Turning Point: How Banks Shift Lending During Times of Uncertainty

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Abstract

This study examines how central bank governor turnovers influence cross-border lending, distinguishing between regular (fixed-term completions) and irregular (mid-term departures) turnovers. Regular turnovers increase cross-border lending by 21.8 million dollars (4.6 percent) and extend maturities by 1.7 months, reflecting adjustments to uncertainty about the incoming governor's identity and policy stance. When regular turnovers occur in banks' and borrowers' countries simultaneously, lending declines by 12.1 percent due to compounded uncertainty. Turnovers in third-party jurisdictions dampen lending and raise spreads. These findings highlight central bank leadership's role in shaping international credit flows in an interconnected financial system.

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1 Introduction

Central banks are pivotal institutions in shaping economic outcomes, wielding influence through monetary policy, inflation control, and financial regulation. Central bank leaders (governors henceforth) play a crucial role in steering the economy, as their beliefs about inflation, unemployment and the broader capabilities of monetary policy fundamentally shape policy outcomes, influencing both its successes and failures (Romer & Romer, 2004). This paper examines the economic significance of central bank leadership transitions, a topic relatively underexplored despite the economy-wide influence of central bank governors, focusing on their impact on cross-border lending.

A key challenge in studying the implications of governor turnovers on cross-border lending arises from the endogeneity associated with economic downturns, which may simultaneously lead to governor turnover and changes in domestic and cross-border lending. In this study, we address this challenge by focusing on the practice of appointing central bank governors for fixed terms, which is standard across many central banks globally. The transition from one governor completing their fixed-term appointment to the next, unaffected by prevailing economic conditions, constitutes what we define as a '*regular*' turnover event. While the timing of these regular turnovers is predetermined, the identity of the incoming governor remains uncertain in the years leading up to the event, introducing an exogenous source of variation for analysis. This uncertainty has potential implications for monetary policy, which is influenced by the governor's beliefs (Romer & Romer, 2004) and affects economic outcomes via the interest rate channel (consumption, savings, and investment), the asset pricing channel (household wealth and risk tolerance), the credit channel (valuation of firms and bank balance sheets), and the exchange rate channel (currency adjustments).

Given the integral role of the credit channel in monetary policy transmission and the widespread influence of central bank policies on domestic entities (Stein, 2013), cross-border lending emerges as a natural framework to assess the economic impact of leadership transitions. Our analysis shows that when central bank governor turnovers

proceed as expected, they are linked to a 4.6 percent increase in cross-border lending volume, translating to an average rise of 21.8 million dollars. In contrast, when turnovers occur unexpectedly, they are associated with a 9.0 percent decrease in cross-border lending.

Uncertainty surrounding central bank governor turnovers in a bank's home country arises due to the incoming governor's identity and policy stance, which can influence the trajectory of monetary policy, regulatory frameworks, and financial stability. This uncertainty increases the perceived risks of domestic lending, leading banks to reevaluate their exposure to local economic conditions. According to the real-options framework, such environments of uncertainty prompt agents to delay irreversible investments, encouraging banks to adopt a more cautious stance toward domestic lending (Correa et al., 2023). Simultaneously, the principles of portfolio diversification provide a strong incentive for banks to reallocate capital to foreign markets. By expanding cross-border lending, banks reduce the risks linked to domestic uncertainty, leveraging their international operations to channel resources into jurisdictions deemed more stable or predictable. This strategic response not only safeguards lending volumes but also aligns with global banks' broader goals of sustaining profitability while managing risk exposure effectively.

We classify central bank turnovers into three categories. *Continuity or Regular Turnovers (Continuity henceforth)* include instances where a governor either continues into a new term or turns over after completing their term, capturing both continuity and planned transitions. *Regular Turnovers* specifically refer to cases where a governor completes their fixed term and transitions to a successor. *Irregular Turnovers* occur midterm, often driven by political regime changes, adverse economic conditions, or personal reasons, introducing additional uncertainty due to their unexpected nature.

