BOX 11 Major Economic Policy Changes and Measures: 2013[1]

Real Sector

06 January 2013 - The price of a 12.5 kg cylinder of LP gas was increased by Rs. 150 to Rs. 2,396.

23 February 2013 - The retail prices of petroleum products were increased as follows:

- Petrol by Rs. 3 to Rs. 162 per litre
- Diesel by Rs. 6 to Rs. 121 per litre

01 April 2013 - The retail prices of fuel oil used for power generation were increased as follows:

- Fuel oil 1,500 (Low Sulphur) by Rs. 25 to Rs. 100 per litre
- Fuel oil 1,500 (High Sulphur) by Rs. 25 to Rs. 90 per litre
- Fuel oil 3,500 (High Sulphur) by Rs. 25 to Rs. 90 per litre

20 April 2013 - The average electricity tariff was increased to Rs. 18.52 per unit. The new electricity tariff applicable for domestic users is as follows:

Consumption (kWh/ month)	Energy Charge (Rs./ kWh)	Fixed Charge (Rs./ month)	Fuel Adjustment Charge (%)
Consumption between 0-60 units per month			
0-30	3.00	30.00	25
31-60	4.70	60.00	35
Consumption above 60 units per month			
0-60	10.00	n.a.	n.a.
61-90	12.00	90.00	10
91-120	26.50	315.00	40
121-180	30.50	315.00	40
>180	42.00	420.00	40

02 February 2014 - The maximum retail price of a 400 gram full cream milk powder packet was increased by Rs. 61 to Rs. 386 and the maximum retail price of a 1 kg full cream milk powder packet was increased by Rs. 152 to Rs. 962.

External Sector

Trade and Tariff

01 January 2013 - Importation of bulldozers, graders, levelers, excavators, raw materials for the manufacture of energy saving bulbs, road tractors for semi-trailers, bowsers, fire fighting vehicles were exempted from Value Added Tax (VAT).

- Importation of solar panel modules, accessories or solar home systems for the generation of solar power energy, coal, goods for any international sports event approved by the Minister of Finance and Planning and gems subject to a Special Service Fee including any subsequent sales of such gems as processed gem were exempted from Nation Building Tax (NBT).

22 January 2013 - Cess on the importation of unbleached cotton woven fabrics and other fabrics was reduced to Rs. 75 per kg and Rs. 100 per kg respectively.

1 This includes major economic policy changes and measures implemented during 2013 as well as those have been implemented during the first three months of 2014 and policy measures envisaged to be taken in the near future.

08 February 2013 - Special Commodity Levy (SCL) on the importation of following items was imposed for a period of four months.

Item	Rate Rs./kg
Palm kernel or babassu oil and fractions thereof :	
Crude Oil	110
Other	115

01 March 2013 - Importation of undenatured ethyl alcohol was prohibited.

03 April 2013 - Permission was given to import ethyl alcohol subject to excise duties and other conditions.

- Excise Duty on the importation of spirit (Ethyl Alcohol) used by Government approved research and educational institutions, hospitals and Government departments; production of medicinal preparations and industrial products was increased while the excise duty on local manufacture was reduced.

03 May 2013 - SCL on the importation of potatoes was increased to Rs. 25 per kg from Rs. 15 per kg for a period of four months.

08 June 2013 - SCL on the importation of fresh and frozen fish, Maldive fish, dried sprats, dried fish, red onion, b' onion, garlic, peas, chickpeas, green gram, cowpea, massor dhal, fresh oranges, grapes and apples, chilies, seeds of coriander, seeds of cumin, seeds of fennel, turmeric, mathe seed, kurakkan, kurakkan flour, black gram flour, ground nut, mustard seeds, soya bean/palm/sunflower/coconut oil, canned fish and cane or beet sugar was extended for a further period of six months.

21 June 2013 - Customs duty of 5 per cent and a surcharge of 100 per cent on Customs duty were imposed on the importation of gold.

11 July 2013 - SCL on the importation of b'onion was increased to Rs. 30 per kg from Rs. 15 per kg for a period of five months.

18 July 2013 - Restrictions imposed on export of paddy and rice were rescinded.

31 July 2013 - Customs duty on the importation of liquor, tobacco products and dairy products (including butter) was revised upward.

01 August 2013 - Importation of virgin hydrochloro fluoro carbon was restricted by imposing a quota system for importation.

02 August 2013 - SCL on the importation of sugar was increased to Rs. 27 per kg from Rs. 20 per kg for a period of five months.

23 August 2013 - SCL on the importation of the following food items was increased for a period of four months:

- Potatoes from Rs. 25 per kg to Rs. 40 per kg
- B' onions from Rs. 30 per kg to Rs. 35 per kg

17 November 2013 - SCL on the importation of the following food items was reduced for a period of four months:

- Potatoes from Rs. 40 per kg to Rs. 10 per kg
- Red onions from Rs. 15 per kg to Rs. 5 per kg
- B'onions from Rs. 35 per kg to Rs. 10 per kg

22 November 2013 - SCL on the importation of Maldive fish, dried sprats, dried fish, peas-whole, chickpeas-whole, green gram (moong), fresh oranges, seeds of coriander, seeds of cumin, seeds of fennel, turmeric, black gram flour, ground nut-shelled, mustard seeds, crude oil of soya bean oil/palm oil/sunflower oil, palm kernel and canned fish was increased for a period of four months.

- SCL was imposed on the importation of the following products for a period of four months.

