BOX 18 Major Economic Policy Changes and Measures: 2011[1]

Real Sector

01 January 2011 - Average electricity tariff was increased by 8 per cent.

01 March 2011 - The minimum purchase price of fresh milk at farmgate was increased to Rs.50 per litre from Rs.35 per litre.

02 April 2011 - The retail price of petroleum products were increased as follows:
- Petrol by Rs.10 to Rs.125 per litre
- Diesel by Rs.3 to Rs.76 per litre
- Kerosene by Rs.10 to Rs.61 per litre

- The price of a 12.5 kg cylinder of LP gas was increased by Rs.238 to Rs. 1,890.

03 May 2011 - The maximum retail price of a 400 gram full cream milk powder packet was increased by Rs.20 to Rs.264 and the maximum retail price of a 1 kg full cream milk powder packet was increased by Rs.49 to Rs.647.

30 June 2011 - The Department of Census and Statistics (DCS) introduced a new series of the Colombo Consumers' Price Index (CCPI) (2006/07=100) based on the Household Income and Expenditure Survey (HIES) conducted in 2006/2007.

- A revised measure of core inflation (underlying inflation) was introduced. The new core inflation measure is derived by excluding fresh food, energy, transport, rice and coconut from the CCPI (2006/07=100) item basket.

20 August 2011 - The price of a 12.5 kg cylinder of LP gas was increased by Rs.156 to Rs.2,046.

30 October 2011 - The retail price of petroleum products were increased as follows:
- Petrol by Rs.12 to Rs.137 per litre
- Diesel by Rs.8 to Rs.84 per litre
- Kerosene by Rs.10 to Rs.71 per litre

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

[1] This includes major economic policy changes and measures implemented during 2011. Policy changes and measures that have been implemented during the first three months of 2012 and to be implemented in 2012 are also included.

External Sector

Trade and Tariff

01 January 2011	- Importation of goods, for any infrastructure development project funded through foreign loans or donations directly to government ministries as approved by the Minister of Finance and Planning were excluded from Nation Building Tax (NBT) and Value Added Tax (VAT).
	- Importation 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 were excluded from NBT.
	- Importation 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 were exempted from NBT.
	- 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 the telecommunication industry and aircraft simulators and parts were exempted from VAT.
11 January 2011	- The customs duty waiver granted on the importation of petrol was increased from Rs.20 per litre to Rs.30 per litre. Hence the effective duty rate is Rs. 5 per litre.
22 January 2011	- A full customs import duty waiver was granted on the importation of milk powder.
20 February 2011	- The Special Commodity Levy (SCL) on importation of potatoes was increased from Rs.10 per kg to Rs.20 per kg for a period of three months.
01 April 2011	- A full customs duty waiver was granted on the importation of petrol.
10 April 2011	- The SCL on the importation of dried sprats, red onions, big onions, garlic, peas, chickpeas, green gram, masoor dhal, chillies, canned fish and sugar was extended for another four months.
24 April 2011	- The maximum age limit of motor vehicles eligible for importation was reduced from 3 and 1/2 years to 2 years.
03 May 2011	- The SCL on the importation of potatoes was increased from Rs.20 per kg to Rs.30 per kg for a period of four months.
10 August 2011	- The SCL was increased on the importation of potatoes from Rs. 30 per kg to Rs. 35 per kg and big onions and garlic from Rs. 10 per kg to Rs. 25 per kg for a period of four months.
	- The SCL on the importation of dried sprats, red onions, peas, chick peas, dhal, green gram, chilies, canned fish and sugar was extended for another four months.
30 August 2011	- A full custom duty waiver of 30 per cent was granted on the importation of cashew nuts in shell (HS Code 0801.31.10 and HS Code 0801.31.90).
14 October 2011	- SCL on importation of green gram and crushed or ground chillies was increased from Rs. 15 per kg to Rs. 30 per kg and Rs. 25 per kg to Rs. 40 aper kg, respectively.
	- SCL on the importation of black gram of Rs. 90 per kg, cowpea of Rs. 75 per kg, kurakkan and other varieties of millet of Rs. 30 per kg was introduced.
22 November 2011	- SCL on the importation of green gram, black gram and cowpea was increased from Rs. 30 per kg to Rs. 50 per kg, Rs. 90 per kg to Rs. 100 per kg and Rs. 75 per kg to Rs. 100 per kg respectively.
	- SCL on kurakkan and varieties of millet was increased from Rs. 30 per kg to Rs. 75 per kg.
	- SCL on importation of selected food items such as maldive fish, dried fish, selected fruit, selected spices, millet flour, black gram flour, ground nut (shelled) was introduced for a period of four months.

