

Impact of Currency Depreciation on Growth, Exports & Industrialization: Evidence from Sri Lanka

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Abstract

The present article focuses specifically on smart exchange rate policy and export oriented industrialization process to sustain growth in Sri Lanka. There is an extensive debate on the impact of currency depreciation (devaluation / undervaluation) on growth and exports; some scholars have argued that depreciation positively affects growth (especially in developing economies), but others contend that depreciation negatively affects growth in the long run. This paper discusses the existing literature on currency depreciation on growth and exports. Study argues that too much depreciation in the long-run causes declining growth process and exports in Sri Lanka. At the same time, long-run depreciation negates industrialization process. Furthermore, this study found that long-run depreciation caused the decline in Foreign Direct Investment, lead to the increase inflation and was therefore, harmful for country's social welfare. Findings of this study suggest Sri Lanka should focus on export-based industrialization process to overcome current situation and sustain economic growth. In like manner, these implications are also suitable for most of the other developing countries.

Keywords: Currency depreciation, Economic Growth, Exports, Industrialization, Sri Lanka

1. Introduction

Sri Lanka is a Lower Middle-Income country with a GDP per capita of USD 4,073 (2017) and a total population of 21.4 million people. Following 30 years of civil war that ended in 2009, Sri Lanka's economy grew at an average 5.8 percent during the period of 2010-2017. However, there were some significant

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