Item	Rate (Rs/kg)
Salt	40
Margarine	175
Yogurt	625
Butter and dairy products	880

- Cess was increased on the importation of several items which could be produced locally (gazette no 1837/30).
- Cess was imposed on the importation of poultry fat, mosquito coil, battery, sanitary napkins, cloth (including endless bands), grill, netting, fencing of iron or steel wire, aluminum bars and tubes.
- Cess was reduced on the importation of unbleached fabric.
- Importation of aluminum wires, paper board, tung oil, designer pens, ties and bows was exempted from Cess.
- Cess was imposed on the exportation of pepper, cinnamon, clove, nutmeg and cardamoms.
- The four band tariff structure was revised as follows.

Classification	Previous Customs Duty Rate (%)	New Customs Duty Rate (%)
Essential inputs, not manufactured locally	0	0
Raw materials and semi raw materials	5	7.5
Intermediate goods	15	15
End user products	30	25

- Importation of Information Technology (IT) supportive printers, optical fiber cables and solar control films was exempted from customs duty.

- Customs duty was reduced on the importation of the following items:

Item	Previous Customs Duty Rate (%)	New Customs Duty Rate (%)
Perfumes, Camphor	30	7.5
Fountain pens, stylograph pens, ties, bow ties, cravats, petroleum jelly, paraffin wax, essential oils other than citrus fruit, essential oils of pepper and ginger	15	7.5
Cocoa beans	30	15
Frozen bait	15	7.5

- Customs duty was imposed on the importation of the following items:

Item	Customs Duty Rate (%)
Tea machinery, steel	7.5
Flavours	15
Diesel hybrid vehicles	15
Wheel barrows and parts	25

- Customs duty was increased on the importation of following items:

Item	Previous Customs Duty Rate (%)	New Customs Duty Rate (%)
Tractors, cement	5	7.5
Gauze, fishing vessels, pusher crafts, yachts and other vessels	15	25

- Customs duty on importation of gold was increased from 5 percent to 7.5 percent and the 100 percent surcharge on import duty was removed.
- Ports and Airports Development Levy (PAL) on the importation of aviation fuel was exempted.
- PAL was imposed at a rate of 5 per cent on the importation of medicaments of Ayurveda /herbal preparations.
- Excise duty was increased on the importation of following items.

Item	Previous Excise Duty Rate	New Excise Duty Rate
Petrol	Rs. 25 per litre	Rs. 27 per litre
Diesel	Rs. 2.50 per litre	Rs. 3 per litre
Lorries, Trucks	Rs.109,000 per unit	14% or Rs.109,000 per unit
Trishaws	45%	53%

03 February 2014 - Customs duty waiver granted on the importation of milk powder was increased to Rs. 68 per kg from Rs. 18 per kg. Hence, the applicable duty rate is Rs. 57 per kg.

06 February 2014	-	SCL on the importation of split massor dhal was reduced to Rs. 5 per kg from Rs. 22 per kg for a period of five months.
07 February 2014	-	SCL on the importation of potatoes was increased to Rs. 25 per kg from Rs. 10 per kg for a period of five months.

Foreign Exchange Management

01 January 2013	-	Authorised Dealers were informed that Foreign Exchange Earners' Accounts (FEEA) may be opened in the form of current, savings or term deposits in any foreign currency.
	-	A general permission was granted to companies incorporated in Sri Lanka except companies limited by guarantees or off-shore companies to borrow maximum amount of US dollars 30 million or its equivalent in any other foreign currency per company from a person resident outside Sri Lanka under the External Commercial Borrowing Scheme (ECBS), provided that the maximum amount per company per each calendar year shall be US dollars 10 million or its equivalent in any other foreign currency.
	-	A general permission was granted for a person resident in Sri Lanka to accept payments in foreign currency in respect of goods and services supplied by such person to a person resident outside Sri Lanka provided that such currency shall be disposed from such person's possession within 7 days in the following manner by the person who accepted such currency. - deposit in a FEEA opened and maintained in the name of the person who accepted such currency at a Licensed Commercial Bank (LCB); or - sell to a LCB
02 January 2013	-	Transfer of funds from a Securities Investment Account (SIA) to the credit of a Non Resident Foreign Currency (NRFC) account, a Special Foreign Investment Deposit Account (SFIDA), a Resident Non National Foreign Currency (RNNFC) account, a Non Resident Non National Foreign Currency Account (NRNNFA) of the same account holder was permitted.
	-	Authorised Dealers were allowed to enter into forward contracts with their customers to hedge exposure to exchange risk of such customers.
04 January 2013	-	A general permission was granted for the issue and transfer of Sri Lanka Rupee denominated redeemable preference shares in a company classified as a specified business enterprise in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 to approved country funds and regional funds, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka) subject to certain conditions.
10 January 2013	-	The words "Inward Investment Account (IIA)" mentioned in the Gazette Notification No. 1681/10 dated 22.11.2010 on opening of places of business in Sri Lanka by overseas companies was replaced with the words "Securities Investment Account".
23 January 2013	-	The direction issued on IIA was rescinded and Authorized Dealers were informed that accounts opened under the said direction shall continue to be operated as Sri Lankan Rupee Accounts.
24 January 2013	-	Authorised Dealers were permitted to credit proceeds of loans obtained by an eligible borrower under the ECBS, into any bank account opened and maintained in the name of the said borrower, including a FEEA that may be opened for the purpose. Further, Authorised Dealers were permitted to make outward remittances relating to repayment of the loans obtained under the ECBS and other related charges and fees.
	-	Authorized Dealers were permitted to credit the proceeds of loans obtained under ECBS, into any bank account and the need to open an External Commercial Borrowing Account (ECBA) was removed.

