

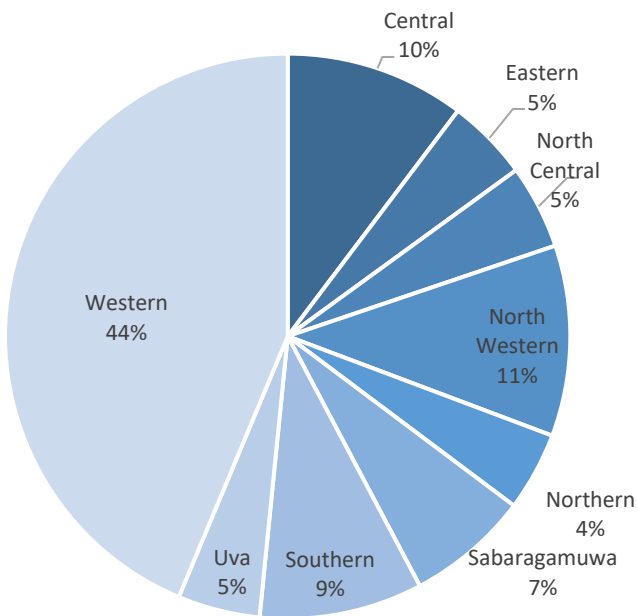
IMPACT FROM CYCLONE 'DITWAH' ON SRI LANKAN ECONOMY

FLASH NOTE

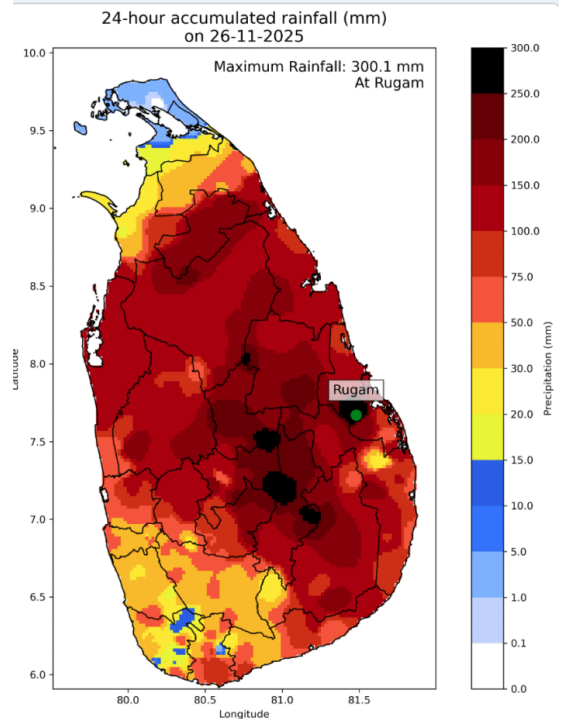
OVERVIEW

- Cyclone 'Ditwah', which struck Sri Lanka on 28-Nov-25 before returning to the Bay of Bengal, has triggered devastating floods and landslides across the island. To date, it is estimated that over 300 lives have been lost, while over 300 declared missing, with nearly 1Mn people (273,606 families) affected across all districts.
- Gampaha, Colombo, Puttalam, Mannar, Trincomalee, and Batticaloa have been hit the hardest, while Kandy, Badulla, and Matale faced deadly landslides. Over 15,000 homes have been destroyed; 206 roads blocked, 10 bridges damaged while sections of rail networks and power grids have also been impaired.

Provincial contribution to GDP



Last 24 Hour Rainfall Map



IMPACT TO THE ECONOMY

Impact on GDP

Disaster / Event		Date	Deaths	Missing / Unaccounted	People Affected / Displaced	Homes / Roads / Transport / Infrastructure Damage	Economic Damage	% affected to potential GDP growth
Indian Ocean tsunami	2004	26 Dec 2004	c. 35,000	c.4,000+	c. 1,5Mn	79,000–100,000 houses destroyed; >100,000 homes damaged; major coastal roads and bridges collapsed; rail line destroyed	c. USD 1Bn (c. 4.5% of GDP)	Reduced GDP growth by c. 0.5%-1.0%
Sri Lanka floods and landslides	2016	15-26 May 2016 (peak)	104	c. 99 +	c. 301,602	623 homes destroyed; 4,414 partially damaged; roads submerged; landslides blocked highways; several bridges damaged	c. USD 616 Mn (c. 0.5-0.7% of GDP)	Reduced GDP growth by c. 0.2%–0.3%
Cyclone Ditwah	2025	28–30 Nov 2025	c. 334 - 355 (est.)	218 to c. 370 (est.)	1.1Mn+	~ 15,000+ homes destroyed (initial official assessment); 200+ roads impaired / impassable; at least 10 bridges damaged; sections of rail network and national power grid affected	c. USD 0.7-1.07Bn LKR 210–320 Bn (c. 0.8–1.0% of GDP)	Likely to reduce GDP growth by c. 0.5%–0.7% (FC preliminary estimate)