	- Cess on the importation of pipes for mini hydropower projects, butyl rubber, rubber threads, scrap iron, buckles, easy open ends for metal cans, cutlery, razors and toys was removed.
	- Cess on the importation of starch, polymers of ethylene in primary form, sanitary ware of plastics, steel sinks, baths, beauty or make-up preparations, sports bags, apparel, footwear, hats, ornamental porcelain, ceramic products, travel bags, hand bags, belts, t-shirts, shorts, track suits, swim wear and shoes was reduced.
	- Cess on the importation of certain categories of dried vegetables and dried fruits, joss-sticks and vinyl chloride was increased.
	- Cess on the importation of wheat flour, thriposha, refrigerators, bicycle rims, gauze and bandage was introduced.
	- Cess on the exportation of raw rubber was increased.
	- Cess on the exportation of natural graphite, clay, sand, phosphate, stones, granite, sand stones, mica, ilmanite, rutile, titanium, zirconium and timber logs was introduced.
	- Importation of braille typewriters, parts for braille typewriters, prepared glues and other prepared adhesives, saturated polyesters, unvulcanised compounded rubber, gelatin capsules, raw materials for spectacles, easy open lids, sports footwear, diesel engines (new), vehicles for the transportation of goods, selected items of lamps and lighting fittings, automated data processing machines, ornamental porcelain and ceramic products, cutlery, sunglasses and hair accessories were exempted from customs duties.
	- Customs duty on the importation of polymers of vinyl acetate, vulcanised rubber thread and moulds for rubber and plastics was reduced from 15 per cent to 5 per cent.
	- Customs duty on importation of steel and parts of structures, razor blades, glassware and prefabricated buildings was reduced from 30 per cent to 5 per cent.
	- Customs duty on importation of refrigerators was reduced from 30 per cent to 15 per cent.
	- Customs duty on importation of tyres of rubber for used on buses and lorries was reduced from 30 per cent to 15 per cent.
	- Customs duty on importation of food preparations based on maize, soya bean and green gram was introduced.
	- Customs duty on pneumatic tyres of rubber was increased.
	- Customs duty on branded footwear category was limited to Rs. 100 per pair.
	- Electric motor bicycles (H S Code 8711.90.10) and Polymers of ethylene in primary forms (HS Heading 39.01) were exempted from Excise (Special Provisions) Duty.
10 December 2011	- The SCL on the importation of potatoes was reduced to Rs.20 per kg from Rs.35 per kg for a period of four months.
01 January 2012	- 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 use 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.

	- 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.
13 January 2012	- SCL was increased on the importation of selected food items such as sugar, masoor dhal-whole, masoor dhal-split and garlic for a period of four months.
	- SCL on the importation of the fresh or chilled and frozen fish, and edible oils including soya bean oil, palm oil, sunflower oil and coconut oil was introduced for a period of four months.
	- The full customs duty waiver granted on the importation of petrol and diesel was reduced to Rs.23 per litre from Rs.35 per litre and to Rs.13 per litre from Rs.15 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 to imported motor vehicle spare parts was revised.
	- Maximum age limit of motor vehicles under HS heading 87.03 and 87.02 (except for buses) eligible for importation was revised to 1 year and for HS heading 87.04 the age limit was revised to three and half years.

