

APPENDIX 1



Appendix 1

Major Economic Policy Changes and Measures: January - October 2008^{1/}

Real Sector

- 01 February 2008 - Passenger bus fares were increased by an average rate of 4.6 per cent
- 30 March 2008 - Electricity tariff was increased by an average rate of 35 per cent
- 21 April 2008 - The subsidized loan scheme titled, “Agricultural Livestock Development Loan”, targeted to empower the small scale farmers engaged in dairy development projects as well as milk and agricultural crop processing industries, was introduced
- 25 May 2008 - Private and Sri Lanka Transport Board (SLTB) passenger bus fares were increased by an average rate of 27 per cent and 17 per cent, respectively, in line with the petroleum price revision
- 01 June 2008 - Rail fares were increased by different rates within the four zones demarcated by Sri Lanka Railways (SLR)

Forthcoming

- 2008 - Implementing two separate Special Credit Guarantee Schemes for small and medium enterprises and Gem and Jewellery sector

External Sector

Trade and Tariff

- 01 January 2008 - Surcharge on Customs duty was increased to 15 per cent from 10 per cent
- 09 January 2008 - Instead of Customs duty, Value Added Tax (VAT), Ports and Airport Development Levy (PAL), Social Responsibility Levy (SRL) and other charges applicable at the Customs on importation of essential ten food items, a single levy viz., Special Commodity Levy (SCL), was introduced.
- 3 April 2008 - A 23 per cent duty waiver was granted on importation of Palm oil and Coconut oil
- 01 May 2008 - SCL was introduced on importation of milk powder in addition to the ten food items that announced earlier
 - Ships which are registered under Sri Lankan flag were exempted from PAL
 - Commercial Aero Planes were exempted from PAL

^{1/}This includes major economic policy changes and measures implemented during January to mid October 2008. Policy changes and measures that have been announced and are to be implemented during the remaining period in 2008 are also included.

- 25 May 2008 - The duty waiver of Rs. 20 per litre, granted on the importation of petrol, was removed
- 25 July 2008 - The duty waiver granted on importation of Palm oil and Coconut oil was reduced from 23 per cent to 13 per cent
- 25 August 2008 - Customs Duty on importation of rice was suspended
 - The SCL on importation of Potatoes was increased from Rs. 15 per kg to Rs. 20 per kg
- 16 September 2008 - A Cess of Rs. 15 per litre and Rs. 10 per litre was imposed on importation of Petrol and Diesel, respectively

Foreign Exchange Management

- 29 May 2008 - Gem and Jewellery exporters were permitted to freely deal in foreign exchange for their business purposes, through a special foreign currency account maintained in the Domestic Banking Unit of a Commercial Bank
- 02 June 2008 - A scheme namely, Special Foreign Investment Deposit Account (SFIDA) both in foreign currency as well as rupee, was introduced to mobilize the funds from citizens of foreign states, Sri Lankan citizens resident outside Sri Lanka, foreign institutional investors and corporate bodies incorporated outside Sri Lanka
- 02 July 2008 - All outstanding balances lying to the credit of Blocked Accounts as at 1st of July 2008 were permitted to be released for outward remittance
 - Outward remittances equivalent to a maximum of US\$ 20,000 per annum in favour of the account holder or his legitimate beneficiaries were permitted to be released from such Blocked Accounts
 - Foreign exchange issued to emigrants from Sri Lanka at the time of their departure from Sri Lanka was raised from Rs.1 mn to approximately Rs.15 mn (US\$ 150,000) per family/per individual not accompanying a family at the time of departure
- 10 July 2008 - A foreign currency deposit scheme, titled Senior Foreign Nationals Fixed Deposit Account, was introduced to facilitate the decision of the Government of Sri Lanka to grant resident visa to senior foreign nationals (over 55 years) who wish to prolong their stay in the country under the "Sri Lanka-My Dream Home Programme"

