APPENDIX 1

Appendix 1

Major Economic Policy Changes and Measures: January - October 2012[1/]

Real Sector

12 February 2012 - The retail price of petroleum products were increased as follows:

- Petrol by Rs. 12 to Rs. 149 per litre
- Diesel by Rs. 31 to Rs. 115 per litre
- Kerosene by Rs. 35 to Rs. 106 per litre

14 February 2012 - Passenger bus fares were increased by an overall average of 20 per cent.

16 February 2012 - A Fuel Adjustment Charge (FAC) was imposed on the monthly electricity bill at the following rates:

Sector	FAC (%)
Domestic Consumers	
0-30 (units/month)	25
31-60 (units/month)	35
above 60 (units/month)	40
Industries	15
Hotels	15
General Purpose	25

04 May 2012 - The maximum retail price of a 400 g full cream milk powder packet was increased by Rs. 61 to Rs. 325 and the maximum retail price of a 1 kg full cream milk powder packet was increased by Rs. 163 to Rs. 810.

- The price of a 12.5 kg cylinder of LP gas was increased by Rs. 350 to Rs. 2,396.

14 July 2012 - The price of a 12.5 kg cylinder of LP gas was reduced by Rs. 150 to Rs. 2,246.

01 October 2012 - Water tariffs were revised upward.

External Sector

Trade and Tariff

01 January 2012 - Importation of aircrafts, ships, artificial limbs, crutches, wheel chairs, hearing aids, accessories for such aids, white canes for the blind, braille typewriters and parts, braille writing papers and boards, timber logs, yarn except sewing thread and vegetable fibre based yarn and fabric were exempted from NBT.

[1/] This includes major economic policy changes and measures implemented during January to October 2012. Policy changes and measures that have been announced and are yet to be implemented during the remaining period of 2012 are also included.

- Following items were exempted from VAT.
  - importation of speakers and amplifiers, digital stereo processors and accessories, cinema media players and digital readers
  - importation of green houses, poly tunnels and materials for the construction of green houses and poly tunnels by the growers
  - import or the supply of lorries, trucks, buses, sports equipment, machinery used for the production of rubber and plastic products, wood sawn, sunglasses, perfumes, mammoties, forks, moulding (steel, glass, rubber and plastic), items and spare parts need in the poultry industry, photo sensitive semi–conductor devices, raw materials exclusively used for the manufacture of spectacles and spectacle frames

13 January 2012 - SCL on the importation of following food items was increased /imposed for a period of four months.

Item	Existing Rate	Revised Rate
Sugar	Rs. 05/kg	Rs. 10 /kg
Masoor dhal-whole	Rs. 10/kg	Rs. 18/kg
Masoor dhal-split	Rs. 15/kg	Rs. 22/kg
Garlic	Rs. 25/kg	Rs. 40/kg
Peas – whole	Rs. 10/kg	Rs. 15/kg
Peas – split	Rs. 15/kg	Rs. 20/kg
Fresh or chilled and frozen fish	-	30% of CIF or Rs. 35/kg whichever is higher
Soya-bean/Palm/Sunflower seed - crude oil	-	Rs. 65/kg
Soya-bean oil, Palm oil, Sunflower oil and Coconut oil	-	Rs. 75/kg

13 February 2012 - The full customs duty waiver granted on the importation of petrol was reduced to Rs. 23 per litre from Rs. 35 per litre while the duty waiver on the importation of diesel was reduced to Rs. 13 per litre from Rs. 15 per litre. Accordingly the applicable customs duty rates on petrol and diesel are Rs. 12 per litre and Rs. 2 per litre respectively.

01 March 2012 - The SCL on the importation of potatoes was increased from Rs. 20 per kg to Rs. 30 per kg.

31 March 2012 - Customs duty rates applicable on importation of motor vehicle spare parts, cut parts of motor vehicles, and bodies were revised to charge the highest value out of the unit value or percentage value.

- Maximum age limit of motor vehicles under H S heading 87.03 and 87.02 (except for buses) eligible for importation was reduced to one year and for H S heading 87.04 the age limit was reduced to three and half years.

04 May 2012 - Customs duty waiver of 15 per cent or Rs. 33 per kg was granted on the importation of milk powder. Hence the applicable duty rate is 15 per cent or Rs. 92 per kg.