Foreign Exchange Management

01 January 2011	- Individuals resident in Sri Lanka, partnerships registered 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.
	- Sri Lankan companies and partnerships were permitted to make payments to non-residents for the purpose of opening places of business outside the country.
06 January 2011	- Authorised dealers were permitted to grant foreign currency loans from Domestic Banking Units (DBUs) to exporters of services who have adequate foreign currency exposure to meet their working capital and fixed capital requirements.
21 January 2011	- A foreign currency account titled "Outward Investment Account" was introduced to facilitate foreign investments of residents.
16 May 2011	- Permission was granted to selected non banking institutions and supermarkets to engage in money changing business.
18 August 2011	- Exchange control restrictions on foreigners and foreign fund investments in unit trusts were relaxed.
	- Permission was granted to Sri Lankan citizens who have proceeded outside Sri Lanka for educational purposes to borrow from banks, financial institutions, universities or educational institutions in foreign countries and to repay such loans by remitting funds from Sri Lanka through authorised dealers.
	- Permission was granted to residents to make payment in Sri Lanka rupees to non-resident Sri Lankans in respect of purchase of real estate properties in Sri Lanka from such non-resident Sri Lankans.
	- Permission was granted to authorised dealers to open "Non-Resident Blocked Accounts" in the name of non-resident Sri Lankans and to credit local income of such non-residents.
	- Permission was granted to credit the salaries and employee benefits other than superannuation benefits paid in Sri Lanka rupees into Resident Non National Foreign Currency (RNNFC) Accounts of expatriate employees.
22 November 2011	- Regulations in relation to foreign investments in debentures were relaxed by removing the ceiling imposed on the interest rate and the requirement for the maintenance of a sinking fund by the issuing firm and reducing the minimum tenor from five years to two years.

06 December 2011 - The threshold for foreign investments in Treasury bills and Treasury bonds was increased to 12.5 per cent from 10 per cent of the outstanding Treasury bill and Treasury bond stock, respectively.

13 December 2011 - Current limit on foreign borrowing applicable to local firms was increased from US dollars 20 million to US dollars 50 million.

Forthcoming

- Increasing the limit on the importation of goods for personal use by using Electronic Fund Transfer Cards.
- Increasing the current limit applicable for listed companies to invest abroad.
- Introducing a common account for foreign investments in Sri Lanka by amalgamating all investment accounts.
- Granting permission for local companies to be listed in foreign stock exchanges.
- Granting permission for issuance of redeemable preference shares to non-residents.
- Granting permission to increase the current limit on letters of guarantee issued by authorised dealers.
- Increasing the limit on carrying of Sri Lanka currency notes when traveling abroad.
- Issuing of money changing licenses to hotels and restaurants registered with the Ceylon Tourist Board.
- Granting permission to Licensed Specialised Banks (LSBs) and Registered Finance Companies (RFCs) to open and maintain NRFC and RFC accounts.

Fiscal Sector

Government Revenue

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.

- The restriction on claiming input tax credit up to 85 per cent of output tax was extended to 100 per cent.
- VAT on the following services were exempted:
  - telecommunication services
  - locally manufactured briquettes and pallets using bio mass waste
  - locally developed software
  - receipts from reinsurance by any local insurance company by way of commission or compensation in an insurance business
  - the issue of licenses to local telecom operators by the Telecommunications Regulatory Commission, established by the Sri Lanka Telecommunications Act, No. 25 of 1991
- Turnover Tax (TT) collected by the provincial councils was removed
- The scope of NBT was widened to include persons carrying on the business of wholesale and retail trading.
- The NBT rate was reduced from 3 per cent to 2 per cent.
- Persons whose liable turnover from the supply of any good or service other than those services referred to below does not exceed the sum of Rs. 500,000 per month or persons whose liable turnover from the following activities does not exceed Rs. 25 million per quarter are not liable to NBT:

