

## **Effect of Foreign Exchange Rate on Stock Market Performance in Sri Lanka**

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The Sri Lankan stock market is highly vulnerable to fluctuations. External variables, particularly currency rate movement and volatility, make future capital market implementation and performance in development questionable. Several variables influence on the changes in stock prices, including company performance, dividends, stock prices in other countries, Gross Domestic Production, exchange rates, interest rates, current account, money supply and employment. Given the importance of determining the growth of a capital markets in an economy the economists and researchers have recently concerned with the intertemporal relationship between stock returns and exchange rates. Thus, study investigates the link between exchange rates and stock market performance in Colombo. Using monthly time series data in Sri Lanka from June 2012 to December 2020, the study analyzes the impact of exchange rates (USD, GBP, EUR, and JPY) on stock market returns (ASPI and S&PSL20). The relationship between the variables is measured using correlation and multiple regression approaches. According to findings, GBP showed a weak positive significant relationship with ASPI and S&PSL20, and the EUR have a non-significant positive correlation with ASPI and S&PSL20. Moreover, it suggests a weak negative correlation with ASPI and S&P SL20. Finally, the study concludes that GBP has a significant impact on stock market performance in Sri Lanka.

***Keywords:*** ASPI, S&P SL20, CSE, Exchange Rate, Sri Lanka, Stock Market.