

Factors Influence Foreign Portfolio Investment in the Colombo Stock Exchange

Kodithuwakku I.P.¹ and Rajapaksha R.M.D.A.P.²

¹imesha.pramodi20@gmail.com; ²amilar@kln.ac.lk

Abstract

Foreign investment is a major driver of global economic growth. Foreign portfolio investment, as part of foreign investment, plays an important role in the economy. Foreign portfolio investment influencing factors are crucial in determining a country's portfolio investment flows. Investors will respond positively or adversely to portfolio investments in a nation based on the variation of these elements. The purpose of this research is to examine the factors that influence foreign portfolio investment in the Colombo Stock Exchange over twelve years, from 2011 to 2022, to better understand the dynamics that drive portfolio inflows from developing countries. The interest rate, foreign exchange rate, inflation, industrial production growth, market capitalization, and stock market performance were used as independent variables, and foreign portfolio investment was used as a dependent variable. The FPI was calculated using net foreign purchases on the CSE. The data was acquired from CBSL publications, Census and Statistics Department papers, the CSE database, and other public sources. The researcher used analytical methods such as descriptive analysis, correlation, unit root test, and regression analysis. Findings from the study's regression analysis revealed that interest rates are both positively and significantly impacted by FPI. Inflation and market capitalization are positively but insignificantly impacted by FPI. Foreign exchange rate and industrial production growth have a negative and significant impact on FPI. Furthermore, stock market performance shows a negative and insignificant impact on FPI. Moreover, the researcher also found that the data did not exhibit serial correlation, suggesting that the variables used in the study were independent and appropriate. This research is important for new researchers, as it provides a systematic approach to improving foreign portfolio investment in developing countries, such as Sri Lanka. The researcher also highlighted practical implications for policymakers.

Keywords: Foreign Direct Investment, Colombo Stock Exchange, Net Foreign Purchases