



APPENDIX 1



Appendix 1

Major Economic Policy Changes and Measures: January - September 2014¹

Real Sector²

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

16 September 2014 - The average electricity tariff for domestic users was reduced by 25 per cent per unit. Accordingly, the new electricity tariff applicable for D-1 category is as follows:

Consumption (kWh/ month)	Energy Charge (Rs./ kWh)	Fixed Charge (Rs./ month)	Fuel Adjustment Charge (%)
Consumption between 0-60 units per month			
0-30	2.50	30.00	0
31-60	4.85	60.00	0
Consumption above 60 units per month			
0-60	7.85	n.a.	n.a.
61-90	10.00	90.00	0
91-120	27.75	480.00	0
121-180	32.00	480.00	0
>180	45.00	540.00	0

17 September 2014 - The retail prices of petroleum products were reduced as follows:

- Petrol by Rs. 5 to Rs. 157 per litre
- Diesel by Rs. 3 to Rs. 118 per litre
- Kerosene by Rs. 20 to Rs. 86 per litre

External Sector

Trade and Tariff

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

06 February 2014 - Special Commodity Levy (SCL) on the importation of split masoor dhal was reduced to Rs. 5 per kg from Rs. 22 per kg for a period of five months.

07 February 2014 - SCL on the importation of potatoes was increased to Rs. 25 per kg from Rs. 10 per kg for a period of five months.

¹ This includes major economic policy changes and measures implemented during January to September 2014. Policy changes and measures that have been announced and are yet to be implemented during the remaining period of 2014 are also included.

² Details on fiscal incentives granted for the development of the real sector are included in fiscal sector.

- 08 March 2014 - SCL on the importation of whole masoor dhal was reduced to Rs. 10 per kg from Rs. 18 per kg for a period of five months.
- 17 March 2014 - SCL of Rs. 5 per kg and Rs. 10 per kg respectively on the importation of the red onion and b' onion was extended for a period of five months.
- 09 April 2014 - SCL of Rs. 5 per kg was imposed on the importation of rice for a period of three months in place of Customs duty of Rs. 20 per kg, 12 per cent of Value Added Tax (VAT), 2 per cent of Nation Building Tax (NBT) and 5 per cent of Ports and Airports Development Levy (PAL).
- 11 April 2014 - SCL was introduced at 10 per cent per kg on the importation of maize and grain sorghum in place of 15 per cent of Customs duty, 12 per cent of VAT, 2 per cent of NBT, 5 per cent of PAL and 35 per cent of Cess for a period of two months.
- 22 May 2014 - SCL on the importation of the following food items was reduced for a period of seven months:
- Potatoes from Rs. 25 per kg to Rs. 15 per kg
 - Sugar from Rs. 30 per kg to Rs. 25 per kg
- SCL on the importation of fresh or chilled fish, Maldivian fish, dried sprats, dried fish, yogurt, butter, garlic, peas, chickpeas, green gram (moong), black gram, cowpea, fresh oranges, grapes, apples, chillies, seeds of coriander, seeds of cumin, seeds of fennel, turmeric, mathe seeds, kurakkan, kurakkan flour, black gram flour, ground nut-shelled, mustard seeds, vegetable oils, margarine, canned fish and salt was extended for a period of seven months.
- 24 May 2014 - SCL on the importation of the whole masoor dhal was reduced to Rs. 5 per kg from Rs. 10 per kg for a period of seven months.
- SCL on the importation of the split masoor dhal was extended for a period of seven months.
- 02 June 2014 - Customs duty waiver granted on the importation of milk powder was reduced to Rs. 43 per kg from Rs. 68 per kg. Hence, the applicable duty rate is Rs. 82 per kg.
- 11 June 2014 - SCL of 10 per cent per kg on the importation of maize and sorghum was extended till 15 July 2014.
- 09 July 2014 - SCL on the importation of rice was extended for a period of five months.
- 16 July 2014 - SCL on the importation of potatoes was reduced to Rs. 5 per kg from Rs. 15 per kg for a period of three months.
- SCL on the importation of sugar was increased to Rs. 28 per kg, from Rs. 25 per kg for a period of three months.
- 18 July 2014 - SCL on the importation of mackerel was revised from 10 per cent or Rs. 10 per kg, whichever is higher to Rs. 10 per kg for a period of seven months.

