

## BOX 20

Major Economic Policy Changes and Measures: 2010<sup>1</sup>

## Real Sector

- 21 April 2010 - Post Tsunami Coastal Rehabilitation and Resources Management Programme (PTCRRMP) – “Diyawara Saviya” was launched.
- 30 April 2010 - The first Dairy Resources Center to facilitate exchange of milch cows among buyers and sellers was inaugurated at Meewanapalana, Horana under the Agro-Livestock Development Loan Scheme (ALDL).
- 09 December 2010 - Maximum retail prices were imposed on rice to stabilise the price in the market. Accordingly, the maximum retail price of Samba (excluding Keeri Samba and Suduru Samba) was fixed at Rs. 70 and the maximum retail price of Nadu, and red and white raw rice was fixed at Rs. 60.
- 01 January 2011 - The average electricity tariff was increased by 8 per cent.

## Forthcoming

- Operations of the National Agri-Business Development Programme, funded by the International Fund for Agricultural Development (IFAD) will commence.

## External Sector

## Trade and Tariff

- 01 January 2010 - The surcharge on the importation of some categories of P.V.C. leather cloth was removed.
- The 15 per cent surcharge levied on customs import duty, both general and preferential, on all imported goods, except those specified in the Extraordinary Gazette, No. 1574/15 dated 06 November 2008, was extended for a period of six months.
- 19 January 2010 - A full customs duty waiver was granted on the importation of petrol and diesel.
- 25 January 2010 - A customs duty waiver of 12.5 per cent was granted on the importation of maize. Hence the applicable duty is 2.5 per cent.
- 10 February 2010 - Special Commodity Levy (SCL) on the importation of dried sprats, potatoes, big onions, peas, chickpeas, green gram, dhal, canned fish, sugar, red onions and garlic was extended for another three months.
- 14 February 2010 - The partial customs duty waiver of 13 per cent per kg on the importation of some categories of P.V.C. leather cloth was extended.
- 16 February 2010 - Total recoverable tax rate on the importation of milk powder was reduced from Rs. 100 per kg to Rs. 50 per kg.
- 18 February 2010 - Customs duty waiver of Rs. 25 per kg was granted on the importation of certain categories of edible oil and their fractions.
- Excise duty of Rs. 200 per litre and Rs. 500 per litre was imposed on the importation of Spirit (Ethyl Alcohol) up to a maximum of 20,000 litres per month and beyond the monthly limit of 20,000 litres, respectively.
- 25 February 2010 - The full customs duty waiver on the importation of malt extract was extended.

<sup>1</sup> This includes major economic policy changes and measures implemented during 2010. Policy changes and measures that have been implemented during the first three months of 2011 and to be implemented in 2011 are also included.

01 March 2010	- All taxes and other levies applicable on the importation of gold were removed.
20 March 2010	- SCL on the importation of rice was removed and customs duty and other applicable taxes and levies were re-imposed.
21 March 2010	- SCL of Re. 1 per kg on the importation of sugar was extended for another three months.
01 May 2010	- The full customs duty waiver on the importation of wheat grain was reduced to Rs. 8 per kg. Hence the applicable customs duty is Rs. 2 per kg.
10 May 2010	- SCL on the importation of dried sprats, potatoes, big onions, red onions, peas, chickpeas, dhal, green gram, dried chillies and canned fish was extended for another three months at the previous rates.
01 June 2010	<ul style="list-style-type: none"> <li>- The five band customs duty structure (0, 2.5, 6, 15 and 28 per cent) was reduced to a four band structure (0, 5, 15, and 30 per cent).</li> <li>- The 15 per cent surcharge on customs duty on imported goods was removed.</li> <li>- The 2.5 per cent customs duty, which was mostly applied on the importation of raw materials and machinery, was abolished.</li> <li>- The Cess levy on the importation of motor vehicles was abolished.</li> <li>- Excise duty on the importation of motor vehicles was reduced.</li> <li>- Customs duty on the importation of motor cycles was reduced from 15 per cent to 5 per cent and an excise duty of 25 per cent was imposed on motor cycles.</li> <li>- Customs duty, Value Added Tax (VAT), Social Responsibility Levy (SRL), Cess and excise duty were removed on the importation of certain categories of electric items and their parts. Thus the liable taxes on these items are only Port and Airport Development Levy (PAL) and Nation Building Tax (NBT).</li> <li>- Cess on the importation of refrigerators, freezers, dish washing machines, washing machines, wrist watches, pocket watches and other watches and parts thereof was removed.</li> <li>- Excise duty on the importation of paints and varnishes was abolished.</li> <li>- Cess on the importation of certain categories of paints and varnishes, and painters' fillings was reduced from Rs. 85 per kg to Rs. 50 per kg.</li> <li>- Cess on the importation of printing ink was reduced from Rs. 25 per kg to Rs. 15 per kg.</li> <li>- Cess rates on the importation of certain categories of beauty or make-up preparations and preparations for use on the hair were revised to 35 per cent or Rs. 250 per kg, whichever is higher.</li> <li>- Cess on industrial monocarboxylic fatty acids, acid oils from refining, and industrial fatty alcohols was removed.</li> <li>- Cess on the importation of certain categories of resins and cellulose and their chemical derivatives, certain categories of plastics, and polymers of ethylene, propylene, styrene, vinyl chloride, vinyl acetate, acrylic polymers, polyacetals, other polyesters and polyamides in primary forms was reduced from 10 per cent to 5 per cent.</li> <li>- Cess on the importation of cement was reduced from 10 per cent to 8 per cent.</li> <li>- Cess on the importation of certain categories of worked monumental or building stones, such as tiles, granite, marble etc. was reduced from 30 per cent or Rs. 50 per kg to 20 per cent or Rs. 30 per kg, whichever is higher.</li> </ul>