12 May 2012 - SCL on the importation of following food items was increased for a period of nine months

Item	Existing Rate	Revised Rate
B' onion	Rs. 25/kg	Rs. 35/kg
Peas – whole	Rs. 15/kg	Rs. 20/kg
Peas – split	Rs. 20/kg	Rs. 25/kg
Green gram (Moong)	Rs. 75/kg	Rs. 100/kg
Chilies – neither crushed nor ground	Rs. 20/kg	Rs. 25/kg
Millet	Rs. 75/kg	Rs. 100/kg
Soya-bean/Palm-oil/Sunflower seed - crude oil	Rs. 65/kg	Rs. 80/kg
Soya-bean oil, Palm oil, Sunflower oil and Coconut oil	Rs. 75/kg	Rs. 90/kg

- SCL on the importation of mandarin under H S Code 0805.20.10 was removed and customs duty and other applicable taxes and levies were re-imposed.

20 June 2012 - SCL on the importation of sugar was increased from Rs. 10 per kg to Rs. 20 per kg.

28 June 2012 - Cess on the importation of vegetables, preserved garlic, onions, other fresh mandarins and wheat was increased.

- Cess on the importation of bars and rods, wires, tubes and pipes of iron or non-alloy steel was imposed.

14 July 2012 - SCL on the importation of following food items was reduced for a period of three months.

Item	Existing Rate	Revised Rate
Fresh or chilled and frozen fish	30% of CIF or Rs. 30/kg whichever is higher	10% of CIF or Rs. 10/kg whichever is higher
Sprats	Rs. 30/kg	Rs. 10/kg
Potatoes	Rs. 30/kg	Rs. 10/kg
Dried Fish	Rs. 100/kg	Rs. 75/kg
B' onion	Rs. 35/kg	Rs. 25/kg
Canned Fish	Rs. 85/kg	Rs. 50/kg

13 August 2012 - SCL on the importation of following food items was increased for a period of four months.

Item	Existing Rate	Revised Rate
B' onion	Rs. 25/kg	Rs. 50/kg
Potatoes	Rs. 10/kg	Rs. 30/kg

03 September 2012 - Cess on importation of preserved garlic, bars and rods of iron or non-alloy steel was exempted.

- Cess on importation of all ceramic articles was increased.

18 September 2012 - SCL on the following food items was increased for a period of three months.

Item	Existing Rate	Revised Rate
Potatoes	Rs. 30/kg	Rs. 50/kg
Canned Fish	Rs. 50/kg	Rs. 75/kg

Foreign Exchange Management

09 February 2012 - The Central Bank decided to more away from a price based intervention strategy and allow more flexibility in the exchange rate and limit market invention through a quantity based strategy.

01 March 2012 - Authorised Dealers were directed that they should conform to certain prudential requirements stipulated by the Exchange Control Department in relation to forward contracts in foreign exchange that Authorised Dealers enter into with their customers.

01 June 2012 - Authorised Dealers were informed that they should not permit payments for foreign exchange trading through Electronic Fund Transfer cards or by any other mode of payments and they should exercise due diligence and be vigilant to prevent such payments.

19 June 2012 - Authorised Dealers were permitted to extend loans in Sri Lanka rupees to Sri Lankans employed abroad to be utilised for any purpose with in Sri Lanka subject to certain terms and conditions.

11 July 2012 - A new direction was issued relating to the operation of NRFC and RFC accounts permitting transfer of funds between NRFC accounts, RFC accounts and from NRFC accounts to RFC accounts in a flexible manner.

- A new foreign currency account named "Foreign Exchange Earners' Account (FEEA)" was introduced by unifying several existing foreign currency accounts maintained by foreign exchange earners.

Fiscal Sector

Government Revenue

01 January 2012 - The supply of following items were exempted from VAT.

- locally manufactured hydropower machinery and equipment, products manufactured using locally procured raw materials for tourist hotels and airlines, canned fish, turbines, specified products to identified state institutions replacing imports and pottery products

- Research and development services, services by the department of commerce and paintings by artists.
- The value addition attributable to a Unit Trust or a Mutual Fund from interest, dividend or dealing in debt instruments

- Wholesale or retail sale of goods to exporters, fresh milk, green leaf, cinnamon, rubber (latex, crepe or sheet rubber), petrol, diesel or kerosene in a filling station, sale of locally manufactured clay roof tiles and pottery product by the manufacturer, sale of paintings by artists were exempted from NBT.

