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Press Release

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Further Relaxation of Foreign Exchange Regulations

In the light of the Budget - 2011 announced by His Excellency the President on 22nd November 2010, the Central Bank of Sri Lanka made arrangements to simplify foreign exchange controls in order to facilitate foreign exchange transactions.

Accordingly, the Central Bank of Sri Lanka has relaxed foreign exchange regulations relating to investment by Sri Lankans abroad, foreign borrowings by resident companies and investments by non-residents in the domestic market. These policies were also announced in the “Road Map: Monetary and Financial Sector Policies for 2010 and Beyond” in January 2010. Further, new foreign currency accounts have been introduced for a number of vital sectors including tourism and gem and jewellery industry. Implementation of these policies is expected in two stages; the first set of policies with effect from 22nd November 2010 and the other policies with effect from 01st January 2011.

The set of policies that will be implemented from 22nd November 2010 is given bellow.

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 to reduce the excessive reliance on the banking sector for funding needs. Considering these advantages and with a view to broadening the investor base and improving liquidity in the secondary market, it has now been decided to allow foreigners to invest in Rupee Denominated Debentures.

The improved macroeconomic conditions, in particular, the reduction in inflation, improving fiscal performance, and decline in interest rates would enable the strengthening of the bond market. At the same time, increased participation of foreign investors in the bond market would contribute to a further reduction in interest rates and stability in the domestic market and play a more significant role in meeting the financing needs of the economy.

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, the 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.

This measure will ease pressure for funds in the local market and enhance the opportunities available to expand the economic activities in the country.

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. However, at present, a clear and convenient mechanism is not in place for such companies to bring in the funds necessary for the establishment and maintenance of such business as well as for the regulation of the repatriation of surplus funds and other outward payments.

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.

These foreign currency accounts would facilitate the aforesaid category of non-residents to execute their transactions smoothly and safely during their stay in Sri Lanka and help contribute to expand tourism and businesses activities in the country.

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 center 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.

This foreign currency account would facilitate the gem and jewellery exporters to do their transactions smoothly by permitting them to retain their export earnings in designated foreign currencies and to utilize such funds for their expenditure on import of cut and polish or rough gem stones and other raw materials without exchange losses. Further, they will be allowed to withdraw funds in foreign currency form for purchasing rough gems and other raw materials abroad.

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 bi-lateral 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 USD 10,000 to USD 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, advance payment limit has been increased from USD 10,000 to USD 50,000.

This relaxation would ensure smooth functioning of the external trade activities in the domestic market as well as entre port trade.

A set of policies that will be implemented from 1st 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. It is also believed that the entry into capital markets will tend to

improve governance practices and risk management capabilities of domestic entities as well. 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. This would facilitate opportunities for insurers to diversify their investment portfolio and contribute towards improving the long term financial stability of their companies. Accordingly, insurance companies will be permitted to invest up to a maximum of 20% of the general funds and technical reserves over a period of three years. Under this permission, their investments will require to be routed through a special account opened in a commercial bank for the purpose.

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.

The Central Bank is of the view that the relaxation of the above foreign exchange controls would contribute to further improve investor confidence, strengthen foreign reserves in the long term, maintain a cordial relationship with bilateral and multilateral foreign institutions and stabilize the foreign exchange market, thereby paving the way to further integrate the Sri Lankan economy with the global economy.

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