	<ul style="list-style-type: none"> <li>- Cess on the importation of certain categories of products made in iron or non-alloy steel was increased from Rs. 10 per kg to Rs. 15 per kg.</li> <li>- Cess on the importation of certain categories of wire of iron or non-alloy steel, stainless steel, and certain categories of angles, shapes, and sections (U sections, I sections, H sections etc.) of iron or non-alloy steel was removed.</li> <li>- VAT, NBT and PAL were removed on the importation of currency notes (HS code 4907.00.90).</li> </ul>
21 June 2010	<ul style="list-style-type: none"> <li>- SCL on the importation of sugar was increased from Re. 1 per kg to Rs. 5 per kg for three months.</li> <li>- The duty waiver of Rs. 8 per kg on the importation of wheat grain was removed and hence the applicable customs duty was increased to 15 per cent or Rs. 10 per kg, whichever is higher.</li> </ul>
08 July 2010	<ul style="list-style-type: none"> <li>- VAT on the importation of high tech medical equipment was removed.</li> </ul>
10 August 2010	<ul style="list-style-type: none"> <li>- SCL on the importation of red onions and big onions was increased from Rs. 10 per kg to Rs. 25 per kg.</li> <li>- SCL on the importation of garlic was reduced from Rs. 30 per kg to Rs. 10 per kg.</li> <li>- SCL on the importation of whole peas and whole chickpeas was reduced from Rs. 15 per kg to Rs. 10 per kg.</li> <li>- SCL on the importation of whole masoor dhal and split masoor dhal was increased from Re. 1 per kg to Rs. 10 per kg and Rs. 2 per kg to Rs. 15 per kg, respectively.</li> <li>- SCL on the importation of dried sprats, potatoes, split peas, split chickpeas, green gram, dried chillies and canned fish was extended for another four months at previous rates.</li> </ul>
16 August 2010	<ul style="list-style-type: none"> <li>- VAT on the importation of fruit seeds under HS code 1209.99.10 was removed.</li> </ul>
27 August 2010	<ul style="list-style-type: none"> <li>- A surcharge of Rs. 20 per kg was imposed on potatoes until 09 September 2010.</li> </ul>
10 September 2010	<ul style="list-style-type: none"> <li>- SCL on the importation of potatoes was increased from Rs. 10 per kg to Rs. 30 per kg for another three months.</li> </ul>
21 September 2010	<ul style="list-style-type: none"> <li>- SCL of Rs. 5 per kg on the importation of sugar was extended for another three months.</li> </ul>
13 October 2010	<ul style="list-style-type: none"> <li>- Customs duty, VAT, SRL, Cess, PAL and NBT were removed on the importation of chicks for breeding and other chicks.</li> <li>- Customs duty, VAT, SRL and Cess were removed on the importation of eggs and egg yolk.</li> <li>- Customs duty was reduced from 30 per cent to 15 per cent and VAT, SRL and Cess were removed on the importation of meat of fowls.</li> </ul>
30 October 2010	<ul style="list-style-type: none"> <li>- SCL on the importation of big onions was reduced from Rs. 25 per kg to Rs. 10 per kg.</li> <li>- SCL on the importation of potatoes was reduced from Rs. 30 per kg to Rs. 10 per kg.</li> <li>- Customs duty waiver of Rs. 45 per kg or 15 per cent was granted on the importation of certain categories of edible oil and their fractions.</li> </ul>
23 November 2010	<ul style="list-style-type: none"> <li>- An import duty waiver of Rs. 150 per kg was granted on the importation of meat of fowls. Hence the applicable duty rate is Rs. 50 per kg.</li> <li>- A full import duty waiver of Rs. 100 per kg was granted on the importation of bird's eggs.</li> <li>- Import or supply of petrol, coal and bitumen were exempted from VAT.</li> <li>- The tax formulae used by Sri Lanka Customs were changed.</li> </ul>