	- operating a hotel, guest house, restaurant or other similar business - the processing of any locally procured agricultural produce in the preparation for sale - providing educational services by any institution established locally for that purpose - supply of labour (manpower)
	- 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.
	- Excise duty on cigarettes was revised upwards based on their length.
07 January 2011	- Excise duty on all types of liquor except malt liquor was increased by Rs.50 per proof litre.
01 April 2011	- The tax-free allowance for the computation of personal income taxes was increased from Rs.300,000 to Rs.500,000.
	- The personal income tax slabs were revised 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
	- The tax-free allowance was increased from Rs.500,000 to Rs.600,000 for the computation of Pay-As-You-Earn (PAYE) taxes.
	- The PAYE tax was introduced for government sector employees.
	- The tax deducted from employment income (of both government and private sector employees) under the PAYE scheme will be treated as final, where employment income is the only source of income.
	- The corporate income tax rate was reduced to 28 per cent from 30 per cent, 33 1/3 per cent or 35 per cent applicable to companies or NGOs.
	- Different corporate income tax rates are applicable on the following: - The concessionary corporate income tax rate applicable on construction, tourism, qualified export profits and companies with profits less than Rs. 5 million was reduced from 15 per cent to 12 per cent. - The maximum rate applicable on 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 was limited to 10 per cent. - Tax rate on clubs and associations, undertaking for operation and maintenance of facilities for storage, local software development or supply of labour and profits and income from educational services was reduced to 10 per cent. - Tax rate on venture capital companies, petroleum exploration and entertainers or artists was reduced to 12 per cent. - Tax rate on the divisible profits and other income of a partnership was reduced from 10 per cent to 8 per cent. - The maximum tax rate on the profits and income of any agricultural undertaking referred to in Section 16 of the Inland Revenue Act was limited to 10 per cent. - Applicable tax rate on any person engaged in manufacturing or importation of liquor and tobacco products was increased to 40 per cent.

- Fishing, cultivation and production of agricultural seeds and planting material sectors were exempted for a period of five years commencing on 01 April 2011.
- 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, footwear or bags were exempted from income tax.
- SriLankan Airlines Ltd. and Mihin Lanka (Pvt) Ltd. were exempted from corporate income taxes from all sources for a period of 10 years. They are subject to the payment of a dividend of 25 per cent to the government from their annual gross profits.
- Ceylon Electricity Board, National Water Supply and Drainage Board, Ceylon Petroleum Corporation and Sri Lanka Ports Authority were exempted from corporate taxes arising from all sources of income for a period of 5 years. They are subject to the payment of a dividend of 25 per cent to the government from their annual gross profits.

- Withholding tax on interest income of individuals has been revised as follows:
  - If the assessable income for the year of assessment does not exceed Rs. 500,000 then tax deduction will not be made.
  - If the assessable income for that year of assessment exceeds Rs. 500,000 but does not exceed Rs. 1,500,000 then tax will be deducted at 2.5 per cent from interest income for that year of assessment.
  - If the assessable income is more than Rs. 1,500,000 then tax deduction should be made at 8 per cent from such interest income for that year of assessment.
- Withholding tax on interest income of charitable institution has been revised as follows:
  - If the assessable income for the year of assessment does not exceed Rs. 500,000, then tax deduction will not be made.
  - If the assessable income is more than Rs. 500,000 then tax deduction should be made at 8 per cent from such interest income for that year of assessment.
- Provisions were made to treat withholding tax on corporate debt securities on par with government securities.
- Withholding tax on specified fees was removed.
- 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 were exempted from Economic Service Charge (ESC).
- The present threshold of ESC was increased from Rs.7.5 million to Rs.25 million per quarter.
- The submission of returns on a quarterly basis for ESC was converted to annual returns, while payments are to made on a quarterly basis.
- The existing rates schedule of ESC was simplified 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).
- The Debits Tax was removed.
- The Social Responsibility Levy (SRL) was removed.
- Provisions were made to offer a tax exemption under the Inland Revenue Act for a period up to seven years for any company, which carries on a new undertaking, with a minimum investment of not less than US dollars 3 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.
- Income tax on the profits and income of any new undertaking investing not less than Rs. 50 million was exempted for a period of three years.