- 26 July 2014
- SCL on the importation of the following food items was reduced for a period of three months:
 - Peas whole from Rs. 22 per kg to Rs. 15 per kg
 - Peas split from Rs. 25 per kg to Rs. 18 per kg
 - Chick peas whole from Rs. 12 per kg to Rs. 7 per kg
 - Chick peas split from Rs. 15 per kg to Rs. 10 per kg
 - Green gram (Moong) from Rs. 102 per kg to Rs. 70 per kg
 - Cowpea from Rs. 100 per kg to Rs. 70 per kg
 - Masoor dhal red lentils - whole from Rs. 5 per kg to Rs. 2 per kg
 - Masoor dhal yellow lentils - whole from Rs. 5 per kg to Rs. 2 per kg
 - Kurakkan from Rs. 100 per kg to Rs. 70 per kg
 - SCL of 10 per kg on the importation of maize and sorghum was extended for a period of three months.
 - SCL of Rs. 5 per kg on the importation of masoor dhal red lentils-split and masoor dhal yellow lentils-split was extended for a period of three months.
- 12 August 2014
- SCL of Rs. 5 per kg on the importation of red onion was extended for a period of four months.
 - SCL on the importation of b'onion was increased from Rs. 10 per kg to Rs. 25 per kg for a period of four months.
- 15 August 2014
- SCL on the importation of potatoes was increased from Rs. 5 per kg to Rs. 15 per kg for a period of four months.
- 23 August 2014
- SCL on the importation of potatoes was increased from Rs. 15 per kg to Rs. 40 per kg for a period of four months.
 - SCL on the importation of b'onion was increased from Rs. 25 per kg to Rs. 35 per kg for a period of four months.
- 05 September 2014
- SCL on the importation of rice was decreased from Rs. 5 per kg to Rs. 1 per kg for a period of three months.
 - SCL on the importation of sugar was increased from Rs. 28 per kg to Rs. 33 per kg for a period of three months.

Foreign Exchange Management

- 28 May 2014
- Permission was granted to Authorised Dealers (ADs) to issue foreign travel cards to individuals who are eligible to obtain foreign exchange for travel purposes.
 - Minimum balance requirement imposed on Special Foreign Investment Deposit Accounts (SFIDA) was removed.
 - Foreign Exchange Earners' Account (FEEA) holders were allowed to make payments relating to foreign contracts out of the existing funds in the FEEA.

- ADs were allowed to extend accommodations for any purpose of FEEA holders.
 - ADs were permitted to make outward remittances in respect of payments of interest for the credit facilities offered to an importer of goods by the supplier of such goods.
 - ADs were permitted to issue, extend the validity period and amend clauses of a Letter of Credit (LC) without referring to the Controller of Exchange.
 - Permission was granted to foreign investors to invest in non-listed debentures through the Securities Investment Account (SIA).
 - The eligibility to obtain Electronic Fund Transfer Cards (EFTC) was widened to most of the foreign currency account holders (including Migrant Block Accounts, SIA, and Diplomatic Accounts, etc.).
 - Permission was granted for ADs to make outward remittances in relation to the requirements imposed by the foreign governments on students residing in Sri Lanka applying for student visa.
- Forthcoming**
- Permitting companies that earn foreign exchange to lend in foreign currency to companies in the same group.
 - Facilitating acquisition of leasehold rights of properties by non-residents.
 - Removing the requirement for freight forwarders to obtain registration with the Exchange Control Department.
 - Simplifying of accounts introduced under specialised schemes.

Fiscal Sector

Government Revenue

- 01 January 2014
- Importation or local purchase of copper cables, which are used for high tech equipment for telecom industry was exempted from VAT.
 - The present VAT exemption applicable on the importation of gully bowsers, semi- trailers for road tractors, any machinery or equipment used for garbage disposal activities carried out by any local authority was expanded to cover purchasing such items from local manufacturers.
 - Importation or supply of ties and bows, designer pens, frozen bait, fish hooks/ rods/reels, fishing tackle and marine propulsion engines was exempted from VAT.
 - VAT exemption granted on the importation or supply of following goods was removed and made liable for 12 per cent VAT:
 - Paddy, rice, wheat, cardamom, cinnamon, cloves, nutmeg, mace, pepper, desiccated coconuts, rubber, latex, fresh coconuts, tea including green leaf, rice flour, wheat flour, bread, eggs, liquid milk or powdered milk
 - Agricultural tractors or road tractors for semi-trailers
 - Machinery and equipment for tea and rubber industries

