows and outflows show a notable deviation between the periods before and after the implementation of the ITRS. Gross inflows in 2023 and 2024 are significantly higher than those in 2022. This increase was driven not only by statistical improvements but also by the continued

Figure B 1.2: Statistics on Services Account Other than Tourism Inflows and Outflows
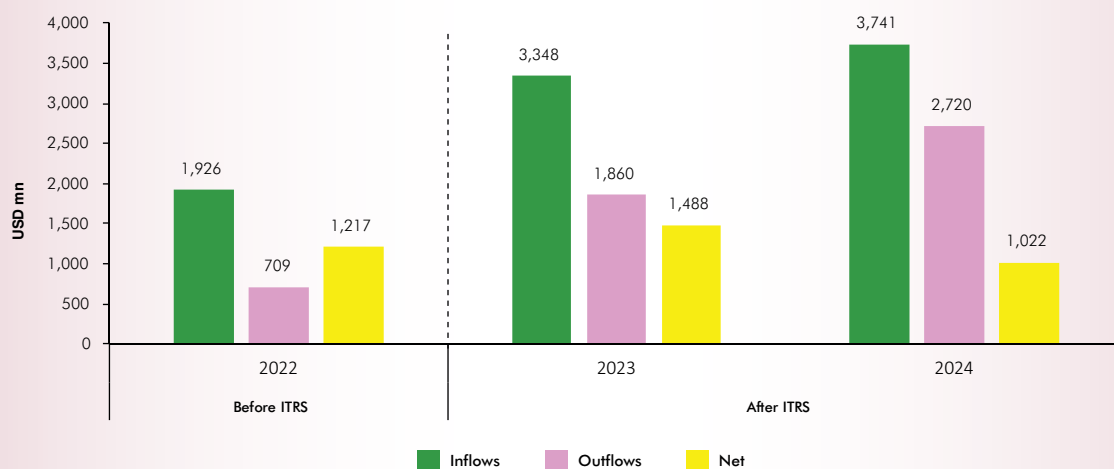
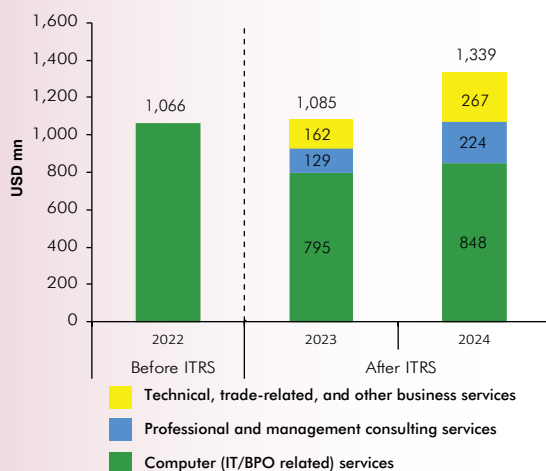

Source: Central Bank of Sri Lanka

economic recovery. However, this deviation in reported gross inflows has not substantially impacted the current account estimates, as the net inflows reported by the ITRS for 2023 and 2024 remain broadly in line with the 2022 net inflow estimates, despite higher gross inflows and outflows after the ITRS implementation compared to that of 2022.

Some of the key findings on the services sector based on ITRS data are detailed below.

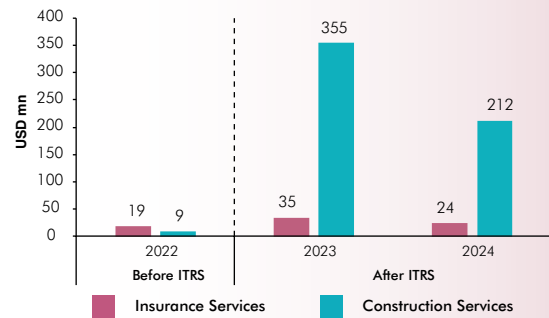### i. Computer and IT/BPO and Related Services

Prior to the implementation of the ITRS, statistics on computer and IT/BPO related services were estimated based on information received through a limited number of survey responses and statistical inference based on sample survey data. As per the survey-based estimates, inflows to computer and IT/BPO related services amounted to around USD 1 bn per annum. However, the ITRS data currently reports the inflow of forex from IT/ BPO related services at approximately USD 800 mn. Nevertheless, the ITRS data revealed that inflows from some of the emerging services sub-sectors, such as professional and management consulting services and technical services, which have not been reported previously, have made a significant contribution to the BOP. Accordingly, these categories are now separately identified and reported, improving the classification of services sector related flows. As shown in Figure B 1.3,

Figure B 1.3: Inflows to Computer and IT/BPO Sector and Other Business Services

- Technical, trade-related, and other business services
- Professional and management consulting services
- Computer (IT/BPO related) services