30 January 2013	-	The general permission that has been granted to persons in Sri Lanka for making payments in Sri Lankan Rupees to non-resident Sri Lankans as consideration for the purchase of real estate properties in Sri Lanka owned by such non-resident Sri Lankans and the permission that has been granted to Authorised Dealers to open Non-Resident Blocked Accounts in the name of non-resident Sri Lankans who sell real estate properties in Sri Lanka were extended to non-resident persons with Sri Lankan origin.
31 January 2013	-	A general permission was granted to foreign institutional investors, corporate bodies incorporated outside Sri Lanka and investors resident outside Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka) to invest in units in Unit Trusts subject to certain conditions.
29 April 2013	-	Authorised Dealers were permitted to facilitate requests for import and export of goods for entrepot trade subject to certain conditions.
12 June 2013	-	Authorised Dealers were permitted to issue/transfer an initial migrant allowance up to US dollars 150,000 per individual emigrant, provided that such individual holds a valid Sri Lankan passport at the time of initial departure from Sri Lanka which contains the endorsement of Permanent Residency (PR) of another country. Further, approval was granted to credit NRFC accounts with funds transferred from Migrant Blocked Accounts (MBA) as per instructions given by the MBA holder.
	-	Permission was granted to Authorised Dealers to open new Resident Foreign Currency (RFC) accounts for a person utilising funds transferred from existing RFC accounts maintained by such person with another Authorised Dealer irrespective of the currency type.
	-	Permission was granted to Authorised Dealers to open and maintain Nostro accounts with banks incorporated outside Sri Lanka or branches of such banks established outside Sri Lanka.
	-	As a measure of facilitating inward remittances into Sri Lanka for investment purpose, instructions were given to Authorised Dealers on opening and operating of SIAs to offer more flexible avenues to receive and repatriate funds into and out of SIA.
	-	Authorised Dealers were permitted to issue foreign currency notes up to US dollars 5,000 or its equivalent in any other convertible foreign currency as a part of the travel allowance for Sri Lankans travelling abroad.
	-	A general permission was granted to non-residents to repatriate sale proceeds including capital gains upon sale of immovable property owned and/or developed by the non-resident, provided the property had originally been acquired and/or developed by such owner through funds remitted into Sri Lanka through international banking channels.
	-	Authorised Dealers were permitted to extend accommodations in foreign currency from Domestic Banking Units (DBUs) to persons who maintain FEEAs.
	-	Authorised Dealers were permitted to credit NRFC accounts with funds transferred from MBA and to open new NRFC accounts for a person utilising funds transferred from existing NRFC accounts maintained by such person with another Authorised Dealer irrespective of the currency type.
	-	The general permission that has been granted for eligible persons as specified in the Gazette No. 1644/26 dated 11.03.2010 to open and maintain accounts with banks outside Sri Lanka, was extended to persons who have obtained valid permanent residency permits from another country and dual citizens.

17 June 2013 - Authorised Dealers have been requested to appoint a compliance officer who shall be responsible to ensure compliance with the exchange control regulations.

26 August 2013 - Authorised Dealers were permitted to acquire, hold and transfer international sovereign bonds issued outside Sri Lanka by the Government of Sri Lanka in 2010, 2011 and 2012 in the secondary market.

21 October 2013 - The foreign currency accounts of agents of shipping lines and airlines operating in Sri Lanka were renamed as "Foreign Currency Account for an Agent of Foreign Shipping Line/Airline (FCAASA)" and new terms and conditions relating to opening and operating of FCAASA were stipulated.

Forthcoming

- Widening the permitted instruments available for investments by non-residents in order to facilitate the development of corporate debt market.
- Permitting companies that earn foreign exchange to lend in foreign currency to companies in the same group.
- Facilitating acquisition of leasehold rights of properties by non-residents.
- Permitting to grant loans for any purpose for FEEA holders.
- Simplifying of accounts introduced under specialised schemes.
- Removing the minimum balance requirement in SFIDA accounts.
- Introducing general permission to issue travel cards.
- Remitting of funds to meet requirements to obtain student visa.
- Removing of the requirement for freight forwarders to obtain registration with the Exchange Control Department.
- Permitting companies in the construction industry to use available funds in FEEA to make payments relating to new overseas projects.

Fiscal Sector

Government Revenue

01 January 2013

- The Fiscal Management (Responsibility) Act No. 3 of 2003 was amended.
- The supplies and turnover made by the following institutions were exempted from VAT and NBT:
  - Central Bank of Sri Lanka (CBSL) including the VAT on financial services
  - Any public corporation to the extent of provision of services free of charge on behalf of the Government, out of the funds voted by the Parliament from the Consolidated Fund or out of any loan arranged through the Government.
- The supply of services to a Unit Trust by a Unit Trust management company was exempted from VAT.
- The supply of hotel accommodation to any sportsman, organiser of any sport event or sponsor arriving at Sri Lanka for participating in any sport event or activity connected with sport was exempted from VAT.
- Locally manufactured products out of coconut waste (coco peat, coir fiber, grow pellets, grow bags, twist fiber, coconut husk) were exempted from VAT.

