

Does Stock Market React to Politically Appointed Central Bank Governors?

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Abstract

This study investigates the impact of Central Bank governor appointments on the Sri Lankan share market, focusing on the mode of appointment (political vs. internal promotion) and the governor's ethnicity to assess their influence on market reactions. The study uses event study methodology to analyze the impact of Central Bank governor appointments on the Sri Lankan share market (1995–2022). It calculates Cumulative Average Abnormal Returns around a 20-day event window. The results demonstrate that market responses are more favorable toward governors with prior Central Bank of Sri Lanka experience, while political appointments and ethnicity have minimal influence. This research provides a novel analysis of Central Bank governor appointments' impact on stock market dynamics in Sri Lanka, addressing gaps in the literature by focusing on both the mode of appointment and ethnicity.

Keywords: Central Bank Governor, event study, ethnicity, internal promotion, political appointments

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