	<ul style="list-style-type: none"> <li>- The full customs duty waiver granted on the importation of petrol was reduced to Rs. 20 per litre. Hence the applicable duty rate is Rs. 15 per litre.</li> <li>- The full customs duty waiver granted on the importation of diesel was reduced to Rs. 11 per litre. Hence the applicable duty rate is Rs. 4 per litre.</li> <li>- Cess of Rs. 600 per kg was imposed on the importation of lottery tickets and telephone cards.</li> <li>- Pharmaceutical products falling within HS headings 30.01, 30.02, 30.03, 30.04 and 30.06 was exempted from PAL.</li> <li>- Customs duty and excise duty applicable on the importation of hybrid electric vehicles was revised.</li> <li>- Customs duty on the importation of electrical machinery and equipment was revised.</li> <li>- The Special Import Licence Regulations, No. 1 of 1977, published in Gazette Extraordinary, No. 291/7 of 15 November 1977 was amended.</li> <li>- Customs duty was reduced for Telecom/Information and Communication Technology (ICT)/ Business Process Outsourcing (BPO) sectors, agriculture sector, confectionary and bakery product manufacturing, health, pharmaceuticals and cosmetics (including ayurvedic), tourism and construction industry, shopping for branded products, vehicle assembly industry, instruments and apparatus for health, education and scientific research.</li> </ul>
10 December 2010	<ul style="list-style-type: none"> <li>- SCL on the importation of dried sprats, potatoes, big onions, peas, chickpeas, green gram, dhal, canned fish, sugar, red onions and garlic was extended for another four months at previous rates.</li> <li>- A full customs duty waiver was granted on the importation of diesel to be effective from 23 November 2010.</li> </ul>
22 December 2010	<ul style="list-style-type: none"> <li>- The Special Import Licence Regulations, No. 1 of 1977, published in Gazette Extraordinary, No. 291/7 of 15 November 1977 was further amended.</li> </ul>
01 January 2011	<ul style="list-style-type: none"> <li>- Import of goods, for any infrastructure development project funded through foreign loans or donations directly to government ministries as approved by the Minister of Finance was excluded from NBT and VAT.</li> <li>- Import of raw materials exclusively used in manufacturing ayurvedic preparation and packing materials exclusively used for packing of ayurvedic preparations in Sri Lanka (other than cosmetic preparations) as approved by the Minister of Finance was excluded from NBT.</li> <li>- Import of bitumen falling under HS Code 2713.20 and HS Heading 27.14 and import of tractors falling under HS Codes 8701.10.10, 8701.10.90, 8701.90.10 and 8701.90.20 was excluded from NBT.</li> <li>- Importation of certain categories of machinery and equipment for leather or footwear industry, high-tech medical, laboratory and educational equipment, taxi meters, agricultural machinery and parts, electrical equipment, articles used for fashion jewellery manufacturing, machinery and high-tech equipment for the use in telecommunication industry and aircraft simulators and parts was exempted from VAT.</li> </ul>
11 January 2011	<ul style="list-style-type: none"> <li>- The customs duty waiver granted on the importation of petrol was increased from Rs. 20 per litre to Rs. 30 per litre. Hence the applicable duty rate is Rs. 5 per litre.</li> </ul>
22 January 2011	<ul style="list-style-type: none"> <li>- A full customs import duty waiver was granted on the importation of milk powder. Hence, only PAL and NBT will be applicable on importation of milk powder.</li> </ul>