Our analysis begins by investigating the relationship between central bank governor turnovers and macroeconomic uncertainty, focusing on economic policy uncertainty and interest rate volatility. We show that turnovers represent distinct events associated with significant changes in economic conditions. Economic policy uncer-

tainty rises in the year preceding both continuity and regular turnovers, reflecting heightened attention to monetary policy under the prospective leadership. In contrast, irregular turnovers, which are often endogenous to economic downturns, coincide with lower uncertainty, likely reflecting government interventions aimed at preserving stability. Regular turnovers are also linked to heightened interest rate volatility, underscoring their influence on the second moment of interest rates. Placebo tests using random turnover dates reveal no similar patterns, reinforcing that these results are not attributable to random variation. These findings validate turnovers as significant economic events, providing a foundation for further analysis of their implications for cross-border lending.

To investigate the effects of central bank governor turnovers on cross-border lending, we adopt a bank-centric perspective, focusing on how lending patterns are influenced by turnover events in the bank's home country (referred to as the domestic country). In this setting, the foreign country and industry corresponds to the borrower's country and industry. Our granular regression framework is designed to isolate the influence of central bank governor turnovers in the domestic country while accounting for credit demand and other confounding factors. To achieve this, we incorporate an extensive set of fixed effects: industry-foreign country-year, lender-industry-foreign country, domestic-foreign country, and loan purpose-type fixed effects. These fixed effects control for time-varying demand shocks, time-invarying bank-specific characteristics, existing bank-firm relationships shared by firms within an industry-foreign country, and structural relationships between domestic and foreign countries. By restricting the analysis to cross-border lending and excluding domestic lending, our specification ensures that the observed variation in international credit flows is directly associated with turnover events in a bank's home country.

Our findings reveal distinct patterns in how central bank governor turnovers influence lending behavior across different types of transitions. Regular turnovers, characterized by scheduled leadership changes, are associated with an increase in cross-border loan originations of 9.1 to 21.8 million dollars, reflecting a 1.9 to 4.6 percent rise rel-

ative to the mean deal size. This pattern suggests that monetary policy uncertainty tied to predictable leadership transitions prompts banks to reallocate credit internationally, consistent with risk diversification strategies. In contrast, irregular turnovers, often triggered by abrupt political or economic disruptions, correspond to declines in cross-border lending of approximately 8.8 to 9.1 percent. This decline underscores the amplified uncertainty and liquidity constraints accompanying unanticipated transitions, leading banks to scale back cross-border activities and prioritize domestic risk management and liquidity provisions.

Loan pricing, maturities, and other contractual terms exhibit systematic differences between regular and irregular turnovers, reflecting the influence of central bank governor transitions on lending practices. During regular turnovers, loan spreads remain stable, and maturities lengthen by 0.7 to 1.7 months, indicating that banks are more willing to extend longer-term commitments despite the temporary uncertainty about the incoming governor. These turnovers also correspond to a 3.7 percent increase in syndicate size and a slight reduction in collateral requirements, suggesting that banks adopt risk-sharing strategies and more flexible lending terms when transitions are predictable.

In contrast, irregular turnovers lead to significant adjustments in lending terms. Loan spreads increase by 11.2 to 14.9 basis points, equivalent to 4.4 to 6.0 percent of the mean spread, while syndicate size declines by 4.7 percent. The use of covenants, performance pricing, and amendments also decreases, reflecting a shift toward more restrictive and risk-averse lending strategies under the heightened uncertainty of unexpected governor changes. These findings demonstrate how the nature and predictability of central bank governor turnovers shape banks' decisions on pricing, risk-sharing, and contractual design in cross-border lending.

Heterogeneity across loan types and purposes reflects banks' strategic adjustments to regular turnovers. Lending for revolvers increases slightly more than term loans during these events as banks appear to prioritize flexible credit flows to manage risks associated with predictable transitions. Similarly, lending for acquisitions and takeovers

expands, suggesting that banks actively pursue strategic opportunities while navigating the uncertainties tied to changes in central bank governors. In contrast, general-purpose and working capital loans show no significant changes, indicating that operational financing is less influenced by these turnover events. These patterns illustrate how banks tailor their cross-border lending strategies to align with the varying levels of uncertainty and opportunity presented by regular turnovers.