- VAT was introduced for wholesale and retail trade. Accordingly, any person or a partnership engaged in a business of wholesale or retail sale and making supplies (including exempted or excluded supplies) exceeding Rs. 500 million per quarter was liable to register for VAT. However, VAT is chargeable only for liable supply.
- Instruments of transfer of stocks, transferred by any person to a margin trading account (slash account) and vice versa was exempted from Stamp Duty.
- Stamp Duty on the following instruments was increased as follows:

Instrument	Existing Rate	New Rate
Affidavits	Rs. 25	Rs. 250
Policy of insurance	Rs. 0.50 for every Rs.1,000 or part thereof of the aggregate of the premier payable on the policy	Rs.1 for every Rs. 1,000 or part thereof of the aggregate of the premier payable on the policy
Notary warrants	Rs. 1,000	Rs. 2,000
Periodic License to carry on trade business etc.	Rs. 1,000 or 10% of license fee whichever is less	Rs. 2,000 or 10% of license fee whichever is less
Periodic License for sale of liquor	Rs. 10,000	Rs. 20,000
Demand for payment on usage of a credit card	Rs. 10 for every Rs. 1,000 or part thereof	Rs. 15 for every Rs. 1,000 or part thereof

- The Embarkation Levy was increased to US dollars 25 from US dollars 10 while the online visa fee was increased by US dollars 5.
- The present 20 per cent rate of Telecommunication Levy was reduced to 10 per cent for internet broadband connections.
- The tax structure of the business of Betting and Gaming was revised with the introduction of an all-inclusive levy of 5 per cent on gross collections in lieu of all indirect taxes.
- Registration fees on the businesses of Betting and Gaming were increased to Rs. 2 million and Rs. 100 million, respectively.
- Taxes on export oriented companies which sells manufactured goods to the local market were revised as follows:
    - Export oriented enterprises engaged in the manufacture of garments or ceramic products, were permitted to increase their domestic sales up to 40 per cent subject to VAT and NBT in lieu of all the indirect taxes payable on sale.
    - The piece based tax of Rs. 25 per piece applicable on sale of garments sale was removed.
    - The income tax on the profits and income from sale of manufactured goods (both export and local market) was at a concessionary rate of 12 per cent.
- Any person or partnership, with an annual liable turnover/supplies not exceeding Rs.12 million, from all businesses carried on by such person or partnership, is not liable to pay VAT and NBT including NBT on wholesale or retail business.

	- Motor vehicle revenue license fee was increased.
09 January 2013	- The cylinder capacity limitation (1,600cc) applicable on the importation of motor vehicles by a tax payer under the special privilege of the Finance Act was removed.
01 April 2013	- Profits and income (other than dividends and interest) of the following institutions were exempted from income tax: - College of General Practitioners of Sri Lanka - Sri Lanka Social Security Board - Provision of services free of charge by public corporation out of the funds from the consolidated fund or out of any loan arranged by the Government - Sri Lanka Savings Bank which was merged with the National Development Trust Fund - Lanka Puthra Development Bank Limited - Any Government assisted private school which is registered with the Ministry of Education and mandated to follow the Government curricula and the circulars issued by such a Ministry.
	- Profits and income from the following were exempted from income tax: - any off-shore business where goods are procured from one country and transported to another country other than Sri Lanka - royalties, franchising fee or any payment for designing made to any foreign collaborator by a Board of Investment (BOI) registered company during the period of tax holiday, where the foreign direct investment exceeds US dollars 50 million - any Government assisted private school which is not established under the Companies Act and registered with the Ministry of Education - income from emoluments arising in Sri Lanka of any individual who is not a citizen of Sri Lanka and brought to Sri Lanka by a BOI registered company during the period of tax holiday where the total investment made is out of foreign direct investments exceeding US dollars 50 million - income from loans obtained by persons outside Sri Lanka - profit and income of an undertaking for cultivation of renewable energy crops in agricultural lands
	- Following tax concessions were provided to Sri Lankan citizens earning outside Sri Lanka: - the rule in deciding residency of an individual based on his absence from Sri Lanka for an unbroken period of 365 days was removed and 183 days rule is applied. - profit and income derived from sources outside Sri Lanka by an individual was exempted from income tax if such income is remitted to Sri Lanka through a bank. - the present exemption on profits and income derived from outside Sri Lanka applicable to dual citizens was extended to persons who have permanent residence status.
	- Concessionary income tax rates were introduced on the following: - Unit Trust management companies at a rate of 10 per cent

- Pilots on the profits from employment and qualified employees providing professional services to persons out of Sri Lanka at a rate of 16 per cent
- employment income being compensation for loss of employment at a rate of 16 per cent
- profits from poultry farming at a rate of 10 per cent
- treating supply of goods manufactured in Sri Lanka or provision of services to foreign ships for payments in foreign currency as deemed exports and taxing the profit and income there from, at a rate of 12 per cent
- profit and income received from export of supply of goods manufactured in Sri Lanka or provision of services at a rate of 12 per ecnt
- "Organic tea in bulk" classified as non-traditional goods at a rate of 12 per cent
- profit and income of any person or partnership operating a mini hydro power project or other alternative energy source at a rate of 12 per cent

- Following industries and activities were allowed to deduct the cost of acquisition of any plant, machinery or equipment, as an allowance for depreciation when ascertaining the profit:

Industries / Activity	Allowable Rate
Upgrading technology or introducing any new technology	50% per year
Providing more than 30% of the total requirement of the power generation out of alternative energy resources	100%
The establishment of a Broker Back Office system to be compliant with the Colombo Stock Exchange (CSE) requirements	100%
Any export industry	50% per year

- The triple deduction allowed for expenditure on research and development carried out through Government institutions was extended to such expenditure incurred on research carried out through private institutions.
- Withholding tax on interest income earned from investing in bonds and debentures listed in the Colombo Stock Exchange was exempted.
- The present time bar period applicable to furnish of tax return for income tax was reduced to 18 months from two years.
- The CBSL was exempted from ESC.