- Telecommunication Operator Levy on outgoing local calls was increased from Rs. 2 per minute to Rs. 3 per minute.

- International Telecommunication Operator Levy on incoming international calls was increased from US dollars 0.07 per minute to US dollars 0.09 per minute.

31 March 2012

- Excise duty on the importation of motor vehicles, trishaws and motor cycles was increased.

- Excise duty on hard liquor and malt liquor was increased by Rs. 60 per proof litre and Rs. 5 per bulk litre respectively.

- Excise duty on cigarettes was revised upwards based on their length.

01 April 2012

- The exemption of income tax available to manufacturing products was extended to new enterprises engaged in agriculture and agro processing, animal husbandry and processing, fisheries and fish processing, information technology, business or knowledge process outsourcing, health care, education, beauty care, cold room and storage, tourism, creative work including art work, sports and fitness centres based on the scale of business and size of investment.

- Investments (not less than Rs. 50 million) by existing enterprises prior to 31 March 2015 for expansion of the business can be treated as a qualifying payment deductible from the assessable income of the enterprise subject to a maximum of 25 per cent of the investment for each year of assessment falling within the period of 4 years commencing from the year of investment.

- A 5 year tax holiday followed by a concessionary corporate income tax rate for new enterprises and a concessionary income tax rate for a period of 5 years coupled with qualifying payment relief for existing enterprises was granted for investments made in the production of cement, steel, pharmaceuticals, fabric and milk powder.

- VAT, Customs Duty, Cess and PAL on the importation of plant, machinery or equipment by enterprises were allowed to defer during the project implementation period.

- The profits and income (other than dividends and interest) of The Institute of Certified Management Accountants of Sri Lanka and income of the Child Protection Authority were exempted from income tax.

- Royalties received from outside Sri Lanka and remitted to Sri Lanka through a bank, profits and income from the redemption of a unit of a unit trust or a mutual fund, interest accruing to any person or partnership outside Sri Lanka on a loan granted to any person or partnership in Sri Lanka, profits and income from the administration of any sports ground, stadium or sports complex, profits and income of a trainer of any sport, being a non-citizen individual who is brought to Sri Lanka for that purpose were exempted from income tax.

- Income tax on profits and income of a newly set up branch of a commercial bank dedicated to development banking reduced to a lower rate of 24 per cent.
- The tax rate on profits and income from activities carried out as research and development by a person other than a company was reduced to a maximum rate of 16 per cent and in the case of a company, the rate was reduced to 20 per cent.
- The tax rate of 12 per cent was extended to a grower cum manufacturer or a manufacturer of tea, who establishes a joint venture with a tea exporter for the purposes of exporting pure Sri Lankan tea (Ceylon Tea), in value added form, with a Sri Lankan brand name, on the manufacturing income attributable to the quantum of tea purchased for that purposes by the joint venture.
- The maximum rate of income tax applicable on the profits and income of a person or partnership from the local manufacture of handlooms products was reduced to 12 per cent.
- The rate of tax applicable on the profits and income of the health care services was reduced to a maximum of 12 per cent.
- Cost of any high tech plant, machinery or equipment, travelling expenses incurred by an employer in any motor vehicle used by an employee, travel expenses incurred in relation to the services of design development, product development or product innovation and maintenance expenses incurred by any person in any sports ground, stadium or sports complex was allowed to be deducted when ascertaining the profits and income.
- All yarn except sewing thread and vegetable fibre based yarn exempted from all taxes.
- The chargeability to ESC was simplified by removing the liability to ESC on the turnover of any business of which the profits are subject to Income Tax.
- Sale of locally manufactured clay roof tiles and pottery product by the manufacturer was exempted from ESC.
- The threshold of ESC was expanded from Rs 25 million to Rs 50 million per quarter.

06 October 2012 - The Excise Duty on cigars, cigarettes, liquor and ethyl alcohol has been revised.

Government Expenditure

01 January 2012 - The Special Allowance for all public sector employees (staff and non-staff grade) was increased by 10 per cent. Total increase for non-staff grade employees and 50 per cent of the increase for staff grade employees was effective from January 2012 and the balance 50 per cent for the staff grade will be effective from 1 July 2012.