Source: FC Research/World Bank/United Nations/ Athukorala, P., & Resosudarmo, B. P./ Encyclopaedia Britannica

Private Consumption to suffer: Adverse weather conditions from the Cyclone are expected to weigh on Sri Lanka's GDP through all major expenditure components. Private consumption, which accounts for about 68% of GDP, is likely decline due to reduced agricultural output, higher food prices, and income losses among rural households, alongside damage to housing and SMEs.

Weaker Demand to be partly offset by increased Government Expenditure: Government expenditure (around 7% of GDP) is expected to rise moderately due to emergency relief measures and infrastructure repairs; however, the increase is expected to be insufficient to offset weaker private demand. Investment activity is likely to weaken as private-sector operations are disrupted, while higher public investment is expected to be directed primarily towards short-term recovery rather than growth-enhancing initiatives.

External Sector to suffer: Net exports are also expected to deteriorate with agricultural and manufacturing exports expected to decline in the short term, with key contributors such as textiles and garments experiencing production and shipment delays due to flooding and power outages, while imports of food and reconstruction materials is expected to register a significant increase.

GDP growth to trim by 0.5%-0.7%: GDP Overall, drawing on historical precedents such as the 2016 floods and 2004 Tsunami, Cyclone 'Ditwah' is expected to trim real GDP growth by approximately 0.5%–0.7% points relative to a no-disaster baseline, as disruptions to consumption, investment, and net exports outweigh the temporary uplift in government spending. However, taking into consideration the impact, FCR maintains the previous GDP growth estimate for 2026 of 3.0%-4.0%.

Impact on Sri Lanka's Fiscal Position

Fiscal deficit to widen by c. 0.1% of GDP, Government expenditure surge: Cyclone Ditwah has created significant strain on public finances due to emergency relief, displacement support, and infrastructure rehabilitation. The government has already declared a State of Emergency, released LKR 1.2Bn in immediate assistance, and allocated LKR 30.0Bn in the 2025 Budget for disaster-related needs. Additional interventions, such as higher dry-ration allowances and broader procurement flexibility, may intensify expenditure pressures across both current and capital accounts. Based on past disaster episodes, such spending could widen the fiscal deficit by approximately 0.1% of GDP, representing a notable yet manageable deviation from the consolidation path.

Revenue risk minimal, Impact concentrated on expenditure: Despite income disruptions among affected households and SMEs, the direct effect on aggregate tax revenue is limited, as core revenue channels remain intact. We believe that any revenue dip amidst lower than anticipated business activity may be offset by price escalations and improved tariffs due to higher imports. The imbalance therefore arises primarily from higher expenditure, not from revenue loss. External grants, concessional financing, or disaster relief may offset spending partially, but inflows are unlikely to fully absorb the additional burden. The unplanned nature of Cyclone 'Ditwah' heightens fiscal volatility and highlights Sri Lanka's ongoing vulnerability to climate shocks at a time when fiscal buffers are still being rebuilt after the 2022 crisis.

Impact on Inflation

Inflation to rise by c. 40bps, supply disruption drives short-term price spikes: Severe flooding from Cyclone Ditwah has disrupted harvesting, storage, transportation, and market access, tightening supply across key food categories. Even prior to the disaster, headline inflation was expected to trend higher due to favourable base effects. The supply shock now adds additional pressure, particularly on vegetables, coconuts, fruits, and other perishables, which carry sizeable weights in the CCPI and NCPI. The impact is likely to be front-loaded, with noticeable increases in fresh produce prices over the coming weeks. Although temporary in nature, the shock may reinforce the upward momentum already embedded in the inflation path. Annual average inflation for 2026 is now estimated at 3.3% (previous 2.9%), reflecting a c. 40bps adjustment.