13 May 2013 - The Stamp Duty on affidavits was reduced from Rs. 250 to Rs. 50.

31 July 2013 - The Excise Duty on tobacco, cigarettes and motor vehicles was revised upward.

1 January 2014 - Importation or local purchase of copper cables which are used for high tech equipment for telecom industry were exempted from VAT.

- The present VAT exemption applicable on the import of the gully bowsers, semi- trailers for road tractors, any machinery or equipment used for garbage disposal activities carried out by any local authority was expanded to cover for purchasing such items from local manufacturers.

- Importation or supply of ties and bows, designer pens, frozen bait, fish hooks/rods/reels, fishing tackle, marine propulsion engines was exempted from VAT.
- The exemption from VAT on goods subject to SCL was limited to any importer whose value of supplies in the local market out of goods imported exceeds Rs. 250 million for any consecutive period of three months in a calendar year.
- VAT exemption granted on import or supply of following goods was removed and made liable 12 per cent VAT:
  - Paddy, rice, wheat, cardamom, cinnamon, cloves, nutmeg, mace, pepper, desiccated coconuts, rubber, latex, fresh coconuts, tea including green leaf, rice flour, wheat flour, bread, eggs, liquid milk or powdered milk
  - Agricultural tractors or road tractors for semi-trailers
  - Machinery and equipment for tea and rubber industries
  - Machinery for modernisation of factories
  - Plant and machinery by an undertaking qualified for a tax holiday
  - Pharmaceutical preparations
- The quarterly turnover of Rs. 500 million applicable for the imposition of VAT on wholesale or retail trade was reduced to Rs. 250 million.
- The exemption applicable to the supply of goods was limited to a maximum of 25 per cent of the total supplies in the case of a wholesale or retail business which supplies goods liable to VAT and goods exempted from VAT.
- Following items were exempted from NBT:
  - Retail trade of goods at duty free shops
  - Sale of locally manufactured coconut oil by the manufacturer, for a period of three years
  - Distribution of LP gas
  - Services provided in any airport for payments in foreign currency
- The application of the exemption from NBT on goods subject to SCL was restricted to NBT payable at the point of Customs only. Accordingly, the local supply of such goods was liable to NBT.
- The exemption of financial services from NBT was terminated in view of the withdrawal of the requirement of depositing funds in the Investment Fund Account.
- The exemption of NBT on the turnover from the sale of tractors was restricted to locally manufactured tractors.
- Pharmaceutical preparations were liable to NBT at the import point.
- The present rate of 20 per cent applicable on Telecommunication Levy was revised to 25 per cent. The concessionary rate of 10 per cent applicable on the services provided through internet/broadband, to facilitate IT and Business Process Outsourcing (BPO) sectors remains unchanged.

Forthcoming

1 April 2014

- Profits and income (other than income from dividends and interest) of the following institutions will be exempted from income tax:
  - National Enterprise Development Authority established under the National Enterprise Development Authority Act, No. 17 of 2006

- Sri Lanka Institute of Marketing incorporated under the Sri Lanka Institute of Marketing Act, No. 41 of 1980
- The Institute of Physics, Sri Lanka incorporated under the Institution of Physics Sri Lanka (Incorporation) Act, No. 12 of 1986

- Concessionary income tax rates will be provided for profit and income earned from following:
  - The present concessionary rate of 12 per cent applicable to profits and income from the supply of certain services to garment exporters will be extended to cover services provided to exporters of goods or services or the foreign principal directly.
  - The current 10 per cent rate applicable on profits of qualified exports will be revised to 12 per cent.
  - The current 10 per cent rate for undertakings with an annual turnover not exceeding Rs. 500 million will be revised to 12 per cent.
  - Tax rates on the income from professions will be reduced as follows to remove applicable different rates:

Income from Professions	Maximum rate of tax
Below Rs. 25 million	12%
Rs. 25 million – Rs. 35 million	14%
In excess of Rs. 35 million	16%

  - The maximum rate of income tax applicable on employment income of professionals will be reduced to 16 per cent.
  - The lower rate of tax applicable to companies with taxable income not exceeding Rs. 5 million will be removed.

- Restrictions will be imposed as follows on the applicability of tax holidays and qualifying payments:
  - Exemption from income tax for any company engaged in research and development will be restricted to investments made prior to 01.04. 2014.
  - The deduction of the investment for expansion of an existing undertaking as qualifying payments will be restricted to such investments made prior to 01.04.2014.
  - The monthly emoluments for the purpose of definition of an "executive officer" will be revised from Rs. 25,000 to Rs. 75,000.

Government Expenditure

01 January 2013

- The special allowance was increased for pensioners who retired before 2004 by Rs. 750 to Rs. 2,500 per month and by Rs. 500 to Rs. 1,500 per month to those who retired during the period from 01.01.2004 to 30.11.2004. 50 per cent of the proposed increase was granted from 01.01.2013 while the balance was granted from 01.07.2013.
- The Cost-of-Living-Allowance (COLA) was increased for all Government pensioners who retired from 2013 by Rs. 500 to Rs. 3,175 per month.
- The COLA was increased for Public Servants by Rs. 750 to Rs.6,600 per month.

01 May 2013

- A special allowance of 5 per cent of the basic salary was granted to all public servants subject to a minimum of Rs. 750 per month and a maximum of Rs, 2,500 per month.