- Various allowances paid to grama niladaries, members of the judiciary, doctors, engineers and university staff were revised upwards.
- The monthly pension of persons who retired prior to 31 December 2003 was increased by Rs. 1,000 per month while it was increased by Rs. 500 per month for pensioners who retired during the period from 01 January 2004 to 31 December 2005.

13 February 2012 - A subsidy of Rs. 25 per litre and Rs. 12 per litre was granted to kerosene fishing boats and diesel fishing boats, respectively.

15 February 2012 - A kerosene subsidy of Rs. 200 per month was provided to all households without electricity.

01 April 2012 - The Samurdhi allowance paid to low income families was increased as follows:

Previous Allowance	New Allowance
Rs. 250 - Rs. 615	Rs. 750
Rs. 900	Rs. 1200
Rs. 1500	Rs. 1500

Monetary Sector

03 February 2012 - The Central Bank's Repurchase rate and Reverse Repurchase rate were increased by 50 basis points each to 7.50 per cent and 9.00 per cent respectively.

12 March 2012 - Licensed banks were required to limit the growth of their rupee denominated credit in 2012 to 18 per cent or Rs. 800 million, whichever is higher, whilst allowing a growth of 23 per cent or Rs. 1 billion, whichever is higher, for those banks raising funds from overseas to fund the additional growth of credit.

15 March 2012 - Daily access to the Repo standing facility was limited to Rs. 100 million per participating institution, on days when the Central Bank conducts Reverse repo auction.

05 April 2012 - The Central Bank's Repurchase rate was further increased by 25 basis points to 7.75 per cent and the Reverse Repurchase rate was increased by 75 basis points to 9.75 per cent.

Financial Sector

Licensed Banks

02 January 2012 - Loan schemes of Awakening North-Revolving Fund Phase - II and Resumption of Economic Activities in the Eastern Province - Revolving Fund Phase - II commenced.

02 March 2012 - Limits on the daily net open positions of commercial banks in relation to the daily working balances in foreign exchange were reduced to one-third of the prevailing exposure limit, subject to a minimum of US dollars 1 million.

19 March 2012 - Licensed banks were required to use a common threshold of 55 years of age in identifying senior citizens.

17 April 2012 - Licensed banks were given the option to increase the interest rates on housing loans to 16 per cent per annum and credit card advances to 28 per cent per annum.

24 April 2012 - In order to ensure that banks maintain adequate capital to support additional risks addressed in the Capital Adequacy Assessment Process a consultation paper was set out for the implementation of Pillar 2 – Supervisory Review Process, under Basel II Capital Adequacy Framework.

14 June 2012 - An exposure draft covering market practices, ethics, standard of conduct and practices to be followed, the knowledge level that need to be maintained and sanctions on non-compliance, was issued to licensed banks.

17 July 2012 - Locally incorporated licensed banks were requested to obtain prior approval of shareholders for any special payments/benefits made to bank directors at their retirement in addition to normal remuneration and incorporate such special payments/benefits to the remuneration policy of the bank. Further, the banks were requested to extend those special payments/benefits to bank directors on arm's length basis and disclose the same in the Annual Report of the respective financial year.

Forthcoming

- Amendments to the Banking Act will be implemented and the regulations required under the amendments will be issued accordingly.
- Compliance with Basel II requirements :
  - Adoption of standardized approach for calculating capital charge for operational risk.
  - Implementation of Pillar 2 of Basel II-supervisory review process.
- Introduce appropriate reforms in line with Basel III.
- Finalize the formats for publication of quarterly and annual audited accounts of the banks in accordance with the applicable accounting standards.
- Issue broad guidelines to facilitate regulatory reporting under the applicable accounting standards.
- Develop a comprehensive supervisory framework for consolidated supervision of banking groups.
- Considering the practical and legal issues and new developments in electronic retail payment systems, the Central Bank of Sri Lanka (CBSL) initiated action to revise the Service Providers of Payment Cards Regulations No. 1 of 2009. It is expected to implement the revised Regulations in 2013.

Other Financial Institutions

27 February 2012 - An application rule was issued to finance companies for issuance of a license for a new finance business to be in line with the Finance Business Act No. 42 of 2011.

- The annual licensing fees applicable for financial institutions were revised.