- Machinery for modernisation of factories
- Plant and machinery by an undertaking qualified for a tax holiday
- Pharmaceutical preparations
- The quarterly turnover of Rs. 500 million applicable for the imposition of VAT on wholesale or retail trade was reduced to Rs. 250 million.
- The exemption applicable to the supply of goods was limited to a maximum of 25 per cent of the total supplies in the case of a wholesale or retail business, which supplies goods liable to VAT and exempted from VAT.
- Receipts in foreign currency received by any headquarters or regional offices of institutions in the international network, relocated in Sri Lanka were exempted from VAT and NBT.
- Definition of “International transportation” for VAT purposes was expanded to cover services directly related to transportation of goods or passengers between international airports situated within Sri Lanka.
- Following items were exempted from NBT:
 - Retail trade of goods at duty free shops
 - Sale of locally manufactured coconut oil by the manufacturer, for a period of three years
 - Distribution of LP gas
 - Services provided in any airport for payments in foreign currency
- The application of the exemption from NBT on goods subject to SCL was restricted to NBT payable at the point of Customs only. Accordingly, the local supply of such goods was liable to NBT.
- The exemption of financial services from NBT was terminated in view of the withdrawal of the requirement of depositing funds in the Investment Fund Account.
- The exemption of NBT on the turnover from the sale of tractors was restricted to locally manufactured tractors.
- Pharmaceutical preparations were made liable to NBT at the import point.
- The Telecommunication Levy was increased from 20 per cent to 25 per cent. However, the concessionary rate of 10 per cent applicable on the services provided through internet/broadband, to facilitate IT and Business Process Outsourcing (BPO) sectors remains unchanged.
- Import duty on IT supportive printers, optical fiber cables, solar control films, branded items for market development, machinery and heavy industry, Ayurvedic industry, fisheries industry, confectionery industry, gold and motor vehicle imports and other industries for local value addition was revised.

- 21 January 2014
- Cess was removed on the importation of film of a thickness not exceeding 0.30 mm for packing of pharmaceuticals.
 - Cess was imposed on the importation of sanitary towels and tampons to 30 per cent or Rs. 350 per kg.
 - Cess was revised on the importation of wet cleansing tissues to 30 per cent or Rs. 350 per kg.
 - The duty free limit of spirit (ethyl alcohol) to be used by the government or government approved research and educational institutions, hospitals and government departments was set at 10,000 litres per month.
- 01 April 2014
- Profits and income (other than income from dividends and interest) of the following institutions were exempted from income tax:
 - National Enterprise Development Authority established under the National Enterprise Development Authority Act, No. 17 of 2006
 - Sri Lanka Institute of Marketing incorporated under the Sri Lanka Institute of Marketing Act, No. 41 of 1980
 - The Institute of Physics, Sri Lanka incorporated under the Institution of Physics Sri Lanka (Incorporation) Act, No. 12 of 1986
 - Lionel Wendt Memorial Fund incorporated under section 114 of the Trusts Ordinance
 - Concessionary income tax rates were provided for profit and income earned from the following:
 - The present concessionary rate of 12 per cent applicable to profits and income from the supply of certain services to garment exporters was extended to cover services provided to exporters of goods or services or the foreign principal directly.
 - The maximum rate of income tax applicable on employment income in excess of Rs. 35 million, of professionals was reduced to 16 per cent.
 - Interest on loan facilities provided by banks for construction of residential apartments of professionals is taxed only at ½ of the applicable rate.
 - Professionals who establish corporate entities to provide international services were taxed at ½ of the applicable corporate income tax for a period of 5 years.
 - A 10 per cent of income tax deduction was allowed to ship operator or any agent of a foreign ship who provide services to trainees for the skill development in the shipping industry.
 - The 10 per cent rate applicable on profits of qualified exports was revised to 12 per cent.
 - The 10 per cent rate for undertakings with an annual turnover not exceeding Rs. 500 million was revised to 12 per cent.