		For non-staff grade employees, 50 per cent of the proposed increase was paid from May 2013 and the balance was paid from September 2013. For staff grade employees, 50 per cent of the proposed increase was paid from July 2013 and the balance was paid from October 2013.
01 January 2014	-	The COLA was increased for Public Servants by Rs.1,200 to Rs. 7,800 per month.
	-	The COLA was increased for pensioners who retired before 2006 by Rs. 500 to Rs. 3,675 per month and by Rs. 350 to Rs. 3,525 per month for others who retired after 2006.
Debt Management		
24 January 2013	-	The Sri Lanka Development Bond (SLDB) issuance limit was increased from US dollars 750 million to US dollars 1,000 million.
10 July 2013	-	Primary Dealers were permitted to act as market makers in corporate bonds or debentures and permitted to invest up to a limit of 5 per cent of total investments in quoted shares, quoted debentures or bonds and quoted commercial papers.
11 July 2013	-	The SLDB issuance limit was increased from US dollars 1,000 million to US dollars 1,500 million.
01 August 2013	-	Pan Asia Banking Corporation PLC was appointed as a Primary Dealer in terms of the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance.
18 September 2013	-	The SLDB issuance limit was increased from US dollars 1,500 million to US dollars 2,250 million.
30 September 2013	-	The Hong Kong & Shanghai Banking Corporation Ltd. and Perpetual Treasuries Ltd. were appointed as Primary Dealers in terms of the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance.
07 November 2013	-	Customer Charter for Primary Dealers in Government securities was introduced in the interest of promoting a stable relationship between Primary Dealers and their customers.
26 December 2013	-	Primary Dealers were permitted to engage in covered Short Selling of Treasury bills and Treasury bonds up to the amount of successful bids accepted and confirmed at primary auctions.

Monetary Sector

10 May 2013	-	The Central Bank's Repurchase (Repo) rate and Reverse Repurchase (Reverse Repo) rate were reduced by 50 basis points each to 7.00 per cent and 9.00 per cent, respectively.
01 June 2013	-	The Rs. 100 million limit on repo standing facility, on days when the CBSL offers reverse repo auction, was withdrawn.
01 July 2013	-	The Statutory Reserve Requirement (SRR) was reduced by 2 percentage points to 6 per cent.
24 July 2013	-	The tenure of the overnight auctions under the current Open Market Operations (OMO) was broadened from one day to one week with same day settlement (T+0). Accordingly, announcement of the auction and the settlement will be on the same day (T+0) while the auctions hours remain unchanged.
30 August 2013	-	A minimum cash margin requirement of 100 per cent was imposed against Letters of Credit (LCs) opened with the commercial banks for the import of motor vehicles (other than buses, ambulances, lorries and trucks).
15 October 2013	-	The Central Bank's Repo rate and Reverse Repo rate were reduced by 50 basis points each to 6.50 per cent and 8.50 per cent, respectively.

02 January 2014	- The Standing Rate Corridor (SRC) was established in place of the current Policy Rate Corridor. - The current Standing Repurchase Facility was renamed as the Standing Deposit Facility (SDF), and the Standing Deposit Facility Rate (SDFR) was the rate for the placement of overnight excess funds of the banking system. - The current Standing Reverse Repurchase Facility was renamed as the Standing Lending Facility (SLF), and the Standing Lending Facility Rate (SLFR) was the rate for the lending of overnight funds to the banking system. - The SLFR was reduced by 50 basis points to 8.00 per cent, thereby compressing the Standing Rate Corridor to 150 basis points from the current 200 basis points.
	- A minimum cash margin requirement of 100 per cent against LCs opened with commercial banks for the importation of motor vehicles (other than buses, ambulances, lorries and trucks) was removed.
01 February 2014	- In the view of the Central Bank's zero credit risk in rupee transactions, the requirement of providing collateral by the Central Bank to participants of the OMO under the SDF was discontinued.

Financial Sector

Licensed Banks

02 January 2013	- Net open position in foreign exchange of commercial banks was revised to US dollars 120 million (plus or minus).
11 February 2013	- In line with the new Accounting Standards, a new set of formats for the preparation, presentation and publication of Annual and Quarterly Financial Statements of Licensed Banks were specified to replace the existing formats.
14 February 2013	- LCBs were allowed to apply for Primary Dealership without maintaining a dedicated minimum capital.
04 April 2013	- Licensed Banks were requested to establish appropriate risk management policies and standards such as prudential internal limits on exposure to stock market to mitigate potential risks arising from them. Boards of Directors of Licensed Banks are required to approve the risk management standards and policies prior to the implementation and assess the related information on an on-going basis.
	- Previous Direction which required the prior written approval of the Monetary Board for sale, transfer, assign or disposal of immovable assets below its market value or increase the value of such assets above their market value by Licensed Specialised Banks (LSBs) was amended to permit banks to carry out such activities with the prior written approval of Director of Bank Supervision.
05 April 2013	- Investment in Gilt Unit Trusts (GUTs), by licensed banks were determined as liquid assets for the purpose of meeting the Statutory Liquid Assets Ratio (SLAR), subject to conditions.
12 April 2013	- The existing Corporate Governance Directions on Licensed Banks were amended to withdraw the restriction on holding office as a director in more than 10 Specified Business Entities to be eligible to be a director of a bank.
17 April 2013	- Foreign borrowings of LCBs up to US dollars 50 million each during 2013 to 2015 were exempted from the limit of 15 per cent of capital funds. Further, non-agricultural credit facilities granted by banks through the utilisation of above funds were exempted when computing mandatory lending to the Agriculture sector.
24 April 2013	- The utilisation of the Investment Fund Account (IFA) was broadened to include housing development projects focusing on building low cost houses, investments in sustainable energy sources and women entrepreneurship venture capital projects.