Simultaneous turnovers of central bank governors in both the home and foreign countries intensify uncertainty, combining risks from both supply and demand perspectives in cross-border lending. Regular turnovers in a bank's home country typically drive increased lending abroad, but when regular turnovers occur concurrently in both jurisdictions, diversification opportunities are constrained. This dynamic leads to a 12.1 percent reduction in cross-border lending volumes, equivalent to approximately 57.3 million dollars, relative to the mean deal size of 473.8 million dollars. During such periods, banks extend loan maturities by 3.4 months, likely to secure longer-term commitments in the face of heightened policy uncertainty. Additionally, larger syndicates emerge under these conditions, reflecting a deliberate shift toward risk-sharing strategies to navigate uncertainties stemming from both regions.

Exposure to turnover events in third-party jurisdictions–countries where neither the bank nor the borrower in an arm's length lending transaction is domiciled–shapes banks' cross-border lending decisions, highlighting the broader implications of global financial integration. Regular turnovers in these jurisdictions lead to modest declines in lending volumes and slight increases in loan spreads, reflecting banks' adjustments to manage risks across interconnected markets. Specifically, a 1 percent increase in exposure to regular turnovers corresponds to a 0.04 percent reduction in lending volumes and an increase of up to 3 basis points in spreads. Irregular turnovers in third-party jurisdictions have a more pronounced impact, driving sharper declines in lending volumes and larger increases in spreads. These findings underscore the challenges banks face in reallocating credit amidst heightened uncertainty and disruptions within global financial networks.

Uncertainty stems from multiple sources (Campello & Kankanhalli, 2024). We

further this investigation by presenting evidence, using regular turnovers in central bank leadership, to illustrate how monetary policy uncertainty affects cross-border lending. Our study builds on the foundational insights of Leahy & Whited (1996), who provide early empirical evidence that uncertainty discourages investment by increasing the option value of waiting. Their findings suggest that firms delay investment in response to heightened uncertainty because investment decisions are often irreversible, a result consistent with real-options theory. We extend this framework by demonstrating that uncertainty arising specifically from central bank leadership transitions has a measurable impact on cross-border lending. Our study also resonates with Husted et al. (2020), who document a negative relationship between *aggregate* monetary policy uncertainty and US firms' investment rates. Julio & Yook (2012) highlight how political cycles introduce uncertainty that distorts investment decisions, while Julio & Yook (2016) show that such effects extend to international settings, where foreign direct investment declines during election years in host countries. The broader theme of uncertainty affecting investment decisions is echoed by Jens (2017) in the context of US gubernatorial elections and by Gulen & Ion (2016), who employ the Baker et al. (2016) economic policy uncertainty index to quantify the relationship. Furthermore, Kim & Kung (2017) highlight the role of investment irreversibility in shaping firm responses to uncertainty, showing that firms with more flexible assets exhibit lower sensitivity to uncertainty shocks. These findings align with Sarkar (2019), who document how firms strategically shift investment to lower-uncertainty markets. Our study advances this literature by providing evidence that monetary policy uncertainty generated by predictable governor transitions influences banks' cross-border lending, reinforcing the broader insight that uncertainty shapes financial institutions' risk-taking.

We contribute to the literature that focuses on measuring uncertainty from multiple sources by presenting a novel firm-level measure of monetary policy uncertainty. Studies in this literature fall into three broad categories (Campello & Kankanhalli, 2024). One branch relies on exogenous events such as elections (Julio & Yook, 2012, 2016; Jens, 2017), Brexit (Bloom et al., 2019; Campello et al., 2022; Hassan et al., 2024), and geopolitical

shocks like the Gulf War and the 9/11 attacks (Kim & Kung, 2017). Another strand employs text-based approaches to construct uncertainty indices, following the seminal work of Baker et al. (2016), who develop an economic policy uncertainty index using newspaper articles. Subsequent research extends this approach to measure different dimensions of uncertainty, including trade policy uncertainty (Caldara et al., 2020), political risk (Hassan et al., 2019), and business uncertainty derived from firms' regulatory filings (Friberg & Seiler, 2017; Handley & Li, 2020). A third category focuses on stock price volatility as a measure of uncertainty, decomposing it into firm-specific, industry, and aggregate components (Chay & Suh, 2009; Riddick & Whited, 2009; Bushman et al., 2010; Izhakian & Yermack, 2017; Kraft et al., 2018). While Husted et al. (2020) construct an aggregate measure of monetary policy uncertainty, our study fills a gap in this literature by introducing a bank-level measure that captures monetary policy uncertainty's impact on cross-border lending. By applying insights from the investment literature to banking, we offer a novel contribution that deepens the understanding of how monetary policy uncertainty stemming from central bank transitions shapes global financial intermediation.