### Foreign Exchange Management

- 11 March 2010
- The following categories of resident Sri Lankans were permitted to open and maintain bank accounts abroad:
    - a person resident in Sri Lanka who has proceeded outside Sri Lanka temporarily for business, studies or for medical purposes
    - an individual or a company or a firm registered in Sri Lanka who provide professional or vocational services outside Sri Lanka while being a resident in Sri Lanka
    - an individual or a company or a firm registered in Sri Lanka who has been permitted by the Minister of Finance to invest outside Sri Lanka
    - an individual or a company or a firm registered in Sri Lanka who has been permitted by the Central Bank of Sri Lanka to lend foreign currency abroad and,
    - an exporter of merchandise goods.
  - The existing different investment accounts, namely, Share Investment External Rupee Account (SIERA), Treasury Bond Investment External Rupee Account (TIERA), Treasury bill Investment External Rupee Account (TIERA-2), Treasury bonds/bills Investment External Rupee Account – Deshabhimani (TIERA-D), maintained by non-residents in commercial banks were permitted to be unified. The unified account was renamed as Securities Investment Account (SIA).
  - Restrictions on Authorised Dealers entering into forward contracts with their customers to hedge an exposure to exchange risk have been relaxed.
  - The 100 per cent margin deposit requirement against advanced payments on the invoiced value of selected imported items was removed.
  - The suspension on the pre-payment of import bills was lifted.
  - Transfer of funds between Special Foreign Investment Deposit Accounts (SFIDA) of a non-resident and accounts maintained in Offshore Banking Units (OBUs) in Sri Lanka by such non-resident was permitted.
- 07 May 2010
- Authorised dealers were permitted to open a new foreign currency account titled “Foreign Currency Accounts for International Service Providers and their Employees (FCAISPE)”.
- 02 June 2010
- The issuance of foreign currency notes as a part of the travel allowance for Sri Lankans travelling abroad was increased to US dollars 2,500 or its equivalent in any other convertible foreign currency from its present level of US dollars 2,000.
- 22 November 2010
- Foreign companies were permitted to open places of business in Sri Lanka.
  - Non-residents were permitted to invest in rupee denominated debentures issued by local companies.
  - Advance payment for imports was increased from US dollars 10,000 to US dollars 50,000.
  - Foreign diplomatic missions, diplomatic personnel and their family members were permitted to perform certain banking transactions in foreign currency and in Sri Lanka rupees.
  - Non-nationals either on temporary visit to Sri Lanka or intending to visit Sri Lanka were permitted to open non-resident non-national foreign currency accounts.
  - Importers of Gems and Jewellery were permitted to open accounts in foreign currency.
  - Approval was granted for companies to borrow from foreign sources.
- 01 January 2011
- Individuals resident in Sri Lanka and companies incorporated in Sri Lanka were permitted to invest in shares of foreign companies and sovereign bonds issued by foreign governments.

**Forthcoming**

- Sri Lankan companies and partnerships were permitted to open places of business outside the country.
- Introducing Corporate Credit Cards/Travel Cards.
- Granting a general permission to banks to transfer the funds in NRFC/RFC accounts among banks/individuals.
- Removing the maximum limit on the balance of indirect exporters foreign currency accounts.
- Introducing special foreign currency accounts for travel agents, airlines, local companies who undertake foreign contracts, such as power projects, building constructions etc. abroad and local companies who undertake foreign funded projects in Sri Lanka.
- Relaxing exchange control restrictions on foreigners and foreign fund investments in unit trusts.
- Relaxing restrictions on foreign investments in education, travel agencies and shipping agencies to facilitate such services in line with the current developments.
- Granting a general permission to residents to make payments to non-residents in respect of buying real estate in Sri Lanka from the latter party.
- Granting permission for Sri Lankan students studying abroad to obtain loans from respective countries for the purpose of studies.