	- The concessionary NBT rate of 1.5 per cent applicable on the liable turnover from the sale of rice manufactured from locally procured paddy was increased to 2 per cent.
	- The suspended VAT scheme operated through the Textile Quota Board (TQB) and Export Development Board (EDB) was brought under the Commissioner General of Inland Revenue and extended to supplies not covered under the previous schemes for the following categories: - Suppliers of goods to exporters - Suppliers who provide value added services to exporters - Suppliers to special projects - Suppliers to persons registered under Section 22(7) of the VAT Act
24 April 2011	- Excise duty on the importation of hybrid vehicles, trishaws and petrol motor vehicles below 1,600 cc was increased.
20 October 2011	- Excise duty on cigarettes was revised upwards based on their length.
25 October 2011	- Excise duty on liquor (except malt liquor) and malt liquor was increased by Rs.60 per proof litre and Rs.5 per bulk litre respectively.
22 November 2011	- Liquor produced from local plant material or plant product was subject to a lower excise duty of Rs 100 per proof litre.
	- Motor vehicle taxes on luxury (diesel cars over 2500cc and petrol cars over 2000cc), semi luxury (diesel cars 2201cc to 2500cc, jeeps over 2201cc, petrol cars over 1801cc to 2000cc and jeeps over 1801cc) and dual purpose (diesel cabs over 2200cc and petrol cabs over 1800cc) vehicles were increased.
24 November 2011	- The withholding tax on charges payable on registration of vehicles was amalgamated with vehicle registration charges and the applicable vehicle registration charges on motor cycles, motor tricycles, motor tricycle vans, motor cars, prime movers, fork lifts and dual purpose vehicles were increased.
	- The revenue licensing annual fee for motor bicycles and trishaws was increased by Rs.150 and for other vehicle categories by Rs.500.
01 January 2012	- The supply of following items were exempted from VAT. - locally manufactured hydropower machinery and equipment, products 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, crape 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 international calls was increased from Rs. 2 per minute to Rs. 3 per minute.
	- International Telecommunication Operator Levy of 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 liquor (except malt 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.

Forthcoming

01 April 2012	- Extending the present exemption of income tax available to manufacturing products 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 centers based on the scale of business and size of investment.
	- Treating investments (not less than Rs.50 million) by existing enterprises prior to 31 March 2015 for expansion of the business, 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.
	- Granting 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 for investments made in the production of cement, steel, pharmaceuticals, fabric and milk powder.
	- Deferring VAT, Customs Duty, Cess and PAL on the importation of plant, machinery or equipment by enterprises during the project implementation period.
	- Introducing an advance ruling mechanism for investors eligible for tax exemptions, to ensure consistency in the application of respective provisions of relevant tax laws.
	- Exempting the profits and income (other than dividends and interest) of The Institute of Certified Management Accountants of Sri Lanka and The Child Protection Authority from income tax.
	- Exempting 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 from income tax.
	- Taxing the profits and income of newly set up branch of a commercial bank dedicated to development banking at a lower rate of 24 per cent.
	- Reducing the tax rate for the profits and income from the activities carried out as research and development by a person other than a company to a maximum rate of 16 per cent and in the case of a company reducing the rate to 20 per cent.
	- Extending the tax rate of 12 per cent 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.
	- Reducing the maximum rate of tax applicable on the profits and income of a person or partnership from the local manufacture of handlooms products to 12 per cent.
	- Reducing the rate of tax applicable on the profits and income of the health care services to a maximum of 12 per cent.
	- Allowing 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 to be deducted when ascertaining the profits and income.
	- Exempting all yarn except sewing thread and vegetable fibre based yarn from all taxes.
	- Simplifying the chargeability to ESC by removing the liability to ESC on the turnover of any business of which the profits are subject to Income Tax.

