



## The Impact of Exchange Rate on Economic Growth in Sri Lanka

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### Abstract

Exchange rate is identified as an important factor for turning the economic growth of countries which was empirically confirmed by several related studies. Also, strong economic growth can lead to an appreciation of the currency due to increased demand for local goods and investments. Conversely, a weaker economy may result in a depreciating of currency. During the period of 2022 to 2023, the Sri Lanka faced the considerable depreciation of Rupee value in terms of U.S Dollar. In this background, this study tries to investigate the impact of exchange rate on economic growth in Sri Lanka. The understanding on the movement of exchange rates is important for policy makers to develop more reliable and accurate fiscal and monetary policies for a country. Economic growth was considered as dependent variable and the exchange rate was employed as key independent variable with interest rate, and inflation rate were the controlled variables in the study. Researcher uses quarterly data for the period 2014-2023. The collected data were analyzed using time series analysis techniques namely Stationary, Autocorrelation, ARIMA, Granger-causality, multiple regression and correlation analysis. The empirical findings highlighted that exchange rate has a significant negative impact on economic growth in Sri Lanka. The findings will provide suggestions for the policy makers, government authorities, financial institutions, and other respective parties to make effective policies in future with the view to boost to economic and national development.

**Keywords:** Exchange rate, Economic growth, Gross Domestic Product, Interest rate, Inflation rate.

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