



MARKET UPDATE | 01.12.2025

AMBEON
SECURITIES



Background to the Incident: Cyclone Ditwah

- Cyclone Ditwah made landfall on 28 November before moving back over the Bay of Bengal, triggering **some of the most severe flooding Sri Lanka has seen since the early 2000s**.
- The hardest-hit districts include Gampaha, Colombo, Puttalam and Mannar, as well as Trincomalee and Batticaloa, while deadly landslides in the central hill country have devastated Kandy, Badulla and Matale.
- **Initial assessments indicate that more than 15,000 homes have been destroyed.**
- Over 200 roads remain impassable, at least 10 bridges have been damaged, and sections of the rail network and national power grid affected. The disaster caused over **200 confirmed fatalities**, displaced hundreds of thousands.



Economic Impact of the Adverse Weather Condition

GDP Growth – negatively affected

Prior to the adverse weather event, the ADB projected Sri Lanka's GDP to expand by **3.9% in 2025**. However, the extensive infrastructure damage, output losses, weakened consumption, and prolonged supply-chain disruptions now pose downside risks to this outlook. Based on the severity of the disruptions, the economy may experience a slower-than-expected recovery

Inflation – expected to increase for December

Agricultural losses — including damaged crops, livestock, and equipment — will spill over to wholesalers and retailers during a period that usually relies on strong seasonal demand.

The weather disruptions introduce short-term price pressures. Supply-chain interruptions, delays in industrial zones, and blocked logistics routes are likely to constrain the flow of goods.

December also typically records an uptick in inflation driven by festive-season demand, with food inflation also rising in December and January.

Further risks may arise if electricity infrastructure sustains more damage and the Government is compelled to adjust tariffs upwards to support recovery efforts.

Economic Impact of the Adverse Weather Condition

Primary Surplus – negatively impacted due to more relief allocations

The Government is expected to introduce relief measures, supported by the Treasury's unutilised fiscal surplus of approximately Rs. 1 trillion. This buffer provides adequate space for targeted assistance, indicating that sufficient resources are available to fund near-term relief efforts. The Government has released Rs. 1.2 billion for immediate disaster response, while Rs. 30 billion has been allocated in the 2025 Budget for emergency needs.

Foreign Aids – may ease the burden on reconstruction but may not be sufficient

Foreign assistance has begun to materialize, with the Maldives announcing a US\$50,000 donation, the United States pledging US\$2 million in immediate aid, and Nepal providing US\$200,000 in financial support. These USD-denominated inflows **help ease pressure on the exchange** rate and reduce the fiscal burden associated with near-term relief and recovery efforts.

Sector	Impact
Agriculture	<p>Negative impact. The agriculture sector is likely to face a notable setback as widespread crop losses, damaged irrigation systems, and disruptions to transport networks reduce harvest volumes in the near term. Lower output in key categories such as paddy, vegetables, and export crops will place upward pressure on food prices and weigh on rural incomes, while also creating supply volatility for downstream FMCG and food-processing industries.</p>
Construction	<p>Mixed Impact. In the medium term, reconstruction and rehabilitation activities may provide a temporary boost to demand, particularly for government-led infrastructure and housing projects. However, the amount of CAPEX funding allocated by the government for long term projects would have to be diverted to flood aid relief.</p>
Insurance	<p>Negative impact. The insurance sector is likely to face increased claims arising from property, crop, and vehicle damage due to flooding and landslides. While this may pressure near-term profitability, the event could also highlight the importance of insurance coverage, potentially boosting demand for risk protection products over the medium term.</p>
NBFI	<p>Negative impact. The destruction of leased vehicles due to flooding and landslides is expected to pressure NBFIs' vehicle leasing portfolios through elevated credit losses and insurance claims. Asset write-offs and delayed recoveries may weigh on profitability in the short term, while increased provisioning requirements could tighten capital allocation. The impact will be most pronounced for institutions with concentrated exposure in affected regions or insufficient insurance coverage.</p>
Manufacturing	<p>Mixed impact. Delays in raw material deliveries, reduced workforce availability, and damaged production facilities may constrain output, particularly in food processing, beverages, and export-oriented segments. Recovery will depend on the speed of infrastructure restoration and logistics normalization, while medium-term demand for manufactured goods may remain resilient once operations resume.</p>

Sector	Impact
Healthcare	<p>Positive impact. The healthcare sector is expected to face increased demand for services due to flood- and landslide-related injuries, waterborne diseases, and disruptions to public health infrastructure. While this may drive short-term revenue growth for private hospitals and clinics.</p>
Energy (Hydro)	<p>Mixed impact. Heavy rainfall and flooding can increase reservoir water levels, boosting hydropower generation capacity. This allows hydropower plants to generate higher output at low marginal cost, potentially increasing electricity sales and short-term revenue. Additionally, surplus water inflows may reduce reliance on costlier thermal generation, lowering system-wide fuel costs and improving grid efficiency. Hydropower companies with adequate storage capacity and operational flexibility can benefit from these temporary inflows, capturing higher dispatch volumes during peak demand periods.</p>
Telecommunication	<p>Mixed impact. Flooding and landslides can damage critical infrastructure, including mobile towers, switching stations, and fiber-optic cables, causing temporary service outages. Operational challenges such as disrupted power supply and limited access to affected areas may further constrain service restoration which will increase the cost. On the other hand, the disaster is likely to drive a surge in demand for connectivity, as both households and businesses rely on mobile and internet services for emergency communication, remote work, and coordination of relief efforts.</p>
Tourism	<p>Negative Impact - The tourism sector is likely to face immediate disruptions due to Cyclone Ditwah, as flooding, landslides, and damaged infrastructure affect key tourist destinations and transport networks. Short-term cancellations, reduced tourist arrivals, and operational challenges for hotels, airlines, and tour operators may impact revenue. A significant impact is expected with Kandy and Ella being major tourist destinations of the Island.</p>
Plantation	<p>Negative Impact - The plantation sector is expected to face significant disruption due to Cyclone Ditwah, with flooding and landslides damaging tea, rubber, and coconut estates. Reduced yields and delayed harvesting may pressure revenues in the near term, while supply chain interruptions could affect exports.</p>

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