

Effect of Currency Devaluation on the Performance of Small and Medium Enterprises in Kurunegala District of Sri Lanka

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Abstract

Currency devaluation has become a significant economic challenge in Sri Lanka, which has implications for Small and Medium Enterprise (SME) stability and growth. SMEs are the key employment generators, income distributors, and regional developers. This study investigates the impact of currency devaluation on SME performance in the Kurunegala District with a focus on four crucial determinants: exchange rate fluctuation, inflationary pressure, import cost, and access to finance. A quantitative research design was used by implementing a convenience sampling technique to distribute structured questionnaires among 267 SME managers and owners. Statistical analysis was conducted through the application of SPSS software using descriptive statistics, Pearson correlation, and multiple regression analysis. All four factors were found to significantly correlate with SME performance, where exchange rate fluctuation and inflationary pressure had the most influence, followed by access to finance and import cost. The research concludes that while currency devaluation poses operational and financial challenges, it can also pose opportunities for some export-oriented businesses. The results underscore the importance of exchange rate stabilisation, improved access to low-cost finance, and supportive policy measures to enhance SME resilience. The existing literature is augmented by this study since it offers empirical evidence based on Sri Lanka on how currency devaluation affects SME performance and provides practical implications to policymakers and financial institutions.

Keywords: access to finance, currency devaluation, exchange rate fluctuation, import cost, inflationary pressure