29 March 2012 - The minimum core capital to be maintained by Specialised Leasing Companies (SLCs) which was Rs. 100 million until end December 2012 is increased as follows:

Due Date	Minimum Core Capital
01 January 2013	Rs. 150 million
01 January 2014	Rs. 200 million
01 January 2015	Rs. 250 million
01 January 2016	Rs. 300 million

- The definition of the core capital used by SLCs was revised to be in line with the definition of core capital under Basel II.
- The maximum outstanding amount of borrowings of a SLC should not exceed seven times the amount equal to the core capital less equity investments in subsidiary companies and associate companies of such SLC.

29 June 2012 - Maximum limit on rates of interest on time deposits and non-transferable Certificates of Deposits that could be offered by Licensed Finance Companies (LFCs) were revised while allowing for an additional one percentage interest above the ceiling for senior citizens. The current applicable rates of interest are as follows.

Maturity Period	**Benchmark**
One year or less	Weighted average yield of 364 day treasury bill rate issued in the preceding quarter, plus 3.0 percentage points
Over one year	Weighted average yield of 364 day treasury bill rate issued in the preceding quarter, plus 4.0 percentage points

11 July 2012 - Direction on fitness and propriety for all directors on the board and officers performing executive functions was issued to all LFCs.

Forthcoming

- New direction will be issued on the business of pawning/gold loans, addresses the way the business of pawning/gold loans should be operated by Non-Bank Financial Institution (NBFI), to avoid customer inconveniences.
- Issuing guidelines and proposing a panel of external auditors to be set up for the NBFI sector.
- Issuing a direction to provide guidelines which stipulate the minimum requirement of an Information Systems Security Policy.

Other

17 January 2012 - The stock brokers were permitted to extend credit to investors up to a limit of three times that of the adjusted net capital.

10 February 2012 - Members of the EPF were allowed to withdraw 30 per cent of the individual balance for purpose of housing or medical treatments. Members with individual balances exceeding Rs. 300,000, who are presently employed and have made contribution to the fund for a period not less than ten years, are eligible to obtain this facility.

- Every employer having more than fifty employees was directed to furnish a monthly return in prescribed manner, to the Commissioner General of Labour with a copy to the EPF Department of the CBSL by the end of the succeeding month. Every monthly return submitted after July 01, 2012 should be submitted after electronic means.

02 March 2012 - Additional conditions were introduced to the listing rules for public companies seeking listings on the Colombo Stock exchange (CSE).

- Withdrawal of the provisions relating to listing of equity by way of an introduction with effect from 01st April 2012.
- Introduction of a lock –in period for all shares issued prior to an Initial Public Offer (IPO), relating to listings of equity by way of an offer for subscription.
- In respect of listings by way of an offer for sale, the shareholders divesting through the IPO should have held such shares at least for 18 months.
- Introduction of a lock-in period for all shares held by promoters and other existing shareholders, other than share offers and accepted by the public through an IPO.

02 April 2012 - The Securities & Exchange Commission (SEC) issued direction to the CSE and all listed companies prohibiting the trading of warrants in the secondary market after the initial cutoff date.

19 April 2012 - The SEC removed the 10 per cent price band imposed for 5 market days.

04 May 2012 - Extraordinary Gazette No. 1756/27 was issued to The Licensed Banks and Registered Finance Companies as revision to Extraordinary Gazette No. 1699/10 of March 28, 2011, on Know Your Customer (KYC) and Customer Due Diligence (CDD) Rules, No. 1 of 2011.

25 May 2012 - The following measures were introduced with the objectives of mitigating settlement risk which currently exists between T (trade day) and T+3 (settlement day).

- Prohibit employees and directors of all market intermediaries to trade their shares purchased from the secondary market for a period of six months from the date of purchase.
- Crossing transactions to have 20 per cent upper limit unless exceptionally allowed by the CSE on a case by case basis.
- Current 15 per cent margin before trade execution to be strictly enforced including for NSB.
- To have a more robust enforcement mechanism with clearly defined punitive measures for violation of rules by stock brokers, CEOs, directors and investment advisors.

16 July 2012 - In order to allow brokers more flexibility in managing their credit to clients, SEC issued the following directive to the CSE as a measure to amend the computation of net capital as follows:

- Debtors between T+3 – T+30 calendar days to be deducted if cost less provisions made for the period is greater than market value;
- Debtors over T+30 calendar days to be deducted at 50 per cent of the cost less provisions made;
- Debtors over T+120 calendar days to be deducted at 100 per cent of cost less provision made.