

Appendix 1 - Major Economic Policy Changes and Measures: Jan – Oct 2005

Real Sector

- 03 January 2005 - Unemployed graduates (42,588) who participated in the special orientation programme, were attached to Ministries as trainees (formal training).
- 04 January 2005 - Sri Lanka Railway Authority (Repeal) bill was approved by the Parliament to re-establish Sri Lanka Railways.
- 15 March 2005 - A new compensation formula was gazetted by the Commissioner of Labour under the Termination of Employment of Workmen (Special Provisions) Amendment Act.
- 01 April 2005 - The government initiated a housing loan scheme for government employees.
- The value of fertiliser subsidy was revised downwards from Rs. 23,000 per metric ton to Rs. 22,000 per metric ton.
- 04 May 2005 - Retail prices of petrol, diesel and kerosene were increased by Rs. 6.00, Rs. 4.00 and Rs. 3.00 to Rs. 74.00, Rs. 46.00 and Rs. 28.50, respectively.
- 10 June 2005 - Passenger bus fares were increased by 15 per cent.
- 23 June 2005 - A bill was passed in the Parliament to restrain coconut land fragmentation.
- July 2005 - Cabinet approval was granted to introduce gliricidia as the 4th plantation crop to establish agro energy plantations in order to develop dendro power in Sri Lanka.
- 01 August 2005 - Rail fares were increased by about 50 per cent.
- 10 August 2005 - The value of fertiliser subsidy was increased from Rs. 22,000 per metric ton to Rs. 23,000 per metric ton.
- The Kapruka Fund bill was passed by the Parliament to increase coconut production and upgrade the coconut industry in Sri Lanka.
- 30 August 2005 - The Sri Lanka Transport Board (SLTB) bill was passed by the Parliament.
- 28 September 2005 - The SLTB was re-established.

External Sector

Trade and Tariff

- 01 January 2005 - The 10 per cent surcharge on customs duty on all imported goods, except for some selected items, was extended till 31 December 2005.
- 03 January 2005 - The duty waiver of Rs. 9 per kg granted on rice imports was extended up to 15 January 2005.
- 01 March 2005 - A cess was imposed on select imported items such as maize, chocolate and cereal products under the section 14 of the Sri Lanka Export Development Act No. 40 of 1979 in addition to the cess imposed on 04 November 2004.

- 01 June 2005 - A scheme for granting duty free concessions for the importation of new machinery utilising advanced technology was introduced by the Ministry of Advanced Technology and National Enterprise Development.
- 12 June 2005 - Pakistan – Sri Lanka Free Trade Agreement came into effect.
- 30 June 2005 - The duty waiver granted on import of wheat grain (2.5 per cent) and wheat flour (15 per cent) was withdrawn.
- 01 July 2005 - Sri Lanka was qualified to receive concessions under the Generalised System of Preferences plus (GSP+) scheme introduced by the European Union (EU).
- 12 August 2005 - Customs duty on importation of select heavy vehicles was reduced from 27.5 per cent to 6 per cent.

Exchange Management

- January 2005 - A scheme for monitoring repatriation of export proceeds was initiated.
- 14 February 2005 - A scheme was introduced to monitor post tsunami inward remittances received by the government, non government organisations (NGOs) and others for tsunami relief activities and a special account titled “Post Tsunami Inward Remittances Account (PTIRA)” was introduced for this purpose.
- February 2005 - A committee was appointed by the Central Bank to recommend suitable measures to strengthen the existing monitoring scheme for foreign exchange drawings on Electronic Fund Transfer Cards (EFTCs) to prevent misuse of such cards.
- 08 April 2005 - Indirect Exporters Foreign Currency Accounts (IEFCAs) were introduced permitting indirect exporters to receive payments in foreign currency from direct exporters.
- 01 June 2005 - Following measures were taken to strengthen and discipline the conduct of money changers.
 - The minimum issued and paid up capital required to qualify for a money changer was raised from Rs. 1 million to Rs. 10 million.
 - The required average monthly turnover to continue on money changing business was increased from US\$ 5,000 to US\$ 10,000 or its equivalent in other convertible currencies.
- 23 September 2005 - A monitoring scheme on foreign exchange drawings against international electronics, credit, debit or any other fund transfer card was introduced.
- Forthcoming - Taking measures to review the existing criteria of appointing travel agents as restricted dealers in foreign exchange for the purpose of issuing travellers cheques.
- Granting permission for non- residents to invest in government securities.

