

## **Impact of Foreign Direct Investment on Major Macro-Economic Variables in Sri Lanka**

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With globalization and the disintegration of the socialist block of countries, FDI as a source of foreign investment has been accepted as a crucial factor in accelerating economic growth, especially in developing countries. Economic liberalization could be considered a turning point of FDI policies in the recent history of these countries even though it has consequently been checked by political uncertainties, especially civil wars. There have been increases and decreases of FDI in post-independence Sri Lanka due to political perceptions of various regimes. Sri Lanka has not succeeded in attracting sufficient FDI yet, even though the war has been over for sometimes. Sri Lanka is a small, open economy, and FDI makes a considerable impact on its macro-economic variables. FDI is important in terms of the exchange rate, interest rate, external reserves, outcome of BOP, money supply, inflation, economic growth, employment generation, and external borrowings. The objectives of this study are to examine the impact of FDI on the performance of macro-economic variables in Sri Lanka. The study is based on a literature survey of publications of the Central Bank, customs records, and articles. The time period covered by this study is the post-liberalization period of Sri Lanka. The collected data is presented quantitatively and a time series analysis is applied for this purpose. Where necessary, qualitative approaches were also used as a complementary method of analysis. Findings suggest that FDI has made a significant impact on macro-economic variables of Sri Lanka depending on the volume of inflows. External reserves of the country are mainly influenced by FDI and as a result of that the exchange rate, money supply, economic growth, employment generation, and inflation are also affected. Sri Lanka is forced to seek assistance from the IMF and other sources when sufficient FDI and other sources of foreign exchange flows become weak.

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