Our study complements and extends the literature on the credit channel of monetary policy transmission by highlighting the role of central bank governor turnovers as a source of uncertainty that shapes lending behavior. Previous studies have established the critical role of banks' liquidity in mediating the impact of monetary policy, with small banks being more affected by monetary contractions unless they have substantial liquidity buffers (Kashyap & Stein, 2000; Campello, 2002). Beyond bank-level liquidity, borrower-specific characteristics also play a significant role, as weaker borrower balance sheets amplify the reduction in credit growth during monetary tightening (Ashcraft & Campello, 2007; Becchetti et al., 2011). Jiménez et al. (2012) demonstrate that systemic liquidity constraints and borrower vulnerabilities interact with monetary policy, leading to broader credit supply effects. At the international level, the interconnected nature of financial systems has been shown to propagate monetary policy spillovers, with cross-border banking flows being particularly sensitive to such shocks (Peek & Rosengren,

1997, 2000; Cetorelli & Goldberg, 2012; Bruno & Shin, 2015). While these studies largely focus on balance sheet constraints, the current research shifts the focus to uncertainty shocks, which differ by increasing risk dispersion without directly affecting immediate gains or losses (Correa et al., 2023). This study contributes to this literature by examining the links between governor turnovers, economic uncertainty, and lending outcomes, providing new insights into the interactions between monetary policy, uncertainty, and global financial linkages.

The literature on central bank independence emphasizes its critical role in achieving low inflation by insulating monetary policy from political pressures (Kydland & Prescott, 1977; Rogoff, 1985). Empirical studies show a negative relationship between central bank independence and inflation, though its effects on real economic variables, such as unemployment, remain debated (Cukierman et al., 1992, 1993; Alesina & Summers, 1993; Adolph, 2013). This independence is shaped not only by legal frameworks but also by the appointment process, where partisan influences often emerge. Governments tend to select central bankers whose policy preferences align with their own priorities, such as favoring inflation control or addressing unemployment, depending on their ideological orientation (Havrilesky, 1987; Hibbs, 1987; Chappell Jr et al., 1993). Despite formal independence, reappointment practices and informal political pressures provide pathways for governments to influence central bank policies, highlighting a dynamic interaction between independence and accountability (Cukierman et al., 1992; W. Bernhard et al., 2002; W. T. Bernhard, 2009). Governor tenures further illustrate this interplay; longer tenures are associated with policy stability and lower inflation, but tenure length alone is insufficient to ensure autonomy, as political considerations and reappointment cycles play a significant role (Cukierman et al., 1993; Sturm & De Haan, 2001; Adolph, 2013). Our study builds on this foundation by examining how central bank governor turnovers generate uncertainty and influence cross-border lending, offering new insights into the broader economic consequences of leadership transitions in an increasingly interconnected financial system.

Recent work underscores the role of central bank communication in shaping financial

market responses. Gürkaynak et al. (2004) find that monetary policy announcements impact asset prices through two distinct channels: the target factor, which captures unexpected changes in the policy rate, and the path factor, which reflects changes in forward guidance and market expectations. Expanding on this, Golez & Matthies (2025) document that equity markets respond to rate decisions and the information embedded in FOMC announcements about future economic conditions. Binder (2017) highlights the disparity between household and financial market reactions to central bank communication, showing that while professional investors quickly adjust expectations, households exhibit sluggish responses due to information frictions. Similarly, Blinder et al. (2008) and Ehrmann & Fratzscher (2005) emphasize that increased transparency in monetary policy statements enhances predictability and shifts the market's focus from actual rate changes to central bank narratives. Moreover, Borner (2025) disentangles pure monetary policy surprises from information shocks, revealing that market reactions differ depending on whether policy announcements convey new economic information or confirm expectations. These findings align with Barry et al. (2025), who show that non-verbal cues from central bank officials–such as tone and facial expressions–amplify market responses to monetary policy press conferences.