**Fiscal Sector****Government Revenue**

- |                   |  |
|-------------------|--|
| 01 January 2010   | - Excise duty on LP gas was reduced from 5 per cent or Rs. 31.50 per kg to 5 per cent or Rs. 8.70 per kg, whichever is higher.   |
| 01 March 2010     | - Excise duty on LP gas was removed.   |
| 24 June 2010      | - Excise duty on cigarettes was increased.   |
| 01 September 2010 | - Excise duty on LP gas was reintroduced at a rate of Rs. 13.12 per kg.  |
| 29 October 2010   | - Excise duty on cigarettes was increased.<br>- Excise duty on LP gas was increased to Rs. 15.66 per kg from Rs. 13.12 per kg.   |
| 19 November 2010  | - Environment Conservation Levy (ECL) on telecommunication services was removed.   |
| 23 November 2010  | - SRL on all items other than income tax was removed.<br>- Excise duty on liquor was increased.<br>- Annual license fee and security deposit for manufacturing and selling liquor was revised.<br>- Excise duty on cigarettes was increased. |
| 01 December 2010  | - A levy of Rs. 2 per minute was imposed on incoming IDD calls of all telecommunication services.  |
| 16 December 2010  | - Excise duty on LP gas was removed.   |
| 01 January 2011   | - The 20 per cent VAT rate was reduced to 12 per cent. Hence, there is only one VAT rate applicable other than the zero rate.<br>- The NBT rate of 3 per cent was reduced to 2 per cent.   |

- Regional Infrastructure Development Levy (RIDL) was removed.
  - A Composite Telecommunications Levy of 20 per cent was introduced replacing the VAT, NBT and Cellular Mobile Subscriber's Levy on telecommunication services.
  - A Cess levy of 2 per cent on the annual gross turnover of telecom operators was introduced.
  - Turnover Tax (TT) collected by the provincial councils was abolished.
  - The Share Transaction Levy was increased from 0.2 per cent to 0.3 per cent.
- 05 January 2011
- Excise duty on hard liquor (all types of liquor except malt liquor) was increased by Rs. 50 per proof litre.

**Forthcoming**

- 01 April 2011
- Increasing the tax free allowance for the computation of personal income taxes from Rs. 300,000 to Rs. 500,000.
  - Revising the personal income tax slabs as follows:
 

First Rs 500, 000 (of taxable income)	- 4 per cent
Next Rs. 500, 000	- 8 per cent
Next Rs. 500, 000	- 12 per cent
Next Rs. 500,000	- 16 per cent
Next Rs. 1,000,000	- 20 per cent
Balance	- 24 per cent
  - Increasing the tax free allowance from Rs. 500,000 to Rs. 600,000 for the computation of Pay-As-You-Earn (PAYE) taxes.
  - Introducing the PAYE tax for government sector employees.
  - Treating the tax deducted from employment income (of both government and private sector employees) under the PAYE scheme as final, where employment income is the only source of income.
  - Extending the present exemption available to senior citizens for withholding tax on interest income from money deposited in state banks from Rs. 200,000 to Rs. 500,000.
  - Extending the first level of assessable income of individuals and charitable institutions for self-direction purposes of withholding tax from Rs. 300,000 to Rs. 500,000.
  - Extending the second level of assessable income for self-direction purposes (for the concessionary rate of 2.5 per cent) of withholding tax from Rs 1 million to Rs 1.5 million.
  - Treating withholding tax on corporate debt securities on par with government securities.
  - Removing withholding tax on specified fees.
  - Reducing the withholding tax for persons other than companies to 8 per cent.
  - Reducing the corporate income tax rate to 28 per cent from 30 per cent, 33 1/3 per cent or 35 per cent applicable to companies or NGOs (other than any person engaged in a business which deals in liquor or tobacco).
  - Increasing the corporate income tax rate applicable on any person engaged in manufacturing or importation of liquor or tobacco products to 40 per cent.
  - Reducing the concessionary corporate income tax rate of 15 per cent to 12 per cent.