Impact on the Currency

Rupee 5.0% depreciation pressure maintained: Following two consecutive months of current account deficits, external pressures are poised to persist. Higher imports of food, fuel, reconstruction materials, and short-term relief inputs are likely to coincide with weaker agricultural and manufacturing exports. Inward remittances may increase as expatriates support affected families, yet part of these flows may be absorbed by the Central Bank for liquidity management and credit-support measures. Banks could also retain foreign-currency inflows ahead of upcoming domestic dollar-bond issuances, reducing FX availability in the market. These short-term pressures do not materially alter our underlying trajectory. FCR maintains its outlook of approximately 5.0% LKR depreciation for 2026, with post-disaster import demand largely offset by remittances, donor inflows, and external financing.

Impact on Tourism

Tourism earnings to soften near term, but remain intact for 2026: Sri Lanka's tourism sector, which recorded around 1.9Mn arrivals and roughly USD 2.7Bn in earnings during Jan-Oct 2025, is facing a short-term setback following the floods in Sri Lanka. The inundation of Colombo which is the main entry point for visitors, along with road closures, transport disruptions, and damage to coastal hotel clusters, has already led to cancellations and lower occupancy

during the early peak season. Earnings from tourism, which showed only a 4.9% increase (in the January–October comparison with last year) despite steady arrivals, are now expected to soften further as travel slows and repair costs rise. With widespread displacement and infrastructure strain, year-end tourism revenue may weaken. FCR’s tourism earnings forecast remains broadly intact with only a marginal adjustment to 2025 due to the impact in Dec-25 resulting in 2025 arrivals dipping to 2.3Mn (previous 2.4Mn) while tourism earnings may dip to USD 3.2Bn (previous USD 3.3Bn) for 2025. However, FCR maintains its estimates for 2026 with arrivals at 2.7Mn and earnings at USD 3.7Bn, supported by a gradual recovery as conditions normalize and positive online communication helps reassure travellers.

Impact on Remittances

Remittances may rise 10-15% in the short term and stabilize towards 2H2026: The floods are expected to drive an increase in worker remittances, as expatriate Sri Lankans provide financial support to affected families and contribute to the rebuilding of homes and businesses. Inflows are likely to exceed prior projections by approximately 10–15% over the next six months, with any operational frictions such as damaged residences, temporary relocation, or banking disruptions affecting the timing of transfers rather than overall volumes. Beyond the initial recovery phase, remittances are expected to return to their underlying trajectory, although greater domestic hardship may heighten household reliance on these funds during reconstruction. The remittance channel therefore remains a core stabilising element of Sri Lanka’s external accounts, with the expected short-term uplift strengthening overall expectations for 2026 rather than posing a risk. We expect overall remittances for 2026 to further rise by 7% to reach USD 8.8Bn up from our previous forecast of USD 8.2Bn.

IMPACT TO CAPITAL MARKETS

Fixed Income Market

Short-term pause in secondary market: We expect the market to remain largely stagnant in the immediate aftermath of the floods, as investors adopt a wait-and-see approach until the full macro impact is understood. Some selling may emerge in selected maturities, though likely on low volumes, driven by a preference for lower risk amid uncertainty over potential shifts in the yield curve. Initial reactions are therefore expected to reflect sentiment rather than fundamentals.

Medium-term yield support with a biasness towards easing: In the medium term, government-led rebuilding efforts are likely to increase capital expenditure, modestly pressuring the primary surplus and generating upward pressure on rates. However, the fiscal impact is mitigated by the government’s accumulated treasury surplus of LKR 1.0Tn, reducing the need for new issuance to fund reconstruction. Importantly, the anticipated dip in GDP growth creates additional space for the CBSL to maintain or further accelerate its easing bias, reinforcing a low interest rate environment. As clarity improves, we expect premiums embedded in selected maturities during the initial sell-down to unwind, supporting a flatter and more stable yield curve.



Equity Market

Short-term sentiment-driven pullback as investors de-risk: We believe that the overall impact on the equity markets is mixed from the recent floods to the island. From past experiences, such as tragedies from 2004 Tsunami, 2016 floods and 2020 Covid-19 pandemic equity indices typically experience a temporary dip, which is likely post 2025 floods during the short-term resulting from the negative sentiment as investors tend to sell and stay side lined from the equity market until the implications for GDP growth and listed company earnings are more clearly assessed.

Reconstruction stimulus may offset consumption dip supporting positive outlook: Considering the medium term, we believe equity markets may shrug off the negative sentiment coming from the flood event and continue its upward trajectory. The continuation of the low interest rate regime coupled with government led reconstruction stimulus is expected to trickle down towards construction sector while consumption may recover towards 2H2026 and is expected to impact listed corporate earnings to be maintained whilst business directed capex through loans is expected to instill confidence amongst investors.



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