Lastly, we contribute to the literature on the importance of central bank leadership. Building on Romer & Romer (2004), who argue that a central bank's direction reflects the beliefs of its leader, we integrate findings from recent studies to highlight the breadth and depth of this effect. Fos & Xu (2022) demonstrate that regional economic conditions influence Federal Reserve Bank presidents' votes on the Federal Open Market Committee (FOMC), but only when these presidents have voting rights. This dynamic is further emphasized by Fos et al. (2024), who show that Federal Reserve districts without voting power respond to high inflation by reducing credit through the discount window. Additionally, Bobrov et al. (2024) show that the FOMC's structure, particularly the representation of district presidents advocating local interests, significantly shapes U.S. monetary policy decisions. Recent evidence shows that political appointments of central bank governors undermine their independence and worsen economic outcomes, while

profit-driven incentives distort monetary policy, lowering interest rates and raising inflation (Goncharov et al., 2023; Ioannidou et al., 2024). Our contribution highlights the relationship between central bank leadership, monetary policy uncertainty, and financial outcomes stemming from leadership changes, emphasizing the importance of providing market participants with information to form expectations about possible policy trajectories.

2 Central Bank Governor Turnovers

The labor market for central bank governors is inherently local, as most countries appoint their citizens to these roles to safeguard domestic economic interests. However, the institutional contexts in which central bank governors operate vary widely across countries, reflecting differences in governance structures, economic priorities, and political influences. This section examines three illustrative examples to explore how these institutional variations shape the roles of central bank governors and the circumstances under which turnovers – whether regular or irregular – occur. By contrasting these cases, we demonstrate the non-uniform landscape of central banking, where institutional autonomy, economic environments, and political considerations interact uniquely to determine the extent to which a governor can influence the policies pursued by the central bank.

2.1 Ben Shalom Bernanke: USA (2006–2014)

Ben Shalom Bernanke, the 14th Chairman of the Federal Reserve Board, served two terms from 2006 to 2014, initially appointed by President George W. Bush and reappointed by President Barack Obama. His tenure highlighted the Federal Reserve's institutional flexibility, characterized by strong de facto independence closely aligned with its de jure independence. This autonomy allowed the implementation of decisive and unconventional policy measures, such as quantitative easing and liquidity injections, during the Global Financial Crisis. The Federal Reserve's broad mandate and protection from immediate political pressures provided an environment where pragmatic leadership could drive innovative policies critical for stabilizing the economy

during periods of crisis and recovery.

In our context, Bernanke's continuation into a second term exemplifies continuity in leadership, as his reappointment maintained stability through a challenging economic period. The conclusion of his second term, however, represents what we classify as a regular turnover, where the leadership transition occurs as scheduled and is independent of prevailing economic conditions or regime changes.

2.2 Raghuram Govind Rajan: India (2013–2016)

Raghuram Govind Rajan, appointed as the 23rd Governor of the Reserve Bank of India (RBI) in 2013, operated within a complex institutional environment shaped by the dynamics of a developing economy. Rajan's tenure as Governor of the RBI was marked by the pressing challenge of rising non-performing loans on state-owned banks' balance sheets. Under his leadership, the RBI initiated an Asset Quality Review to address this issue. However, following a change in ruling parties in 2014, the government's policy priorities shifted, culminating in controversial decisions such as the Demonetization in November 2016, which invalidated 500 and 1000 rupee banknotes overnight, effectively removing approximately 86 percent of the country's currency in circulation. The RBI's limited de jure independence, compounded by significant government and bureaucratic involvement in its decisions, further diminishes its de facto autonomy.

Despite challenges such as declining economic growth and political regime changes, the tenure terms of RBI governors remain unaffected by these shifts. Rajan completed his term in September 2016, which this study classifies as a regular turnover. In contrast to Bernanke's experience within the relatively autonomous framework of the Federal Reserve, Rajan's tenure illustrates how institutional constraints and government and bureaucratic influence in a developing economy can limit a central bank governor's ability to fully implement their policy vision.

