

Do Exchange Rate and Inflation Impact Foreign Portfolio Inflows of Colombo Stock Exchange? An Analysis under Covid-19 Pandemic

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The purpose of this research is to examine whether the foreign exchange rate, inflation, and COVID-19 impact Foreign Portfolio Inflows to the Colombo Stock Exchange Sri Lanka. This Study uses secondary monthly time series data from 2015 to 2022. The independent variables of this study are changes in exchange rate, change in inflation and the COVID-19 dummy variable. The dependent variable is the change in Foreign Portfolio Inflows (FPI). The VAR model and Granger-Causality test are applied to test the relationship between inflation, exchange rate, COVID-19 and FPI. The VAR model shows that COVID-19, exchange rate and inflation have a no significant impact on current change in FPI. Granger Causality Test show that there is a one-way relationship between Inflation and the current change in FPI. This study concludes that the exchange rate does not impact current change in FPI and the impact stems from inflation on FPI is weak. This study is one of the first attempts to investigate whether the exchange rate, Inflation rate, and covid-19 impact Foreign Portfolio Inflows in Sri Lanka under Covid-19. Future research is needed to examine the relationship using other variables like oil price, domestic institutional investment, GDP, etc.

Keywords: Covid-19, Exchange Rate, Foreign Portfolio Investment, Inflation Rate

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