

## **IMPACT OF MACROECONOMIC VARIABLES ON FOREIGN DIRECT INVESTMENT IN SRI LANKA**

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### **Abstract**

The title of this study is "Impact of macroeconomic variables on FDI in Sri Lanka". This research investigates to find the connection between FDI and exchange rate, classify the relationship between FDI and exports, recognize the relationship between FDI and interest rate and identify the relationship between FDI and consumer price index. The variable in the conceptual model such as interest rate, exchange rate, consumer price index, exports have been taken as independent variables and FDI has been taken as dependent variable. Gathered data from 1980 to 2016 collected from Central bank annual reports. Descriptive statistics and regression modeling using SPSS 20.0 software package for the purpose of analyzing the data collected. To find out the relationship between FDI and macroeconomic variables, regression analysis was carried out. Results of regression analysis reveal that; the P value of all independent variables are less than 5%. These values prove that there is a significant relationship between FDI and macroeconomic variables. According to the data of this research, The R-Square value is 0.942. Which means 94.2% of the variation in FDI can be explained by interest rate, consumer price index, exchange rate, and exports. Whereas 5.8% is explained by other variables outside the model. And also, there is no autocorrelation between the error terms. Durbin-Watson statistic is 1.952 which is almost near to value of 2. As per the statistically output, taking necessary actions on improvement in infrastructure facilities Sri Lanka from the all aspects implementing foreign trading policies to increase the direct and indirect investment, plans for developing new technology. Tax benefits on transportation and trade sector, reducing visa constraints on the movement of people are some of the policies Sri Lanka can adopt to enhance the foreign investment.

**Keywords:** *Foreign direct investment; Export, Interest rate; Exchange rate; Consumer price index.*