Fiscal Sector

Government Revenue

- 01 January 2005
- A new value added tax (VAT) rate of 18 per cent was imposed on select items.
 - Agriculture seeds and plants, leasing of three wheelers, financial services on stock market transactions, animal feed and shrimp feed and providing electricity to rural areas were exempted from VAT.
 - Gems and gold were made liable to VAT at the rate of 15 per cent.
 - Tax exemption on income earned from the sale of gem, gold and jewellery was removed. However, income earned from export of gold, gem and jewellery was exempted from income tax.
 - The rate of Economic Service Charge (ESC) was reduced from 1 per cent to 0.5 per cent to the wholesale or retail trade, irrespective of whether they are engaged in trading local or imported goods.
 - The income/ profit arising from cultivation of land with plant of any description and sale of such unprocessed products were exempted from income tax.
 - The Ports and Airports Development Levy (PAL) on imports for processing and exports was reduced from 0.5 percent to 0.25 per cent.
 - A Social Responsibility Levy (SRL) of 0.25 per cent was imposed on tax and levies collectable under the Excise (Special Provisions) Act No.13 of 1989, the Excise Ordinance (Chapter 52), the Customs Ordinance (Chapter 235) and the Inland Revenue Act No. 38 of 2000 (excluding Withholding Tax and Dividend Tax).
 - A Share Transaction Levy of 0.2 per cent was imposed on every buyer and seller on the turnover of every share trading transaction, which is conducted through the Stock Exchange.
 - A Construction Guarantee Fund Levy was imposed as follows:
 - All construction projects between Rs. 15 mn. and Rs.50 mn. were made liable at a rate of 0.25 per cent of the project value.
 - All construction projects between Rs. 50 mn. and Rs.150 mn. were made liable at a rate of 0.5 per cent of the project value.
 - All construction projects over Rs. 150 mn. were made liable at a rate of 1 per cent of the project value.
 - Four dedicated tax courts were setup in Gampaha, Kandy, Galle and Anuradhapura for the purpose of speedy dispensation of tax related cases including tax recovery and compliance cases. An appeal unit was setup in the Department of Inland Revenue (IRD) to deal with settlement of appeals made by taxpayers against assessments sent by assessors.

- 08 February 2005 - Following bills were approved by the Parliament.
- The Finance bill (to give legal effect to the measures proposed in Budget 2005)
 - The Increase of Fines bill (in keeping with the government's commitment to the law enforcement more effective in the country)
 - The Value Added Tax (Amendment) bill (to give legal effect to the measures proposed in Budget 2005)
- February 2005 - An information centre was set up at the IRD to collect and analyse information on tax evades thereby strengthening the surveillance mechanism.
- 01 April 2005 - Personal income tax rates were revised as follows:
- (1) First Rs.300,000 = Nil (2) Next Rs.300,000 = 5%
 - (3) Next Rs.200,000 = 10% (4) Next Rs.200,000 = 15%
 - (5) Next Rs.200,000 = 20% (6) Next Rs.200,000 = 25%
 - (7) Balance = 30%
- Tax on terminal benefits for employment was revised as follows:
- The present exemption of Rs 2 million applicable to terminal benefits such as Provident Fund and Employees' Trust Fund (ETF) was made available only if the period of contribution is more than 20 years.
 - If the period of contribution is less than 20 years, the applicable exemption was limited to Rs. 1 million.
 - The balance is taxed at following concessionary rates:
 - (1) First Rs. 500,000=5% (2) Next Rs. 500,000=10% (3) Balance=15%
- An upfront tax of 10 per cent was imposed on the divisible profit and other income of all Partnerships.
- Restrictions were imposed on various deductions, which are applicable to both corporate and non - corporate sectors.
- The rate of capital allowance applicable to software developed in Sri Lanka was increased from 25 per cent to 100 per cent from the year of assessment 2004/05.
- Betting and Gaming Levy was increased.
- Administrative fees and charges were revised upwards.
- A withholding tax was imposed on registration of motor vehicles.
- Export cess for desiccated coconut was increased to Rs. 2,000 per metric ton from Rs. 1,000 per metric ton for a period of three years w.e.f. 01.04.2005.
- 09 April 2005 - Excise duty on cigarettes was raised based on the length of the cigarettes.
- 11 May 2005 - Fines on offences committed under certain laws were increased.
- 20 July 2005 - Concessions were granted on the payment of VAT on donations/purchases of goods and services by organisations or persons engaged in the rehabilitation work in tsunami affected areas.

- 01 August 2005 - The 15 per cent VAT on importation of diesel, pearls, diamonds and precious stones was removed.
- 02 August 2005 - The 18 per cent VAT rate was increased to 20 per cent.
- 04 August 2005 - Excise duty on importation of heavy vehicles more than five years old was raised by 100 percent.
- 05 August 2005 - The VAT on milk powder (5 per cent) and LP gas (15 per cent) was removed.
- August 2005 - An independent Tax Ombudsman was appointed.

Government Expenditure

- 05 January 2005 - The government decided to provide Rs. 15,000 for each death due to tsunami disaster without considering the income limits of affected people.
- 11 January 2005 - The government decided to provide a weekly grant of Rs. 200 per person in cash and a dry food ration of Rs. 175 per person affected by the tsunami.
 - The government commenced providing Rs. 2,500 to each tsunami affected family to buy kitchen utensils.
- 17 January 2005 - The government commenced granting a periodic allowance of Rs. 5,000 per tsunami affected family (Rs. 2,500 per single person family).
- April 2005 - The government commenced granting Rs. 250,000 for a fully damaged house and Rs. 100,000 for a partially damaged house due to tsunami through state banks, subject to the condition that property is located outside the buffer zone.