Forthcoming

- 2008 - Allowing Foreign Direct Investments (FDI) by overseas companies through their place of businesses in Sri Lanka
 - Allowing foreign borrowings by Non-Financial Companies with sound financial footing to have access to global financial markets or financial institutions to fund their businesses at competitive terms
 - Allowing forward contracts in foreign currency with contractual dates to cover capital transactions

Fiscal Sector

Government Revenue

- 01 January 2008
- VAT on following items was reduced from 15 per cent to 5 per cent:
 - import or supply of petrol
 - import of electric filament or discharge lamp units, ultra violet or infra –red lamps, and arc lamp carbon for the production of films
 - Followings were exempted from VAT:
 - Financial services by Co-operative Rural Banks
 - Supply of goods and services by Co-operative Societies registered under Co-operative Societies Law No. 05 of 1972
 - Supply of goods or services and import of goods for any project identified as a strategic development project and to specified project identified by the Minister of Finance and Planning taking into consideration the benefit to the country
 - Any Plant or Machinery imported for business purposes by enterprises qualified for tax holidays under *Neganahira Navodaya* program
 - Supply of locally manufactured Sugar, dairy products made out of milk produced in Sri Lanka and products made out of rice produced in Sri Lanka
 - Import or supply of yarn for textile industry
 - SRL was increased from 1 per cent to 1.5 per cent
 - The 10 per cent subscriber’s levy applicable on mobile phones was extended to wireless phones as well
 - Regional Infrastructure Development Levy (RIDL) was increased from 2.5 per cent to 5 per cent and from 7.5 per cent to 10 per cent on motor vehicles depending on engine capacity and cargo capacity
 - Donations to the *Api Wenuwen Api Fund*, made after 1 January 2008, were allowed in full as a deduction under qualifying payments
 - The current accounts or savings accounts maintained by a Co-operative Society or a Rural Bank registered under Co-operative Societies Law No. 05 of 1972 were exempted from debits tax
 - The current or savings accounts maintained by *Api Wenuwen Api Fund* were exempted from debits tax
- 01 April 2008
- Any profits and income including the interest accruing on bank deposits of *Api Wenuwen Api Fund*, were exempted from income tax
 - The profits and income of Co-operative Societies registered under the Co-operative Societies Law No. 5 of 1972 and Rural Banks were exempted from income tax for a period of 5 years

- The interest on the deposits made by Co-operative Societies including Co-operative Rural Banks with banks or financial institutions was exempted from withholding tax
- Following changes were made on tax holidays granted:
 - The profits and income from any new investment under *Naganahira Navodaya* was exempted for a period of 5 years subject to, among other things, the investment is over Rs. 30 mn before April 2010
 - The profits and income of any new undertaking located in any lagging region (any economically backward division determined by the Minister of Finance and Planning) were exempted from income tax for a period of three years
 - Tax holidays that have already been granted under the Board of Investment(BOI) Law or Inland Revenue Act will not be extended further after the expiry
 - Tax holidays, which commence after 01 April 2008 under the Inland Revenue Act or BOI Law, were limited for three years maximum and the income tax on profits and income derived after the expiry of such tax holidays on the succeeding years are: first year at 5 per cent, second year at 10 percent and third year at 15 per cent
- The income tax exemption applicable to export of gems was extended to profits and income from the export of gems, which were imported in raw form, and cut and polished later
- A 2.5 per cent income tax was levied on the value of gems sold at auctions conducted under the supervision of the State Gem Corporation
- Foreign earnings were exempted from income tax, if such profits and income are remitted to Sri Lanka through a bank
- Any dividend paid on or after 01 April 2008, by a non resident company to any resident shareholder, was exempted from income tax if such dividend is remitted to Sri Lanka through a bank
- The distribution of dividends to *Api Wenuwen Api Fund* and to any Co-operative Society was exempted from dividend tax
- Dividend paid on the shares issued to employees of any company as an employment benefit was exempted from income tax provided the Commissioner General of Inland Revenue is satisfied that the scheme for the issue of share is a reasonable one
- Income tax exemption applied on the receipt in foreign currency by individuals and partnerships for their supply of services was extended to companies as well provided such earnings remitted to Sri Lanka through banking channels
- Interest accruing to any resident person on or after 01 April 2008 from any investment made outside Sri Lanka was exempted from income tax if such interest is remitted to Sri Lanka through a bank
- Interest income earned from providing loans by any bank was exempted from income tax if the full amount of such loan is invested in any new undertaking under the *Naganahira Navodaya*

