E–ALERT: RESTRICTIONS ON OUTWARD REMITTANCES FOR CAPITAL TRANSACTIONS

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Section 22 of the Foreign Exchange Act No. 12 of 2017 ("**FEA**") permits the Minister of Finance (with the approval of the Cabinet of Ministers), by an order published in the Gazette, to take steps as may be necessary to restrict or regulate remittances of foreign exchange into or out of Sri Lanka. The Minister of Finance has been exercising this authority under Section 22 of the FEA since the occurrence of the foreign exchange crisis in 2020, by imposing a number of restrictions and limitations on outward investments and remittances. On 18 December 2025, the latest order issued under Section 22 of the FEA was published in Gazette No. 2467/67 (the "**2025 Order**").

REMITTANCES THROUGH AN OUTWARD INVESTMENT ACCOUNT ("OIA")

The Foreign Exchange (classes of capital transactions undertaken outside Sri Lanka by a person resident in Sri Lanka) Regulations No. 1 of 2021 issued under the FEA ("**Regulations No. 1 of 2021**") permit (subject to certain limitations and conditions) an eligible resident investor:

a) to acquire, hold or dispose of ordinary shares or preference shares or debentures or corporate bonds issued by companies incorporated outside Sri Lanka, units in regulated unit trusts or mutual funds and sovereign bonds issued by foreign governments rated at or above the sovereign credit rating of Sri Lanka at the time of the investment; and / or

b) to set up and maintain a branch, liaison, marketing, agency, project, representative or other similar office in a foreign country (other than by an individual).

These regulations permit the aforementioned transactions to be carried out by various investors such as companies incorporated in Sri Lanka, partnerships registered in Sri Lanka, individuals resident in Sri Lanka, sole proprietorships registered in Sri Lanka by such individuals, licensed commercial banks and licensed specialised banks. Outward remittances in respect of the aforementioned transactions should be channelled through an OIA opened and maintained by an eligible resident investor with a licensed commercial bank in Sri Lanka. The 2025 Order has continued the restrictions for payments through OIAs for such capital transactions made by way of the previous order published in Gazette No. 2441/14 dated 18 June 2025, with however increase in the limits on outward remittances through Business Foreign Currency Accounts and Personal Foreign Currency Accounts.

The 2025 Order does permit companies incorporated in Sri Lanka to invest in the ordinary shares of companies incorporated outside Sri Lanka, subject to the following limits:

a) for companies listed on the Colombo Stock Exchange ("**CSE**") - up to USD 750,000 or an amount not exceeding 20% of the net assets of the investor company, as per its audited financial statements of the latest financial year, whichever is lower; and

b) for companies not listed on the CSE - up to USD 200,000 or an amount not exceeding 20% of the net assets of the investor company, as per its audited financial statements of the latest financial year, whichever is lower.

However, if an investment in ordinary shares of a company incorporated outside Sri Lanka is to be financed entirely through a permitted foreign currency loan obtained by the investor company from a person resident outside Sri Lanka, the aforementioned limitations would not be applicable. Additionally, the 2025 Order also states that if an investment in ordinary shares of a company incorporated outside Sri Lanka is to be financed entirely through proceeds of investments made by persons resident outside Sri Lanka in debt securities (with a minimum tenure of 7 years) or shares issued by the investor company, those limitations would not apply. Nevertheless, all such investments, whether made within the aforementioned limitations or pursuant to the foregoing exceptions, must comply with the following conditions in order to be permitted under the 2025 Order:

a) the purpose of the investments should be for the 'expansion of business overseas';

An 'expansion of business' has been defined as either:

- **i)** expansion of activities directly related to the existing product line or service offerings. This includes increasing production/service capacity or expanding the range of products or services offered within the existing line of products or service offerings, and/or

- **ii)** vertical integration of activities through the supply chain. This may include either:

  - **1)** backward integration where the activities directly related to the sourcing of raw materials or components used in the existing line of products or service offerings; and/or

  - **2)** forward integration where the activities that constitute acquiring or establishing control over entities closer to the end customer, limited to activities directly related to the distribution including warehousing, marketing, and retailing of existing products or service offerings.

b) the investments shall not constitute 'portfolio investments'[1];

c) the investee shall not be a company that engages in investments as its principal business activity; and

d) the investor company shall, by way of a resolution passed by its board of directors, confirm to the authorised dealer (through which the outward remittances are to be made via an OIA) that the investment complies with the aforementioned conditions.