- Limiting the maximum corporate income tax rate applicable to any person engaged in an undertaking to manufacture any product, having domestic value addition in excess of 65 per cent and Sri Lankan brand name with patent rights reserved in Sri Lanka.
- Reducing the corporate income tax rate on clubs and associations, undertaking for operation and maintenance of facilities for storage, local software development or supply of labour to 10 per cent.
- Reducing the corporate income tax rate on venture capital companies, petroleum exploration and entertainers or artists to 12 per cent.
- Reducing the corporate income tax rate on the divisible profits of a partnership from 10 per cent to 8 per cent.
- Limiting the maximum corporate income tax rate on the profits and income of any agricultural undertaking referred to in Section 16 of the Inland Revenue Act to 10 per cent.
- Exempting fishing, cultivation and primary processing of agricultural seeds and planting material sectors from corporate income tax for a period of five years reckoned from the year of assessment.
- Exempting foreign exchange earnings from supplies made to foreign buyers, who establish their headquarters in Sri Lanka for management, finance, supply chain and billing, by manufacturers of textile, leather products, and footwear and bags from corporate income tax.
- Exempting SriLankan Airlines Ltd. and Mihin Lanka (Pvt) Ltd. from income taxes from all sources for a period of 10 years. They will be subjected to the payment of a dividend of 25 per cent to the government from their annual gross profits.
- Exempting Ceylon Electricity Board, National Water Supply and Drainage Board, Ceylon Petroleum Corporation and Sri Lanka Ports Authority from income taxes from all sources for a period of 5 years. They will be subjected to the payment of a dividend of 25 per cent to the government from their annual gross profits.
- Exempting the turnover of distributors as defined in the Economic Service Charge Act, dealers in lottery, unit trusts or mutual funds and all airlines and shipping lines from the Economic Service Charge (ESC).
- Increasing the present threshold of ESC from Rs. 7.5 mn to Rs. 25 mn per quarter.
- Converting the present submission of returns on a quarterly basis for ESC to annual returns, while the existing quarterly payments will remain.
- Simplifying the existing rates schedule of ESC from a five band structure (0.05, 0.1, 0.25, 0.5 and 1 per cent) to a four band structure (0.1, 0.25, 0.5, and 1 per cent).
- Removing the Debits tax.
- Removing the SRL on income taxes.
- Offering a five year tax holiday for any company, which carries on a new undertaking, with a minimum investment of not less than US dollars 3 million (but not more than US dollars 10 million) or an amount equal to such amount in rupees in such activities as specified by the Minister of Finance and Planning from time to time, by order published in the Gazette having regard to the development of the national economy.
- Removing the concessionary NBT rate of 1.5 per cent applicable on the liable turnover from the sale of rice manufactured from locally procured paddy.

### Government Expenditure

- 01 January 2010 - The cost of living allowance (COLA) of public sector employees was increased by Rs. 750 to Rs. 5,250 per month, while COLA of pensioners was increased by Rs. 375 to Rs. 2,375 per month.
- 01 January 2011 - All public servants were given a special allowance equivalent to 5 per cent of their basic salary.
- The COLA of public sector employees in the non staff grade category was increased by Rs. 600 to Rs. 5,850 per month.
- The COLA of pensioners was increased by Rs. 300 to Rs. 2,675 per month.
- The 'Academic Allowance' paid to university academic staff, the 'Personal Allowance' paid to the members of the judiciary coming under the purview of the Judicial Services Commission, and the 'On-Call Allowance' paid to doctors was increased by 25 per cent.

### Forthcoming

- Increasing the current COLA of public sector employees in the staff grade category with effect from July 2011 by Rs. 600 to Rs. 5,850 per month.
- Giving an increase of Rs. 750 per month and Rs. 250 per month to pensioners who retired prior to 01 January 2004 and to pensioners who retired during the period 01 January 2004 to 31 December 2005, respectively with effect from July 2011.

### Debt Management

- 21 May 2010 - A Sovereign Rating Committee (SRC) was appointed in order to encourage the active participation of public and private sector stakeholders in the country's sovereign rating process which aims to achieve a sovereign rating of an investment grade of BBB - or higher by 2014.
- 30 June 2010 - The marketing operations of government securities by the outlets of LankaClear were ceased.
- 9 July 2010 - Having considered the need for strengthening the sovereign rating process, three Sovereign Rating Advisors (SRAs) namely, Bank of America Merrill Lynch (BAML), the Royal Bank of Scotland PLC (RBS), and the HSBC were appointed to co-ordinate with country authorities and rating agencies to upgrade the country's rating level.
- 6 August 2010 - A decision was taken to obtain a sovereign rating from Moody's Investment Services.
- 4 October 2010 - International sovereign bonds worth US dollars 1,000 million were issued.

### Forthcoming

- Allowing commercial banks to participate at the primary auctions without having a dedicated capital for the purpose, if eligibility criteria are fulfilled.
- Reviewing and updating directions issued to Primary Dealers (PDs) in line with the accepted best practices in the financial sector.

### Financial Sector

- 01 January 2010 - The lending rates of the three agricultural credit schemes namely, New Comprehensive Rural Credit Scheme, Agro Livestock Development Loan Scheme and "Krushu Navodaya" Special Loan Scheme were reduced from 12 per cent to 8 per cent.

