

**The Impact of Exchange Rate on Foreign Direct Investment in Sri Lanka**

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**ABSTRACT**

**Introduction** - Previous literatures are mainly conducted by focusing the developed countries. There are only few studies were examined the impact of exchange rate on FDI of Sri Lanka. Therefore the main objective of this study is to identify the clear relationship between exchange rate and FDI in Sri Lanka.

**Design/ Methodology/ Approach** - This study is conducted by considering the FDI as a dependent variable and Expected exchange rate, Real exchange rate, Nominal exchange rate and Exchange rate volatility as explanatory variables by using time series data on the annual basis from 1986 to 2018. The researcher used multiple regression model.

**Findings** - The research study is evidenced that Expected exchange rate has a positive impact on foreign direct investment in Sri Lanka. Nominal exchange rate and Exchange rate volatility have a significant impact on FDI in Sri Lanka.

**Conclusion** - The exchange rate volatility has a positive significant relationship with FDI and the Nominal exchange rate has a negative significant relationship with FDI in Sri Lanka.

**Keywords:** *FDI, Exchange Rate Volatility, Nominal Exchange Rate, Expected Exchange Rate, Real Exchange Rate.*