30 April 2013	-	The existing guidelines on Mandatory Lending to Agriculture sector were amended with the inclusion of the following: - Allowing banks to include loans granted to other banks and finance companies for the purpose of agricultural lending, provided a suitable monitoring mechanism is in place to identify such lending is maintained by the respective banks. - Allowing banks to include loans granted to manufacturing companies using domestic agricultural products and companies who act as intermediaries for agricultural sector. - Excluding loans and advances granted outside Sri Lanka by Offshore Banking Units/overseas branches and direct financing to large Government and other infrastructure projects promoted by the Government.

01 May 2013	-	The periods of reserve computation and maintenance by the LCBs were revised as follows.
		- Each calendar month is divided into two periods (viz. Period A and Period B):
		  - Period A from the 1st to the 15th (both inclusive); and
		  - Period B from the 16th to the last day (both inclusive) of the month.
		The reserves required to be maintained for the reserve maintenance Period A of any month, shall be based on the average daily deposit liabilities of Period A of the preceding month while for the reserve maintenance Period B of any month, such reserves shall be based on the average daily deposit liabilities of Period B of the preceding month.

31 May 2013	-	General Direction No. 01 of 2013 on the Operations of the Common ATM Switch was issued to the LankaClear (Pvt) Ltd as well as member banks to ensure smooth operations of the Common ATM Switch.
07 June 2013	-	The Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013 was issued replacing the Service Providers of Payment Cards Regulations No. 1 of 2009.
	-	Licensed Banks were requested to reduce the interest rates on credit card advances from its present level of 28 per cent to 24 per cent per annum and all other loans and advances from their current level, so as to not exceed 24 per cent per annum.
12 June 2013	-	The restriction imposed on LCBs from providing financial accommodation to Licensed Finance Companies (LFCs) against the security of Government Securities, CBSL Securities and Fixed Deposits without the prior approval of Director of Bank Supervision, was withdrawn.
02 July 2013	-	General Direction No. 02 of 2013 on the Fees Chargeable on the Transactions effected through the Common ATM Switch was issued to impose upper limits for the fees that can be charged from customers by card issuers and interchange fee that can be charged from card issuers by financial acquirers.
26 July 2013	-	Licensed Banks were requested to reduce the penal interest rates charged on all loans and advances, including credit facilities already granted, to a level not exceeding 2 per cent per annum for the amount in arrears during the overdue period.
31 July 2013	-	A Direction on Supervisory Review Process (Pillar 2 of Basel II) was issued requiring licensed banks to implement an Internal Capital Adequacy Assessment Process and to maintain adequate capital above the minimum regulatory capital requirement under Pillar 1, to cover their exposure to all risks.
17 September 2013	-	Licensed Banks were requested to publish the annual audited report/financial statements, quarterly financial statements and qualitative disclosures of the bank's risk management required under Integrated Risk Management Framework in their web sites.

08 November 2013	-	Licensed Banks were instructed to ensure compliance with the previous Circular dated 06.11.2008 and refrain from publishing misleading and unethical advertisements while giving due prominence to all important information.
22 November 2013	-	Consolidation of the financial sector was announced: - any finance company which is a subsidiary company owned by a main company, be absorbed by the main company to consolidate their operations - banks which have finance companies to consolidate their operations by acquiring the finance companies within the group to further strengthen the banks while giving qualifying payment status for acquisition expenditure of banks or companies - encourage development banks to merge
04 December 2013	-	Off-shore banking units of LCBs were permitted to invest in international sovereign bonds issued by the Government of Sri Lanka.
	-	Investments in International Sovereign Bonds issued by the Government of Sri Lanka were determined as liquid assets for the purpose of meeting the SLAR of LCBs.
30 December 2013	-	The General Direction No. 03 of 2013 for Service Norms and Standard Times for Accepting Cheque Deposits and Crediting Cheque Proceeds was issued replacing the General Direction No. 01/2007 on the Participating Institutions' Service Norms and Standard Times for Accepting Cheque Deposits from Customers and Crediting Cheque Proceeds to Customers' Account with the objective of passing the full benefit of the technological improvements carried out to the Cheque Imaging and Truncation (CIT) System to the bank customers.
Forthcoming	-	Continuing implementation of advanced approaches under Pillar 1 of Basel II in an appropriate manner.
	-	Introducing appropriate regulations in line with Basel III Capital Standards.
	-	Implementing a comprehensive supervisory framework for consolidated supervision of banking groups.
	-	Continuing analysis of macro prudential indicators and issuing prudential regulations on exposure of the banking system to asset markets and other potential economic shocks and concentrations, as and when such risks are observed.
	-	Issuing guidelines on the Stress Testing Framework of banks.
	-	Continuing to incorporate suitable changes to existing regulatory framework in line with new accounting standards. - Introducing the new off-site surveillance reporting system - Amending existing Directions and other Regulations
	-	Establishing minimum standards for core banking systems and other IT based platforms used by banks
Other financial institutions		
15 May 2013	-	A Guideline was issued on the adoption of Sri Lanka Accounting Standards (LKAS) 32, 39 and Sri Lanka Financial Reporting Standards (SLFRS) 7 by LFCs and Specialised Leasing Companies (SLCs).
07 June 2013	-	Finance Companies (Structural Changes) Direction was revised to be in line with present financial sector developments.
26 July 2013	-	The requirement to obtain prior approval of the Monetary Board was replaced by approval of the Director/Department of Supervision of Non-Bank Financial Institutions on writing off of accommodations to related parties of finance companies.