Source: Central Bank of Sri Lanka

Figure B 1.4: Construction and Insurance Services (Inflows)

- Insurance Services
- Construction Services

Source: Central Bank of Sri Lanka

the combined total of computer and IT/BPO related services along with other business services approximately aligns with previous estimates, demonstrating that the ITRS has enabled more accurate and detailed classification of services sector transactions.

ii. Construction and Insurance Services

Some services sectors, such as construction and insurance services, were revealed to be underreported based on survey-based estimates, primarily due to low response rates. Based on ITRS data, construction services inflows in particular are significant, and data indicates that these services industries have tremendous potential to grow in the coming years (Figure B 1.4). This is partly due to the recent enthusiasm shown by the Sri Lankan construction companies to seek overseas opportunities for expansion, given the slower recovery in the domestic construction industry.

iii. Expenditure on Education Abroad by Sri Lankan Students

In recent years, cross-border outflows related to overseas education have been a major topic of discussion in policy circles. However, the lack of reliable data on such outflows has hindered the policy debate. Since the introduction of the ITRS, cross-border payments for education services are reported on a monthly basis, promoting greater transparency and data-driven policy decision making (Figure B 1.5). Nevertheless, it must be noted that due to the use of non-bank channels of payments for such services, the value captured through the ITRS may be incomplete.

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Figure B 1.5: **Expenditure on Education Abroad by Sri Lankan Students**
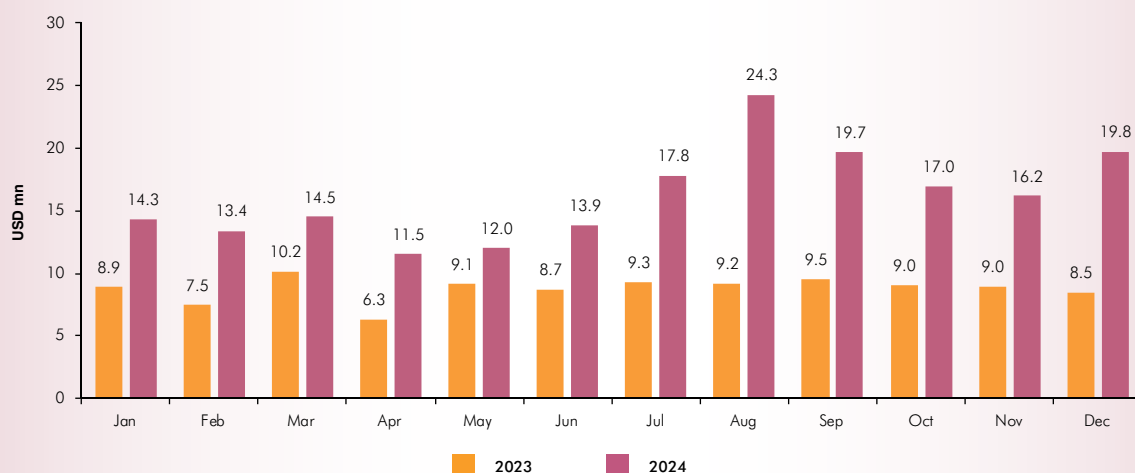
Source: Central Bank of Sri Lanka

Usefulness of Services Sector Statistics

As highlighted in the examples above, accurate data on the services sector is essential for effective policymaking. Services sector statistics are now included in the monthly current account data, which the Central Bank began publishing in January 2025. The more frequent and accurate reporting of current account statistics offers valuable insights for policymakers in shaping monetary and fiscal policies. Additionally, monthly updates on the current account, including services sector data, provide early indicators of potential shifts in the external sector. This data can serve as a key signal for forecasting possible BOP challenges in the future.

Way Forward

Going forward, the Central Bank aims to work closely with stakeholders involved in the ITRS project, including the banking sector, to further improve the external sector statistics. Further, the Central Bank is keen to discuss with the key services sector industries and related trade associations to iron out differences in their self-estimates and the official data to further enhance the coverage and the quality of the service sector statistics. Additionally, the Central Bank plans to conduct in depth sectoral policy studies based on the ITRS data, focusing on emerging services sectors to better understand their growth potential. Such analyses will provide valuable insights for informed policymaking, supporting the development of strategies to nurture the emerging services sector and maximise its potential.

References

1. United Nations, European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development and World Bank (2009) *System of National Accounts 2008*, New York: United Nations.

2. Wijayawardhana A (2024) 'Capturing Services Sector Cross Border Transactions: The Central Bank of Sri Lanka's Long Endeavour to Establish an International Transactions Reporting System', Information Series Note, Central Bank of Sri Lanka.