- Direction was issued to Registered Finance Companies (RFCs) to amend the upper limit on the rate of interest on deposits and the discount rate of bonds or other instruments.
- Direction was issued to RFCs allowing payment of additional interest of one percentage point above the rates of interest on time or savings deposits maintained by senior citizens.
- 05 January 2010 - The Government decided to pay a 20 per cent bonus interest to senior citizens on rupee deposits maintained in licensed banks with effect from 01 January 2010.
- 19 January 2010 - Operating instructions were issued to all RFCs and specialised leasing companies (SLCs) on the Central Bank Credit Guarantee Scheme for bank loan facilities to RFCs and SLCs that are facing liquidity problems in specific circumstances.
- 22 January 2010 - Interest rates of the Awakening North Special Loan Scheme and the Eastern Province Development Scheme, operated by the CBSL were reduced from 12 per cent per annum to 9 per cent per annum.
- 25 February 2010 - Banks that are non-compliant with the mandatory requirement imposed since end 2009 of 10 per cent of total lending to the agriculture sector were required to contribute any shortfall to a refinance fund operated by the Regional Development Department of CBSL for lending to the agriculture sector through other banks.
- 01 March 2010 - An operational guideline was circulated to streamline the operations of credit card issuers.
- 11 March 2010 - Withdrawal of operating instruction on payment of import bills, issued under Reference No. 02/17/800/0006/01 dated 31 October 2008.
- 22 March 2010 - A new loan scheme titled Prosperity ('Saubagya') was launched for the purpose of providing credit facilities to agriculture, livestock, micro, small and medium scale enterprises (MSMEs) and MSMEs affected by any disaster in the island.
- 07 May 2010 - Approval was granted to open six new bank branches in the Northern Province.
- 14 May 2010 - The Financial Intelligence Unit (FIU) of CBSL signed a Memorandum of Understanding (MoU) with Sri Lanka Customs to share information to facilitate the investigation and prosecution of persons suspected of money laundering and terrorist financing.
- 26 May 2010 - All licensed banks were allowed to grant credit facilities for repayment of non-performing loans (NPLs) in the name of the same borrower or any other party without requiring the new facility to be classified as an NPL, until 30 June 2011.
- 01 July 2010 - CBSL opened its fourth provincial office in Jaffna whose primary function is to implement the development oriented loan schemes introduced by CBSL in the Northern Province.
- 09 July 2010 - The CBSL's Repurchase and Reverse Repurchase rates were reduced by 25 basis points to 7.25 per cent and 9.50 per cent, respectively.
- 26 July 2010 - All eligible security deposit holders of the Golden Key Credit Card Company Ltd. were paid on the basis of either 75 per cent of the security deposit balances as at 31 December 2008 or Rs. 100,000, whichever is lower, after verification by the auditors.
- 29 July 2010 - The minimum capital requirement of banks was increased to the following levels:

Minimum capital requirement of new banks (Rs. billion)

Type of Bank	From 2010	From 2012	From 2014
Licensed Commercial Banks	3.0	4.0	5.0
Licensed Specialised Banks	2.0	2.5	3.0

## Minimum capital requirement of existing banks (Rs. billion)

Type of Bank	End 2011	End 2013	End 2015
Licensed Commercial Banks	3.0	4.0	5.0
Licensed Specialised Banks	2.0	2.5	3.0