- Profits and income of any undertaking for the construction and sale of houses for low income families under a scheme approved by the Urban Development Authority or National Housing Development Authority were exempted from income tax if the floor area does not exceed 500 sq. feet and if sale takes place before 01 April 2013
- Any profits and income arising or accruing to any company outside Sri Lanka from supply of any plant machinery/equipment to government of Sri Lanka, any public corporation, any government institution or to any undertaking for the use of any project approved by the Minister, was exempted from income tax
- The profits and income arising or derived from outside Sri Lanka to any non citizen individual who is employed in Sri Lanka was exempted from income tax
- Provisions were made to treat non citizen employees as equal to citizens in Sri Lanka
- Provisions were made not to exceed the income tax rate of 20 per cent on the profits from employment of any Sri Lankan Pilot of any airline licensed under Air Navigation Act
- Capital allowances in respect of ships at 33 1/3 per cent were granted only to the owner of ships
- Any loss incurred of leasing was allowed to be set off only against the profits from leasing business
- The interest income up to Rs. 200,000 from the deposits of senior citizens made in the Co-operative Societies was exempted from income tax
- Any person/partnership who has registered for Economic Service Charge (ESC) was exempted from withholding tax for specified fees, rent, lease or such other payments and royalty, annuity, management fees or other similar payments
- Qualifying payment was given for construction of any high tech cinema hall or modernization of existing halls as high tech halls subject to a maximum of Rs. 25 mn and 10 mn, respectively. Further, qualifying payment relief with respect of a film production was increased from Rs. 25 million to Rs. 35 million
- SRL charged on personal income tax was terminated
- Following changes were made on ESC:
 - ESC was limited to 0.25 per cent if the turnover of any business comprises of export or earnings in foreign exchange
 - ESC rate of export of apparels through buying offices is 0.1 percent
 - ESC charged on the sale of liquor and motor vehicles was increased from 0.5 per cent to 1 per cent
- Land Transfer tax exemptions were provided for foreigners who invest not less than US\$ 2 million on IT related training institutions, educational institutions and Business Processing Outsource (BPO) industry.

- 14 March 2008 - Excise tax on cigarette was increased
- 22 April 2008 - Stamp Duty on any deed of mortgage of aircraft and ships was exempted
- August 2008 - Environmental Conservation Levy was introduced under Environment Conservation Levy Act No. 26 of 2008
- 15 September 2008 - Excise tax on cigarette was increased
- 08 October 2008 - Excise tax on hard liquor was increased by Rs. 57 per proof litre and on malt liquor by Rs. 10 per litre

Government Expenditure

- 01 July 2008 - Government employees, whose monthly salary is less than Rs. 22,000, received Rs. 625 as Cost of Living Allowance (COLA) in addition to the already agreed amount of Rs. 375
- 18 July 2008 - The payment of COLA was extended to cover the employees of State Corporations, Statutory Boards and fully owned Government Institution who have not been included for the payment of such or similar allowance previously

Debt Management

- 12 March 2008 - The Central Bank commenced issuing Central Bank Securities in scripless form as an alternative instrument to sterilize/absorb liquidity
- 06 May 2008 - Foreign investment in Treasury bills was permitted to Non-Resident Sri Lankans, citizens of foreign states, corporate bodies incorporated outside Sri Lanka and foreign institutional investors not exceeding 10 per cent of the outstanding Treasury bill stock
- 21 May 2008 - The Central Bank introduced term repurchases transactions with Participating Institutions (PIs) under Open Market Operations