- Restrictions were imposed as follows on the applicability of tax holidays and qualifying payments:
 - Exemption from income tax for any company engaged in research and development was restricted to investments made prior to 01 April 2014.
 - The deduction of the investment for expansion of an existing undertaking as qualifying payments was restricted to such investments made prior to 01 April 2014.
 - The monthly emoluments for the purpose of definition of an “executive officer” were revised from Rs. 20,000 to Rs. 75,000.
 - Source wise exemptions were provided for the following:
 - Profits and income arising or accruing to any company, partnership or body of persons outside Sri Lanka, from any payment made for the use of any computer software, by SriLankan Airlines Limited or Mihin Lanka (Pvt) Ltd
 - Dividends distributed out of exempt dividends received by a company on investment made outside Sri Lanka, if such distribution is made within one month of receipt of such dividends
 - Following deductions and qualifying payments were provided for income tax purposes.
 - Special expenses connected with the incorporation of International Headquarters or Regional Head Offices.
 - Qualifying payment of an amount not exceeding Rs. 50,000 per month on the capital repayment with regard to the construction of residential apartments for professionals.
 - Total cost of acquisition of International Intellectual Properties with established international brand names.
 - The cost of acquisition or merger of financial institutions calculated in the manner specified by the Central Bank of Sri Lanka (CBSL).
- 24 April 2014 - Provisions were made to obtain a tax clearance certificate by a company before effecting the liquidation or any change such as amalgamation, merger, re-structuring, etc.
- 26 May 2014 - Stamp Duty criteria on any share certificate consequent to the issue, transfer or assignment of any number of shares of any company was revised.

Government Expenditure

- 01 January 2014 - The Cost of Living Allowance (COLA) for Public Servants was increased by Rs.1,200 to Rs.7,800 per month.
- The COLA for pensioners who retired before 2006 was increased by Rs. 500 to Rs. 3,675 per month and for pensioners who retired after 2006 by Rs. 350 to Rs. 3,525 per month.

Monetary Sector

- 02 January 2014 - The Standing Rate Corridor (SRC) was established in place of the Policy Rate Corridor.
- The Standing Repurchase Facility was renamed as the Standing Deposit Facility (SDF) with the Standing Deposit Facility Rate (SDFR) as the rate for the placement of overnight excess funds of the banking system with the Central Bank.
 - The Standing Reverse Repurchase Facility was renamed as the Standing Lending Facility (SLF) with the Standing Lending Facility Rate (SLFR) as the rate for the lending of overnight funds to the banking system by the Central Bank.
 - The SLFR was reduced by 50 basis points to 8.00 per cent, thereby compressing the SRC to 150 basis points from the current 200 basis points.
 - The minimum cash margin requirement of 100 per cent against LCs opened with commercial banks for the importation of motor vehicles was removed.
- 01 February 2014 - In view of Central Bank's zero credit risk in rupee transactions, the requirement of providing collateral by the Central Bank to participants at Open Market Operations (OMO) under the SDF was discontinued.
- 23 September 2014 - Access to the SDF by a particular OMO participant was limited to a maximum of 3 times per calendar month at the current SDF rate of 6.50 per cent per annum and any deposit exceeding three times to be accepted at a reduced rate of 5 per cent per annum. For the month of September, SDF access at 6.50 per cent was limited to twice.

Financial Sector

Licensed Banks

- 17 February 2014 - SDF balances of licensed commercial banks with the CBSL were determined as liquid assets for the purpose of meeting the Statutory Liquid Assets Ratio.
- 25 February 2014 - Upper limit of the fees that can be charged by the card issuer from the customer when using another bank's ATM for withdrawal of funds was increased to Rs. 30 from Rs. 15 per withdrawal.
- Upper limit of the interchange fee that can be charged by the financial acquirer from the card issuer for withdrawal of funds by a customer of such issuer was increased to Rs. 35 from Rs. 20 per withdrawal.
- 31 March 2014 - Guidelines on the standard approach on computation of risk-weighted amount for operational risk under Basel II capital adequacy framework were issued to the licensed banks.
- 24 April 2014 - Deduction of withholding tax was discontinued on the interest paid for the deposits made at the SDF of CBSL.

- 05 June 2014 - Regulatory framework on the valuation of immovable property including the eligibility criteria for valuers was issued.
- 17 June 2014 - A Credit Guarantee Scheme was implemented for pawning advances granted by LCBs and Licensed Specialised Banks (LSBs).
- 26 June 2014 - Directions on maximum amount of accommodation were amended.
- A Direction was issued to licensed banks to implement the baseline security standards for information security management from 01 July 2015 onwards.
- 01 July 2014 - The Net Open Position (NOP) of commercial banks was revised upwards to US dollars 189 million from US dollars 120 million.
- 01 September 2014 - General Direction on imposing certain prudential and obligatory requirements to ensure smooth operations of the Common Electronic Fund Transfer Switch was issued to LankaClear (Pvt) Ltd and member institutions.
- 30 September 2014 - Guidelines were issued to licensed banks on the Stress Testing Framework of banks.
- Forthcoming** - Establishing Minimum standards for core banking systems and other IT based platforms used by banks
- Implementing the new liquidity risk management framework through the introduction of Basel III Liquidity Coverage Ratio.