- 08 August 2010 - The CBSL's Reverse Repurchase rate was reduced by 50 basis points to 9.00 per cent.
- 19 August 2010 - All unlisted licensed banks are required to list on the Colombo Stock Exchange (CSE) by 31 December 2011.
- 09 September 2010 - Licensed banks were requested to reduce their lending rates to at least the following levels by end October 2010:
- housing loans to 14 per cent per annum
  - credit card advances to 24 per cent per annum
  - other loans and advances by 1-2 per cent per annum
- 27 September 2010 - All licensed banks were required to maintain 0.5 per cent general provisions on total outstanding of on-balance sheet performing loans accounts (PLAs) and special mentioned on-balance sheet credit facilities net of interest in suspense, commencing from 01 January 2012, by reducing the existing 1 per cent general provisions to 0.5 per cent at a rate of 0.1 per cent per quarter during the five quarters commencing 01 October 2010.
- 01 October 2010 - The Sri Lanka Deposit Insurance Scheme (SLDIS) was implemented under the provisions of the Monetary Law Act where all licensed banks and RFCs will participate on a mandatory basis.
- 06 October 2010 - The license fee payable in the year of first registration by an RFC was increased from Rs. 50,000 to Rs. 500,000.
- The annual license fee of RFCs fixed at Rs. 50,000 was increased to a range of Rs. 150,000 to Rs. 500,000 to be levied on the basis of the total assets of the RFC as at the end of the preceding financial year.
- Auctions under open market operations (OMO) were suspended.
- 28 October 2010 - The Financial Intelligent Unit (FIU) of the Central Bank of Sri Lanka signed a Memorandum of Understanding (MoU) with the Anti-Money Laundering Department of the Central Bank of Bangladesh to share financial information to facilitate investigation and prosecution of persons suspected of money laundering and terrorist financing.
- 02 November 2010 - All licensed banks were advised to regulate and manage the risks that could arise from outsourcing of their business operations.
- 08 November 2010 - The annual license fee of licensed banks for 2011 was increased to a range between Rs. 2 million and Rs. 10 million based on the total assets of the banks as at the end of the previous year.
- 23 November 2010 - Introduction of a scheme to guarantee cultivation loans secured on lands in conflict affected areas in the Northern Province.
- 24 November 2010 - Extended the assessment of fitness and propriety to officers performing executive functions in all licensed banks.
- 09 December 2010 - SLCs are required to increase their minimum core capital to Rs. 100 million by 01 January 2012 and further raise it to Rs. 150 million, Rs. 200 million, Rs. 250 million and Rs. 300 million as at the beginning of 2013, 2014, 2015 and 2016 respectively, with a view to promoting their soundness and resilience to shocks.

	<ul style="list-style-type: none"> <li>- A web based data transmission system was introduced for the mandatory periodic returns submitted by SLCs to CBSL.</li> <li>- The opening, change of location, closure of any branch/business place of an SLC was formalised requiring SLCs to obtain prior approval in writing from the Director, Supervision of Non-Bank Financial Institutions for any such activity.</li> </ul>
27 December 2010	<ul style="list-style-type: none"> <li>- The minimum issued and paid-up capital of a public company applying for license under the Finance Leasing Act was increased to Rs. 100 million by 01 January 2011, and will be increased progressively by Rs. 50 million each year thereafter to reach Rs. 300 million by 01 January 2015.</li> <li>- The fee payable at application, first registration and annual renewal with respect to Registered Finance and Leasing Establishments (RFLEs) was increased. Of these, the annual fee on renewal ranging from Rs. 150,000 to Rs. 500,000 would be based on the audited total assets of the respective RFLE as at the preceding year end.</li> </ul>
11 January 2011	<ul style="list-style-type: none"> <li>- All licensed banks were required to adopt appropriate risk management standards and introduced limits on banks' exposure to margin trading business on shares to mitigate the risk that could arise from the volatility of prices and emergence of asset price bubbles from margin trading business on shares.</li> <li>- The CBSL's Repurchase rate was reduced by 25 basis points to 7.00 per cent and the Reverse Repurchase rate was reduced by 50 basis points to 8.50 per cent.</li> </ul>
04 February 2011	<ul style="list-style-type: none"> <li>- CBSL issued a new series of currency notes for circulation on the theme "Development, Prosperity and Sri Lanka Dancers". This is the 11th series of currency notes of the Bank and consists of denominations of Rs. 20, Rs. 50, Rs. 100, Rs. 500, Rs. 1,000 and Rs. 5,000.</li> </ul>
09 March 2011	<ul style="list-style-type: none"> <li>- Mobile Payment Guidelines were issued with the objective of regularising and monitoring mobile payment systems.</li> </ul>
Forthcoming	<ul style="list-style-type: none"> <li>- Issuing guidelines to implement Pillar II of Basel II to further strengthen the risk management and capital planning process.</li> <li>- Issuing customers' charter and directions to banks to adopt the same.</li> <li>- Facilitating the adoption of Sri Lanka Accounting Standards (SLAS) 44 and 45 to improve disclosure.</li> <li>- Finalising the proposed amendments to the Banking Act.</li> <li>- Formulating a framework on consolidated supervision.</li> <li>- Further fine-tuning the internal rating system of banks.</li> <li>- Implementing Basel III proposals.</li> <li>- Issuing Internet Payment Guideline with the objective of regularising internet payment systems.</li> <li>- Introducing the new Finance Business Act.</li> <li>- Initiating the necessary amendments to the Finance Leasing Act.</li> <li>- Issuing prudential directions covering Islamic banks.</li> </ul>