

# **The Impact of Exchange Rate Volatility on Industrial Exports in Sri Lanka**

**I.W. Rathnayaka**

*Department of Economics, University of Colombo*  
*wasana@econ.cmb.ac.lk*

## **ABSTRACT**

The relationship between exchange volatility and industrial exports in Sri Lanka is a continuing matter in economic growth and development. Exchange rate volatility may have a direct effect on trade through uncertainty and adjustment costs. The aim of this study is to analyze the effect of exchange rate volatility on industrial exports in Sri Lanka from 2001 to 2019. The motivation of this study is to investigate the relationship between exchange rate volatility on real industrial export earnings in Sri Lanka after the implementing floating exchange rate policy. The main proposition of the study is that exchange rate volatility may produce a slight influence on industrial export earnings in Sri Lanka. The study found a positive relationship between exchange rate volatility and industrial exports in Sri Lanka. The estimated exchange rate volatility coefficient is approximately 0.46 percent, indicating that exchange rate volatility has a positive impact on industrial exports. A one percent increase in volatility increases Sri Lanka's industrial exports by approximately 0.46 percent. This is consistent with theoretical models. Since the risk raises the potential gains from trade, the volume of trade rises in response. This situation is considered to be a natural phenomenon because the exporters cannot immediately adjust the volume of their trading in accordance with fluctuations in the exchange rate. Thus, policymakers need to take steps to reduce the exchange rate fluctuations, the exporting companies can practice the forward exchange rate.

**Keywords:** Exchange Rate, Industrial Exports, Earnings, Bilateral Trade, Volatility