Forthcoming

- 2008 - Implementation of first stage of Primary Dealer diversification programme

Financial Sector

- 01 January 2008 - Commercial Banks were required to apply the Standardized Approach for credit risk, Standardized Measurement Method for market risk and the Basic Indicator Approach for operational risk under Basel II
- 22 February 2008 - The Central Bank restricted the availability of Reverse Repurchase Facility (RRF) to a particular bank only up to three (3) times per calendar month at the prevailing Central Bank Reverse Repo Rate (Policy Rate) and made available at a penal rate of 19 per cent in addition to the above facility when there is a liquidity shortage or liquidity is broadly in balance

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- 10 March 2008 - Sri Lanka Savings Bank Ltd commenced its operations
 - 31 March 2008 - A direction was issued to Registered Finance Companies (RFCs) lowering premium that can be offered by the RFCs on deposits to narrow down the interest rate margin to reduce the cost of funds and in turn lending rates of RFCs
 - 23 April 2008 - An amendment was made to the Direction on Corporate Governance for licensed banks that was issued in December 2007 for expanding the transitional provisions with a view to further facilitating a smooth transition by banks to the new Directions
 - May 2008 - The Colombo Consumer's Price Index (CCPI) was replaced by the revised Colombo Consumers' Price Index (2002=100) which will be continued as the official index for measuring inflation in Sri Lanka as well as the country's official cost of living index
 - 08 May 2008 - A revised Direction on Classification of Loans and Advances, Income Recognition and Provisioning was issued by incorporating several new provisions with the objective of further strengthening the banks' credit risk management
 - 26 May 2008 - New policies relating to establishment of branches by Licensed Commercial Banks (LCBs) was introduced. Accordingly, banks are required to establish at least two branches outside the Western Province for each new branch established in the Western Province
 - 29 May 2008 - The Road Map for full implementation of International Accounting Standards (IAS) by 1 January 2011 was issued, requiring banks to comply fully with the IAS from 2011, with a parallel run commencing from June 2008
 - 15 August 2008 - An amendment to the Direction on Corporate Governance for banks was introduced by replacing the Direction issued on 23 April 2008 incorporating the provisions of the order of 8 July 2008 of the Supreme Court
 - 20 August 2008 - The Central Bank authorized LCBs to invest in the international sovereign bond issued by the Government of Sri Lanka in 2007, in the secondary market
 - 25 September 2008 - The Monetary Board named three companies and individuals who were carrying on finance business in contravention of the Finance Companies Act No. 78 of 1998
 - 02 October 2008 - The Central Bank extended the availability of Reverse Repurchase Facility (RRF) to a bank from three times (03) to Six times (06) per calendar month at the prevailing Central Bank Reverse Repo rate (Policy Rate)
 - 15 October 2008 - The Central Bank extended the availability of RRF to a bank from six times (06) to ten times (10) per calendar month at the prevailing Central Bank Reverse Repo Rate (Policy Rate)
 - 17 October 2008 - The Central Bank reduced the Statutory Reserve Ratio (SRR) by 0.75 basis points to 9.25 points from 10 per cent

Forthcoming

2008

- Introducing following amendments to the Finance Leasing Act No. 56 of 2000;
 - address certain deficiencies in respect of imposing capital adequacy requirement
 - to introduce a more comprehensive definition for the term “deposit” and enhance the supervisory powers of the Central Bank with regard to the examination of RFCs and institutions engaging in finance business illegally
- Implementation of a regulatory and supervisory mechanism for the micro finance sector
- Issuing the direction on Service Providers of Payment Cards No. 01 of 2008 under the Payment and Settlement Systems Act