	- Exempting sale of locally manufactured clay roof tiles and pottery product by the manufacturer from ESC.
	- Expanding the threshold of ESC from Rs 25 million to Rs 50 million per quater.
Government Expenditure	
01 January 2011	- All public servants were given a special allowance equivalent to 5 per cent of their basic salary.
	- The Cost of Living Allowance (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 were increased by 25 per cent.
	- A monthly research allowance equivalent to 25 per cent of the basic salary was introduced to university academic staff and staff grade officers of research institutions, who undertake research.
07 May 2011	- The fertiliser subsidy was extended to all crops. Accordingly, a 50 kg bag of unmixed fertiliser was sold at a subsidised price of Rs.1,200 and a 50 kg bag of mixed fertiliser was sold at a subsidised price of Rs. 1,300.
01 July 2011	- The COLA of public sector employees in the staff grade category was increased by Rs.600 to Rs.5,850 per month.
	- Monthly pension of persons who retired prior to 1 January 2004 was increased by Rs.750 while it was increased by Rs.250 per month for pensioners who retired during the period 01 January 2004 to 31 December 2005.
01 January 2012	- All public servants were given a special allowance equivalent to 15 per cent of their basic salary.
	- The transport and office allowances of grama niladaries were increased.
	- Monthly pension of persons who retired prior to 31 December 2003 was increased by Rs.1,000 while it was increased by Rs.500 per month for pensioners who retired during the period 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.
Debt Management	
27 July 2011	- The fourth International Sovereign Bond of US dollars 1 billion was issued.
30 August 2011	- Early retirement of callable Rupee loans amounting to Rs.18,832 million.

Monetary Sector

11 January 2011	- The Central Bank'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.
29 April 2011	- The Statutory Reserve Ratio (SRR) applicable to all rupee deposit liabilities of commercial banks was increased by 1 percentage point to 8 per cent.

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.
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 auctions.

Financial Sector

Licensed Banks

11 January 2011	- All licensed banks were required to adopt appropriate risk management standards and introduced limits to mitigate the risk that could arise from the volatility of prices and emergence of asset price bubbles on margin trading business on shares.
24 January 2011	- A commercial banking licence was issued to Amana Bank Limited to function as the first commercial bank operating on Islamic principles in Sri Lanka.
18 February 2011	- The loan amount granted to individuals for sub projects under the Post Tsunami Coastal Rehabilitation and Resource Management Programme (PTCRRMP) was increased from Rs. 80,000 to Rs. 1 million.
09 March 2011	- The following Mobile Payment Guidelines were issued with the objective of regularising and monitoring mobile payment systems. - Mobile Payments Guidelines No. 1 of 2011 for Bank-led Mobile Payment Services - Mobile Payments Guidelines No. 2 of 2011 for Custodian Account based Mobile Payment Services
28 March 2011	- Extraordinary Gazette Notification No 1 of 2011 on Know Your Customer (KYC)/Customer Due Diligence (CDD) rules was issued to licensed banks and registered finance companies.
01 April 2011	- Maximum limit on sub loans granted under the Saubagya loan scheme was increased. - The interest rate on refinance under the Saubagya loan scheme was reduced from 5 per cent per annum to 4 per cent per annum, while the interest rate on sub loans was reduced from 10 per cent per annum to 9 per cent per annum.
28 April 2011	- Introduced limits on licensed banks' total exposure to stock market and guarantees to Initial Public Offerings (IPOs).
29 April 2011	- Guidelines were issued to licensed banks on the establishment and operation of the Investment Fund Account (IFA) utilising the tax savings as proposed in the budget for 2011.
06 June 2011	- Licensed banks were required to expand their disclosure on interest rates on deposits and lending products, exchange rates and to display details of fees, commissions and other service charges in all branches and other banking outlets and to publish them on the banks' websites.
22 July 2011	- Exposure Draft on Moving to Advanced Approaches on Operational Risk under Pillar I of Basel II was issued to enable banks to maintain capital commensurate with risk management and governance practices in relation to operational risk.
09 August 2011	- Revisions to Extraordinary Gazette Notification No. 1699/ 10, on Know Your Customer (KYC) / Customer Due Diligence (CDD) Rules No.01 of 2011 was issued to all licensed banks.
15 August 2011	- A new loan scheme was introduced in the Northern and Eastern provinces with the participation of State Mortgage Investment Bank (SMIB) for repairing houses damaged during the internal conflict.

