

**THE IMPACT OF BANK LOAN INTEREST RATES ON
ROAD CONSTRUCTION INDUSTRY IN SRI LANKA**

Manamgoda Gamage Nimantha Manamgoda

(138418 F)

Master of Science in Project Management

Department of Building Economics

University of Moratuwa

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Manamgoda Gamage Nimantha Manamgoda

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Dissertation submitted in partial fulfillment of the requirement for the
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June 2017

DECLARATION

I declare that this is my own work and this dissertation does not incorporate without acknowledgement any material previously submitted for a Degree or Diploma in any other University or institute of higher learning and to the best of my knowledge and belief it does not content any material previously published or written by another person except where the acknowledgement is made in the text.

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ABSTRACT

The road construction industry is a very important industry for the country's economic development. It provides main infrastructure to the economic activities. Cost of road projects are expensive compared to other type of construction. Therefore the debt money has been a reliable and main source of finance for the road construction industry. The interest against the debt money is the cost of the debt facility. There is a high tendency to fluctuate the rate of interest in Sri Lanka finance sector, which creates a financial risk against the local road construction industry.

This study has aimed to identify the impacts of interest rate of bank loans on road construction industry in Sri Lanka. The descriptive study was carried out through a preliminary survey, questionnaire survey and semi structured interviews among the practitioners of the industry. The data was analyzed using percentages on frequencies, relative importance index, correlation analysis and regression analysis. MINITAB EXPRESS (statistical software) was used to formulate the statistical analysis.

Literature has been carried out to identify the direct and indirect impacts of fluctuations of rate of interest bank loans on road construction industry. With the available research studies, there are six factors identified which determine the behavior patterns of the interest rate. i.e.: **government policies, demand and supply of funds, inflation, expectations, competition and uncertainty.**

The identified regions that have a direct impact of rate of interest on road construction industry are **financial decisions, investment decisions, dividend payments, bottom earnings, investment bearings and opportunity cost.** As per the literature there were six barriers identified as direct impacts on road projects. There are payment **delays, cash flow issues, financial resources, interest claims, lack of number of bidders and high project cost.** The effect of rate of interest on inputs of road projects is recognized as the indirect impact. As per the research findings the common inputs of a road project are **bitumen (18.89%), equipment (14.49%), Fuel (12.32%), A.B.C. (11.19%), Metal (6.13%) and earth (4.88 %).** It was proved that there is **strong and linear relationship between fluctuations of interest rate and price level of bitumen, A.B.C., metal and earth.** Therefore practitioners are recommended to take necessary measures to consider the financial risk of debt financing in developing capital structure for road construction project.

Key words: Road construction, financial risk, interest rate, bank loans, inputs, direct and indirect impacts, road inputs, fluctuations, correlation and regression analysis

DEDICATION

TO MY PARENTS.....

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LIST OF ABBREVIATIONS

BIS	Bank for International Settlements
CIDA	Construction Industry Development Authority
DFID	Department of International Development
GDP	Gross Domestic Product
GITIC	Guangdong International Trust and Investment Corporation
ICTAD	Institute of Construction Training and Development
IRR	Interest Rate Risk
LIBOR	London Interbank Offered Rate
PMBOK	Project Management Body of Knowledge
PPP	Public Private Partnership
RDA	Road Development Authority
SABOR	San Antonio Board of Relators
SARB	South African Reserve Bank
SPV	Special Project Vehicle
SSE	Scottish and Southern Energy
UK	United Kingdom
UNESCAP	United Nations Economic and Social Commission for Asia and other Pacific