Furthermore, as per the 2025 Order, companies incorporated in Sri Lanka are still permitted to invest up to USD 100,000 for the purposes of setting up overseas offices[2]. Outward remittances by companies incorporated in Sri Lanka to its overseas offices established prior to the effective date of the 2025 Order are permitted up to USD 30,000.

Outward remittances by an eligible investor, that are necessary to fulfil the regulatory requirements in the investee's country, applicable on investments already made in a subsidiary or an overseas office in that country, are still permitted without any limitation imposed under the 2025 Order.

[1] 'Portfolio investments' has been defined as "*investments made by eligible resident investors that entitle such investors to less than 10 percent of the voting power of a company incorporated outside Sri Lanka*".

[2] 'Overseas offices' has been defined as "*branch, liaison, marketing, agency, project, representative or other similar offices established outside Sri Lanka*."

Similarly, investments by a licensed bank (i.e., a licensed commercial bank or a licensed specialized bank within the meaning of the Banking Act, No. 30 of 1988 (as amended)), in the shares of its overseas subsidiaries and/or overseas offices for the purpose of carrying out banking operations, and investments in Employee Share Ownership Plans or Employee Share Option Schemes, made by eligible resident individuals have also been permitted by the 2025 Order.

INVESTMENTS WHICH EXCEED THE LIMITATIONS SET OUT IN REGULATIONS NO. 1 OF 2021

Investments which exceed the limits specified in the general permission granted in Regulations No. 1 of 2021 may be permitted upon being considered, on a case-by-case basis, by the Central Bank of Sri Lanka, provided such investments meet at least one of the following criteria:

a) the proposed investment in the ordinary shares of a company incorporated outside Sri Lanka should be financed entirely through a permitted foreign currency loan obtained by the investor company from a person resident outside Sri Lanka; and

- **i)** the purpose of investment should be for the expansion of business overseas;
- **ii)** the investment should not constitute a 'portfolio investment';
- **iii)** the investee shall not be a company that engages in investments as its principal business activity; and
- **iv)** the investor company confirms by way of a resolution passed by its board of directors, to the authorised dealer (through which the outward remittances are to be made via an OIA) that the investment complies with the aforementioned conditions.

b) the proposed investment in ordinary shares of a company incorporated outside Sri Lanka should be financed entirely through proceeds of investments made by persons resident outside Sri Lanka in debt securities (with a minimum tenure of 7 years) or shares issued by the investor company, and the conditions listed above under paragraph (a) are fulfilled;

c) the proposed investment is to fulfil the regulatory requirements in the investee's country, applicable on investments already made in a subsidiary or an overseas office in that country; or

d) investments made by a licensed bank, in the shares of overseas subsidiaries and/or in overseas offices for the purpose of carrying out banking operations.

REMITTANCES THROUGH A BUSINESS FOREIGN CURRENCY ACCOUNT (BFCA) AND PERSONAL FOREIGN CURRENCY ACCOUNT (PFCA)

The 2025 Order has increased the limits on outward remittances for capital transactions through a BFCA held by a person resident in Sri Lanka, for the purpose of expanding businesses overseas, to USD 500,000, and through a PFCA held by a person resident in Sri Lanka to USD 25,000.

Furthermore, any eligible resident person who has already made outward remittances under paragraphs (i),(ii),(iii) and (iv) of the first paragraph of the previous order published in Gazette No. 2441/14 dated 18 June 2025 is permitted to make outward remittances under the 2025 Order, provided that the cumulative sum of such outward remittances under both the previous order and the 2025 Order does not exceed the maximum limits specified in the 2025 Order.

The 2025 Order is only valid for a period of 6 months from 20 December 2025 (i.e., until 19 June 2026).

FOR FURTHER INFORMATION, PLEASE CONTACT:

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