Government Debt

- 18 April 2005 - Following directions were issued by the Central Bank;
 - Allowing Primary Dealers (PDs) who maintain a capital between Rs. 250 million to Rs. 300 million to declare 25 per cent of profits as dividends.
 - Requiring PDs to allocate a minimum of 25 per cent of profits to a special reserve after meeting the minimum capital requirement of Rs. 300 million to strengthen the capital base further.
 - Allowing PDs to maintain up to a maximum of 50 per cent of Tier I capital as Tier II capital.
- June 2005 - A debt moratorium was granted by the foreign donors for the year 2005 on debt service payments.
- 1 July 2005 - Minimum capital requirement of PDs was enhanced to Rs. 250 million from Rs. 200 million.
- July 2005 - The process of obtaining a sovereign rating for Sri Lanka was initiated.

Financial Sector

- 12 January 2005 - Central Bank introduced the SUSAHANA loan scheme to assist tsunami affected SMEs.
- 1 February 2005 - Registered finance companies were allowed to accept savings deposits.
- A ceiling on the interest rates was imposed for savings deposits of finance companies.
- Registered finance companies were directed to maintain liquid assets not less than 20 per cent of the outstanding value of savings deposits.
- Registered finance companies were allowed to lodge Treasury bills and other securities with either licenced commercial banks (LCBs) or PDs. Earlier they could hold such securities only with LCBs.
- Registered finance companies were required to obtain the approval of the Director of the Department of Supervision of Non Bank Financial Institutions to close their office/s for business on any day of the week Monday to Friday, which is not a holiday declared by the Ceylon Chamber of Commerce. Prior to this, they were required to get approval of the Governor of the Central Bank.
- 11 February 2005 - The Monetary Board approved the limits for lending to directors and close relations against approved securities as Rs. 500,000.
- The Monetary Board approved the limit for credit cards for directors of banks and close relations of a bank as Rs. 500,000 without security.
- The amendments to the Banking Act permit the banks to offer banking products based on Islamic principles. Bank Supervision Department (BSD) issued guidelines for the banks wishing to offer these services that such products should comply with the existing regulatory requirements.
- 18 February 2005 - BSD issued guidelines for banks to submit monthly and quarterly compliance reports with the signature of the Chief Executive Officer of the respective bank.
- 03 March 2005 - Loan limits for purchasing paddy and other crops under Forward Sales Contract was increased to Rs. 50 million from Rs. 25 million.
- 07 March 2005 - The basis for calculation of the Single Borrower Limit of LCBs incorporated abroad was changed to capital funds from advances.
- Directors of banks were required to submit an affidavit and a declaration to assess the 'fit & proper' criteria, in terms of Section 42 of the Banking (Amendment) Act No. 2 of 2005.
- 30 March 2005 - A new bank was established by the government for the development of SME sector.

- 12 April 2005 - The minimum capital requirement for LCBs was increased to Rs. 2,500 million from Rs. 500 million, and for licenced specialised banks (LSBs) to Rs. 1,500 million from Rs. 200 million. In the case of existing banks, the Tier I capital should reach the above limits. Time granted till end 2007 for the banks to meet the increased capital requirement, provided that 50 per cent of the shortfall has to be met by end 2006.
- 13 May 2005 - The Repurchase (Repo) and the Reverse Repurchase (Reverse Repo) rates were increased by 25 basis points to 7.75 per cent and 9.25 per cent, respectively.
- 15 June 2005 - The Repo and the Reverse Repo rates were increased by 50 basis points to 8.25 per cent and 9.75 per cent, respectively.
- 29 July 2005 - The Monetary Board approved an amendment to the Direction on Single Borrower Limit to permit facilities guaranteed by highly rated international and local banks to be excluded from the Single Borrower Limit, subject to limits and conditions stipulated by the Board.
- The Monetary Board approved a request made by some of the foreign banks, which were required to increase their capital, to maintain it in foreign currency subject to the following conditions:
- Only a maximum of 50 per cent of the capital that is brought in could be maintained in foreign currency. The balance to be converted to Rupees.
 - 25 per cent of the capital that is brought in has to be maintained in a non-interest bearing account with the Central Bank.
 - 25 per cent could be retained in the Off-shore Banking Unit for lending to Board of Investments (BOI) enterprises only. Any amount that cannot be lent in this manner to be deposited with the Central Bank.
- July 2005 - Payment and Settlement Systems bill, a comprehensive payment statute, was passed in the Parliament.
- 12 September 2005 - The Monetary Board decided that the new companies seeking registration under the Finance Companies Act No. 78 of 1988 should have an issued and paid up capital of Rs. 200 million.
- 13 September 2005 - The Repo and Reverse Repo rates were increased by 25 basis points to 8.50 per cent and 10.00 per cent, respectively.
- 01 October 2005 - System Rules of LankaSettle was changed by increasing the number of days from 10 to 31 days for Forward Dated Transactions.