	-	A supervisory framework has been introduced on debt instruments issued by LFCs especially on areas such as liquidity and interest/coupon rates.
07 September 2013	-	Liquidity Support Scheme (LSS) was implemented through the Sri Lanka Deposit Insurance and LSS to LFCs facing liquidity constraints.
17 September 2013	-	A Corporate Governance (amendment) Direction was issued to revise few disclosure provisions.
05 December 2013	-	LFCs were required not to offer any non-interest based incentive schemes to interest bearing savings and time deposits inclusive of savings certificates with effect from 01.01.2014.
18 December 2013	-	The license fee payable by a LFC in the year of licensing and the annual licensing fees were increased.
Other		
01 January 2013	-	The Dry Zone Livelihood Support and Partnership Programme-Revolving Fund (DZLiSPP-RF) loan scheme was established.
31 January 2013	-	Know-Your-Customer and Customer Due Diligence Rules were issued to all Authorised Money Changing Companies, in terms of Section 2(3) of the Financial Transaction Reporting Act, No. 6 of 2006.
12 February 2013	-	Convention on the Suppression of Terrorist Financing Act No 25 of 2005 was amended by Convention on the Suppression of Terrorist Financing (Amendment) Act, No. 3 of 2013.
15 February 2013	-	Money Broking Regulations No. 1 of 2013 was issued by the CBSL to regulate and supervise money broking business in Sri Lanka.
	-	Guidelines were issued by the CBSL with regard to the annual certificate fee to be paid by an Authorised Money Broking Company.
14 March 2013	-	The Insurance Board of Sri Lanka (IBSL) issued a circular to all insurance companies specifying criteria that a valuer should possess to value land and buildings in Sri Lanka for the purpose of Solvency Margin Rules for Long – Term and General Insurance Business.
26 April 2013	-	The Poverty Alleviation Microfinance Project II – Revolving Fund (PAMP II – RF) loan scheme was implemented.
02 May 2013	-	The minimum capital requirement applicable to insurance companies and insurance brokers registered under the Regulation of Insurance Industry Act, No. 43 of 2000 was increased as follows. - All insurance companies registered on or before 30.06.2011 are required to increase their minimum paid up share capital up to Rs. 500 million for each class of insurance business on or before 11.02.2015. - All registered insurance brokers are required to increase their minimum paid up share capital up to Rs. 2.5 million on or before 31.12. 2014.
14 May 2013	-	The National Agribusiness Development Programme (NADeP) was transferred to the Ministry of Economic Development other than its microfinance component by the Ministry of Finance and Planning.
23 May 2013	-	The Loan Scheme for Resumption of Economic Activities in the Eastern Province – Revolving Fund – Phase III (REAEP – RF – Ph III) was established.
13 June 2013	-	The Securities and Exchange Commission (SEC) of Sri Lanka issued a directive to lift the restrictions imposed in relation to transactions undertaken by stockbrokers for and on behalf of the National Savings Bank.

23 August 2013	-	The SEC issued a directive incorporating additional conditions to the general listing requirements of public companies seeking listings of CSE by way of offer for subscription and offer for sale.
29 August 2013	-	Commercial Scale Dairy Development Loan Scheme (CSDDLS) operated by the Participating Financial Institutions (PFIs) was implemented.
11 October 2013	-	The SEC reinstated 'introduction' which was suspended on 02.03.2012, as a method of listing of equity at the CSE, with improvements inter-alia in the lock-in mechanism, the reference price and disclosure requirements.
29 October 2013	-	Directives were issued to Licensed Banks and LFCs on obligation of prevention and suppression of terrorism and terrorist financing through implementing targeted financial sanctions.
04 November 2013	-	Directives were issued to Insurance companies and stock brokers on obligation of prevention and suppression of terrorism and terrorist financing through implementing targeted financial sanctions.
12 December 2013	-	A directive was issued to listed companies, requiring them to adopt the Code of Best Practices in relation to Related Party Transactions, starting from 01.01.2014.
17 December 2013	-	The daily valuation methods applicable to fixed income instruments of unit trust funds were specified as follows: - All money market funds that invest only in short-term liquid fixed income securities with a maturity period of less than 366 days have to continue to be valued on a cost plus accrued interest method - All other funds that invest in all other unlisted fixed income securities including Government securities have to be valued on a mark to market basis.
20 December 2013	-	The Rules pertaining to the Minimum Public Float as a continuous listing requirement were introduced for companies listed on the CSE in the following manner: - All companies listed on the Main Board are mandated to have a minimum public float of 20 per cent of total ordinary voting shares in the hands of a minimum of 750 public shareholders or a market capitalisation of Rs. 5 billion of the firm's public holding in the hands of a minimum of 500 public shareholders whilst maintaining a public holding of 10 per cent. - All listed companies listed on the 'Diri Savi' Board are mandated to have a minimum public holding of 10 per cent of the total listed shares in the hands of a minimum of 200 public shareholders.
27 December 2013	-	A directive was issued extending the disclosure requirements pertaining to dealing on shares, which are currently applicable to Directors under the listing rules of the CSE to Chief Executives Officers (CEOs). As per this directive, the SEC requires Directors and CEOs of listed companies to make disclosures of their dealings in shares within T+5, with effect from 01.04.2014.