

Market Update

Impact of Ditwah on Sri Lankan Economy

CYCLONE DITWAH: A MULTI-SECTOR ECONOMIC SHOCK TO SL

- Cyclone Ditwah made landfall on 28 November 2025 and has emerged as one of Sri Lanka's worst natural disasters in decades, triggering massive floods, landslides, and widespread infrastructure damage.
- The disaster impacted all 25 districts, affecting nearly 1,000,000 people (approx. 273,606 families) nationwide.
- Damage to infrastructure has been extensive: hundreds of roads rendered impassable (206 main roads reported), bridges damaged, rail lines and power/substation facilities flooded — along with destruction of large numbers of homes.
- As a result, it affected multiple economic channels: infrastructure, housing, transport, agriculture, tourism, external sector (foreign exchange), and public finances. The macroeconomic shock could be significant, especially in short to medium term.

MACRO IMPACT

- Inflation Risk- With extensive farmland inundated or destroyed, vegetable supply chains disrupted, and significant damage to both crops and livestock, risks to domestic food price inflation are intensifying.
- Foreign Exchange - Reduced agricultural output, disrupted exports, and weaker tourism receipts are set to compress foreign-exchange earnings, straining Sri Lanka's need for stable FX inflows.
- Fiscal Balance- Government expenditure likely to increase (relief, reconstruction, social welfare), while revenue may drop (tourism taxes, export-related earnings, consumption taxes) — potentially hurting fiscal balance.
- GDP growth - Likely to dampen GDP growth in the near term as disruptions to agriculture, transport, industry, and tourism weigh on output, while reconstruction efforts only partially offset the losses.

SECTORAL IMPACT

- Construction Sector – Positive
 - Demand for rebuilding homes, repairing infrastructure, rehabilitation works — boost to cement, steel, roofing, construction-related firms.
 - Companies involved in road/bridge repair, utility re-establishment, power/telecom restoration may get government or private-sector contracts.
- Retail & Consumer Goods – Negative
 - Modern trade may see a short-term uptick in demand as households replenish essentials and relief efforts boost purchases.
 - However, reduced consumer spending—particularly on discretionary items—driven by income loss, displacement, and heightened uncertainty could weigh on the sector in the medium term.
 - Potential increases in food prices and disruptions to supply chains further add to the pressure, while plantation companies face adverse impacts from landslides and crop losses.
- Tourism – Negative
 - The peak winter season (Nov–Jan) is likely to face significant disruption, as the state of emergency may discourage prospective travelers, leading to cancellations and weaker bookings during the industry's highest-earning period.
 - Hotel chains, resorts, guesthouses, tour operators: short- to medium-term drop in occupancy, cancellations, delays in tourism rebound.

SECTORAL IMPACT

- Banking/NBFI- Negative
 - Could also see an uptick in nonperforming loans specially on SME and agriculture segments
 - Demand for loans is likely to increase with the acceleration of reconstruction efforts.
- Insurance Sector – Negative
 - Property, vehicle, and crop insurance claims are likely to surge due to damage from flooding, wind, and other cyclone-related destruction.
 - Insurers may face a sudden need for liquidity to settle claims, affecting cash flow and reserves.

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