

## **Relationship between Foreign Direct Investment and Exchange Rate**

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Attracting Productive Foreign Direct Investments (FDI) to Sri Lankan economy is one of the main policies of Sri Lankan Government. Therefore, FDI inflows are considered as an important component of Sri Lankan Government's intentions to foster economic growth. This research examines the long-run and short run effects on Sri Lanka's FDI inflows from changes in Exchange Rate. Quarterly data from 2001 to 2012 are employed in this research. The ADF unit root test reveals non-stationary in exchange rate at 5 percent level of significance. Also according to the Heteroscedasticity Test there is no any Heteroscedasticity Error in the models. Simple Granger causality test was used to identify the causality between exchange rate and foreign direct investment inflows. Findings indicate that, there is a positive effect of Exchange rate to determine the short term Foreign Direct Investment and there is no any high impact of Exchange Rate to determine the Long Term Foreign Direct Investment inflows to Sri Lanka.

**Keywords:** *Foreign Direct Investments, Exchange Rate*

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