Other Financial Institutions

- 17 January 2014 - The CBSL announced the master plan on the proposed financial sector consolidation programme.
- 31 March 2014 - The maximum limit on rates of interest that could be offered by Licensed Finance Companies (LFCs) on time deposits, non-transferable certificate of deposits and debt instruments was revised.
- 30 June 2014 - A decision was taken to apply the Weighted Average Yield Rate of 91 day and 364 day Treasury Bills applicable for the first quarter of 2014, on the determination of maximum interest rates offered by LFCs on time deposits, non-transferable certificate of deposits and debt instruments from 01 July 2014 until further notice.

Other

- 01 January 2014 - The one-off transaction relating to segregation of composite insurance companies was treated as continuation of the respective business and the tax neutrality position was provided on the same basis for life and general insurance.
- 02 January 2014 - The Insurance Board of Sri Lanka (IBSL) issued a direction for all insurance companies to allow them to have common infrastructure with another insurer, after having considered the applicability of certain criteria of the segregation guidelines issued by the IBSL.

- 30 January 2014 - A Circular was issued to authorised money changers regarding their obligations on prevention and suppression of terrorism and terrorist financing under the United Nations Security Council Resolutions 1267 (1999).
- 02 February 2014 - A new rule was issued by the IBSL amending the Gazette Extraordinary No. 1412/30 of 29 September 2005, permitting newly formed insurance company or companies who comply with the segregation process to have a capital of Rs. 100 million at the time of its registration as an insurer and thereafter to increase the capital to Rs. 500 million on or before February 2015.
- 20 March 2014 - The Colombo Stock Exchange (CSE) listing rules were amended pursuant to the Securities Exchange Commission (SEC) Directives on minimum public float as a continuous listing requirement.
- 10 April 2014 - The interest rate applicable on the Self Employment Promotion Initiative Loan Scheme (SEPI) was reduced to 9 per cent from 10 per cent per annum and the maximum sub loan size was increased to Rs. 500,000 from Rs. 250,000.
- Six new Participating Financial Institutions were included to the SEPI loan scheme.
- 11 April 2014 - The CSE listing rules pertaining to related party transactions and dealings by Directors and CEOs of listed companies were amended as per SEC Directives dated 12 December 2013 and 27 December 2013.
- 24 April 2014 - SEC issued a Directive for all registered Investment Managers to commence business operations within six months of the date hereof if they have not already commenced business operations for which the registration is granted.
- All companies intending to apply to the SEC for registration as an Investment Manager shall commence business operations within six months from the date of registration.
- SEC issued a Directive to adopt and incorporate the definition of Public Holding which is stated in the listing rules of the CSE pursuant the Directive issued (SEC/LEG/13/12/37) on the maintenance of a minimum public float as the common definition of Public Holding.
- 05 June 2014 - The scale of financing of New Comprehensive Rural Credit Scheme (NCRCS) was increased and the interest rate to the end borrower and the interest subsidy paid by the government were reduced to 7 per cent per annum and 5 per cent per annum, respectively.
- 10 June 2014 - A Circular was issued by the IBSL to all insurance companies and insurance broking companies to maintain a register of insurance agents (other than for individuals).
- 25 June 2014 - A Circular and Directives were issued to LCBs, LSBs and LFCs regarding their obligations on prevention and suppression of terrorism and terrorist financing under the United Nations Security Council Resolutions 1373(2001).

- 07 July 2014
 - A Circular and Directives were issued to insurance companies regarding their obligations on prevention and suppression of terrorism and terrorist financing under the United Nations Security Council Resolutions 1373(2001).
 - A Circular and Directives were issued to stock brokers regarding their obligations on prevention and suppression of terrorism and terrorist financing under the United Nations Security Council Resolutions 1373(2001).
- 16 July 2014
 - Eligibility criteria on the size of a farm was reduced to 7 cows from 25 cows under the interest subsidy scheme of the Commercial Scale Dairy Development Loan Scheme (CSDDLDS).
- 24 September 2014
 - A Directive was issued by the SEC for unit trusts to maintain a minimum of 50 unit holders for each fund and to impose certain conditions surrounding the threshold.