29 September 2011 - Licence fees for all banks for the years 2012 to 2014 were increased as follows:

Total assets as at end of the previous year	Licence fee
Above Rs. 200 bn.	Rs. 20 mn.
Rs. 125 bn. to Rs. 200 bn.	Rs. 15 mn.
Rs. 75 bn. to Rs. 125 bn.	Rs. 10 mn.
Rs. 25 bn. to Rs. 75 bn.	Rs. 5 mn.
Less than Rs. 25 bn.	Rs. 2 mn.

03 October 2011 - A commercial banking licence was issued to Axis Bank Limited of India to establish a branch in Sri Lanka.

05 October 2011 - A Direction on Customer Charter of licensed banks was issued requesting banks to adopt a 'Code of Conduct' in line with the Charter which would be implemented within 6 months from the date of issue.

- A Direction on Integrated Risk Management (IRM) Framework was issued to licensed banks which would be implemented within 6 months from the date of issue.

27 October 2011 - The Chinese renminbi was specified as a designated currency for foreign exchange transactions in Domestic Banking Units (DBUs) and Off-shore Banking Units (OBUs) of licensed commercial banks.

31 October 2011 - The qualifying criteria for Small and Medium Enterprises (SMEs) was expanded for capital adequacy purposes.

- Lending areas under the IFA were further expanded including the qualifying criteria of SMEs to which the tax savings can be directed.

08 November 2011 - Permission was granted for any account of a non-resident in an OBU to be credited with funds received on inward remittances and fund transfers in any designated currency from DBUs on all current account transactions falling under the general or specific permission of the Controller of Exchange.

23 November 2011 - Draft guidelines were issued on statutory reporting by banks to the Central Bank under LKAS 32, 39 and SLFRS 7.

16 December 2011 - Removed the limit on margin trading on shares and the board of directors of each bank was required to set their internal limits based on tolerable levels.

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.

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.

Forthcoming

- Issue regulations required under the amendments to the Banking Act No. 30 of 1988.
- Implement Pillar 2 of Basel II Capital Adequacy Standards.
- Introduce appropriate reforms in line with Basel III.

Other Financial Institutions

30 March 2011 - A direction was issued requiring Specialised Leasing Companies (SLCs) to obtain prior approval from the Central Bank with regard to change of Board of Directors, selling of the business, establishment of subsidiary companies, changes to issued capital and any corporate changes.

