Impact of Exchange Rate Volatility on Sri Lanka's Trade Growth

AL Soos, M.Y.M.[1] and Madurapperuma, M.W.[2]
Postgraduate Student- MBA, University of Kelaniya. Sri Lanka.
sos.mosa@gmail.com[1]
Department of Accountancy, University of Kelaniya.
Sri Lanka wasanthi@kln.ac.lk [2]

Abstract

The exchange rate regime and foreign policy is an important measure of the macroeconomic management in endeavoring for economic development through improving the performance of export of the country. Many scholars pay their attention to study the impact of exchange rate volatility on the export growth. However, these studies do not provide a definite result that increased uncertainty has reduced exports, the majority of empirical research have found that there is a negative relationship between exchange rate volatility and export performance. The conclusion drawn from recent empirical literature is insignificant between export and exchange rate volatility. Very few studies found significant relationships between export and exchange rate volatility. Therefore, the purpose of this study is to investigate the impact of exchange rate volatility on exports in Sri Lanka. The research used quarterly data during the period 2000 to 2015. Data of this study was analyzed using cointegration, vector error correction model (VECM) and GARCH techniques. Findings of this study show that the presence of a unique cointegrating vector linking real exports, relative export prices, real exchange rate volatility in the long run. Real exchange rate volatility exerts significant negative effects on exports both in the short run and the long run. Further findings of this study show that real exchange rate impact positively on export. Overall, findings of these results show that trading activities of Sri Lanka can be improved by maintaining a stable competitive real exchange rate.

.***Keywords:*** *Co-Integration, Exchange Rate Volatility, Exports, GARCH, Vector Error Correction*