

NINE POINT FOREIGN EXCHANGE REGULATIONS RELAXATION

In line with the 2011 Budget proposals, a nine point foreign exchange regulation relaxation was introduced, for the first time allowing foreign investors to invest in private company bonds and Sri Lankan companies to invest abroad.

The nine point relaxation policies were brought into place by introducing new foreign currency accounts for a number of vital sectors including tourism and gem and jewellery industry.

The implementation of these policies is expected to take place in two stages; the first set of policies with effect from 22 November 2010 and the other policies with effect from 1 January 2011. Accordingly, the policies that will be implemented from 22 November are as follows:

- (1) Permitting foreigners to invest in rupee denominated debentures issued by local companies:** The corporate bond market provides an alternative channel to raise long-term funds to support investment activities in the private sector and allows the reduction of excessive reliance on the banking sector for funding needs.
- (2) Expedition of approvals for companies to borrow from foreign sources:** Sri Lanka needs to enhance investments to maintain its high growth momentum in the coming years and it is therefore necessary to create alternative avenues to meet financing needs of the entities at a relatively low cost. Accordingly, permission will be granted to borrow from foreign sources for companies that are engaged in a variety of businesses irrespective of the fact that such business varieties are foreign exchange earners.
- (3) Permission for foreign companies to open places of business in Sri Lanka:** Many foreign companies have shown a keen interest to establish places of business in Sri Lanka. At the same time, the Companies Act requires that the establishment of a place of business in Sri Lanka by overseas companies should be in accordance with the regulations made under the Exchange Control Act. Accordingly, the necessary Gazette Notification outlining the procedure to be followed by overseas companies in establishing a place of business in Sri Lanka has now been issued while the necessary instructions to the authorized dealers covering the bank accounts to be opened for this purpose have also been issued, so as to further facilitate foreign direct investment into the country.

(4) Permission to foreigners on tour or business in Sri Lanka to open accounts in foreign currency: The tourism sector is expected to expand significantly with the increase in tourist arrivals. It is also proposed to further facilitate business activities of non-resident non-nationals who are on business visits to Sri Lanka.

(5) Permission to open foreign currency accounts for gem and jewellery industry: With a view to facilitating the policy objective of making Sri Lanka a centre for manufacturing, trading and retailing of gem and jewellery, it has been decided to extend the foreign currency account facilities available to indirect and direct exporters of gem and/or jewellery to importers of gem and/or jewellery.

(6) Permission for certain banking transactions in foreign currency and Sri Lanka Rupees to foreign diplomatic missions, their staff and family members: Sri Lanka has been having cordial bilateral and multilateral relationships with foreign nations and these relationships are expanding. At present, foreign diplomatic missions which include embassies, high commissions, consulates, permanent missions of the United Nations or EU delegations of the European Commission and their staffs are considered as non-residents for the purpose of exchange control and they require specific approvals to engage in banking transactions in foreign currency which causes considerable inconveniences for diplomatic community.

These foreign currency accounts are expected to facilitate staff in diplomatic missions to engage in foreign currency transactions freely with banks.

(7) Increasing the advance payment for imports from US\$ 10,000 to US\$ 50,000: With the expansion of trade transactions and increase in value of such transactions it is now necessary to increase the permitted amount that can be paid as an advance payment to facilitate import related payments. Accordingly, the advance payment limit has been increased from US\$ 10,000 to US\$ 50,000. This relaxation would ensure smooth functioning of the external trade activities in the domestic market as well as entre port trade.

The policies that will be implemented from 1 January 2011 are as follows:

- (8) Permission to Sri Lankan resident individuals, corporate and unincorporated bodies to invest in equity of overseas companies:** Countries with improved external reserves have gradually relaxed their exchange controls by permitting residents to operate in international capital markets to further strengthen the long-term external sector stability.

Since Sri Lanka's foreign reserve had increased to a healthy level and is expected to increase further, it has now been decided to permit residents to invest in equity of companies incorporated outside Sri Lanka and to establish places of business outside Sri Lanka. These measures will also help further integrate domestic investors with international capital market.

- (9) Permission to insurance companies to invest a part of their assets abroad:** The Insurance Board of Sri Lanka has issued regulations under the Regulations of Insurance Industry Act permitting insurers to invest up to 20% of the long term fund and technical reserves abroad. To facilitate the process of investing such funds abroad, permission has now been granted under the Exchange Control Act.

With these regulatory changes, Sri Lankan investors will be permitted to open Outward Investment Account (OIA) and foreign investors will be permitted to open Inward Investment Account (IIA) to facilitate outward and inward foreign exchange transactions with regard to investment activities.

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