	- All SLCs are required to maintain a capital adequacy ratio of not less than 10 per cent in relation to their total risk weighted assets and a core capital ratio constituting not less than 5 per cent in relation to their total risk weighted assets with effect from 01 July to mitigate risks effectively and to ensure financial system stability.
12 May 2011	- Operational guidelines on IFA were issued to Licensed Finance Companies (LFCs) and SLCs as proposed in the budget for 2011.
20 May 2011	- Circular 02/11 on compliance with reporting requirements under Section 7 of the Financial Transactions Reporting Act No 6 of 2006 was issued to all Registered Finance Companies (RFCs).
22 June 2011	- All SLCs were required to maintain minimum liquid assets at the close of the business on any day of an amount not less than 5 per cent of the total liabilities and off balance sheet items but excluding the liabilities to the shareholders with effect from 1 January 2012 and 10 per cent with effect from 1 January 2013.
02 August 2011	- All RFCs were required to increase their minimum core capital to Rs.300 million by 1 January 2013 and further raise it to Rs.400 million by 1 January 2015 to meet the expected increased business demand and manage risks effectively, ensuring financial system stability.
05 September 2011	- Finance Companies (Reporting Requirements) Direction, No. 2 of 2011 was issued by the Monetary Board. - Finance Companies (Assessment of fitness and propriety of directors and officers performing executive functions) Directions, No.3 of 2011 issued by the Monetary Board.
13 September 2011	- All LFCs and SLCs have been advised to consider listing any future debenture issues on the Colombo Stock Exchange (CSE).
09 November 2011	- A new legislation in the name of Finance Business Act No. 42 of 2011 (FBA) became operational repealing and replacing the Finance Companies Act No. 78 of 1988 (FCA).
Other	
01 January 2011	- The Share Transaction Levy was increased from 0.2 per cent to 0.3 per cent.
04 February 2011	- Central Bank 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.
11 February 2011	- Regulation of Insurance Industry Act No. 3 of 2011 was introduced. The main features include: - Segregation of long term insurance business and general insurance business into separate companies. Existing composite insurance companies will be required to comply within four years. - All unlisted insurance companies should be listed within five years. - Insurance Board of Sri Lanka (IBSL) is empowered to issue both general and specific directions to insurance companies and other regulated entities. - IBSL is empowered to increase capital requirements of existing insurance companies and to register and regulate institutional agents and loss adjusters. - Fitness and propriety criteria for board of directors of insurance companies. - The National Insurance Trust Fund is to be brought under the purview of the IBSL.
01 March 2011	- Margin providers' exposure against the aggregate value of loans extended as margin should at no time exceed four times the value of their net capital according to a directive issued by Securities and Exchange Commission (SEC). This directive is not applicable to registered margin providers licensed and regulated by the Central Bank of Sri Lanka.

15 March 2011	- As per SEC directive, IPOs should allot: - a minimum of 40 per cent of the offered shares to retail individual investors (those who subscribe for a maximum of 3,000 shares or a value of not more than Rs.100,000 in a particular share class, whichever is higher) - a minimum of 10 per cent of offered shares to growth or balanced unit trust funds licensed by SEC. Such unit trusts should have not less than 500 unit holders resident in Sri Lanka who together hold at least 50 per cent of that fund
18 March 2011	- New Solvency Margin Rules were issued to insurance companies.
01April 2011	- The CSE listing rules relating to the eligibility criteria for the Main Board and Diri Savi Board have been amended as follows: - The stated capital requirements for companies listing on the CSE were increased for the Main Board from Rs.100 million to Rs.500 million and for the Diri Savi Board from Rs.35 million to Rs.100 million. - Companies listed on the Main Board should have positive net assets for 2 years and net profits after tax for 3 years, while companies listed on the Diri Savi Board should have positive net assets for 1 year. - The minimum public holding was also increased to 25 per cent and 10 per cent of the total number of shares of the Main Board and Diri Savi Board, respectively.
28 April 2011	- Further to the SEC directive on price bands issued on 4 August, 2010, the number of days where a security is captured in the 10 per cent price band was further reduced to 5 market days from 10 market days.
19 May 2011	- Further to the SEC directive of 29 November 2010, the time granted to stockbrokers to clear their remaining 50 per cent of outstanding debtor balances were extended as follows: - 25 per cent of the remaining debtors to be cleared by end September 2011 - The balance 25 per cent to be cleared by end December 2011
24 June 2011	- The minimum capital requirement for new insurance companies was increased to Rs. 500 million.
16 August 2011	- SEC has relaxed the restriction imposed on stock brokers in extending credit to investors subject to certain prudential requirements.
26 August 2011	- The limits to margin trading on shares was restricted considering the representation made by licensed banks and low exposure to the stock market.
23 September 2011	- Prevention of Money Laundering Act No. 5 of 2006 and Convention on the Suppression of Terrorist Financing Act No. 25 of 2005 were amended.
02 February 2012	- Permission granted to foreign owned companies which are registered with the SEC of Sri Lanka as Margin Providers, to engage in the business of provision of credit to investors of the CSE .
01 March 2012	- Authorised dealers in foreign exchange were directed to limit forward contracts for the sale and /or purchase of foreign exchange to a maximum period of 90 days.