2.3 Soedradjad Djiwandono: Indonesia (1993–1998)

Appointed by President Suharto in 1993, J. Soedradjad Djiwandono served as the 10th Governor of Bank Indonesia during a period marked by the Asian Financial Crisis

in 1997. The crisis severely disrupted Indonesia's economy, leading to currency depreciation, rising inflation, and the collapse of numerous financial institutions. To combat the depreciation of the Indonesian rupiah, Djiwandono implemented tight monetary policies by raising interest rates. However, the combination of high non-performing loans and increased interest rates led to higher default rates, triggering banking crises and accelerating capital outflows. Critics argued that these policies exacerbated liquidity shortages and failed to restore market confidence.

In February 1998, after the crisis had peaked in July 1997, President Suharto unexpectedly dismissed Djiwandono due to ongoing political and economic instability. This abrupt removal, classified in this study as an irregular turnover. Djiwandono's dismissal highlights the challenges faced by central bank leaders in developing economies, where institutional weaknesses and political pressures can disrupt policy-making.

3 Data Description

3.1 Central Bank Governor Data

The data on central bank governor appointments are from the KOF Swiss Economic Institute at ETH Zurich, with contributions from Dreher et al. (2008, 2010). This comprehensive database tracks the tenure of central bank governors across nearly all countries since 1970, compiling information from varied sources, including Morgan Stanley Dean Witter's Central Bank Directory and the works of Cukierman et al. (1992) and Sturm & De Haan (2001).

The dataset includes each governor's name, tenure length (both standard and actual), and classification of turnovers as regular or irregular. Regular turnovers occur when a governor completes their term as stipulated by law or mutual agreement. In contrast, irregular turnovers result from resignations, political changes, or economic pressures. We manually verified all turnover events through web searches and extended the dataset to 2023, focusing on a 34-year sample period from 1990 to 2023.

This study examines three types of turnovers. The first, Continuity and Regular

Turnover, refers to cases where a governor either transitions to a new term or completes their current term and is succeeded by another. The second, Regular Turnover, involves a governor completing their term and being replaced. The third, Irregular Turnover, occurs when a governor's term ends prematurely. Panel A of Table 1 provides definitions of key country-year level variables used as independent variables in this study. Table 2 lists 43 countries where term lengths, when defined, range from 3 to 8 years. The hiring process for central bank governors is politically driven across all countries, albeit with varying degrees of influence, and tenure also varies globally. The political nature of the hiring process may indicate that central banks are not entirely independent of political influence.

3.2 Lending and Other Data

We use lending data from the Reuters Loan Pricing Corporation (LPC) Dealscan database, where each loan contract ("package") may include multiple facilities. Our analysis focuses on the facility level, considering only facilities with available loan amounts. For syndicated loans, we identify the lead lender using the approach outlined by Ivashina (2009) and conduct the analysis at the parent bank level, following the approaches of Mian (2006) and Giannetti & Laeven (2012). Facilities with multiple lead lenders are assigned to each lead lender. The sample period is from 1990 to 2023.

We utilized the Database of Political Institutions to gather electoral data across countries, spanning from 2003 to 2023. This comprehensive source offers insights into government stability, party affiliations, and legislative fragmentation, among other key political metrics. Country-level macroeconomic data are sourced from the World Bank's World Development Indicators, while information on central bank independence and elections is obtained from the Quality of Governance dataset, also provided by the World Bank. We obtain country-level short-term interest rate data from the OECD, derived from central banks' aggregation of secondary market data. Reported monthly, we convert these to quarterly averages. As secondary market data, these rates likely capture financial market participants' perceptions and reactions, making them essential

for analyzing responses to central bank governor turnover events. Lastly, we source country-level economic policy uncertainty data from policyuncertainty.com, an online website dedicated to uncertainty data collaboration among researchers (Saxegaard et al., 2022; Armelius et al., 2017; Baker et al., 2013, 2016; Cerda et al., 2016; Davis, 2016; Davis et al., 2019; Ghirelli et al., 2019; Gil & Silva, 2018; Hardouvelis et al., 2018; Kroese et al., 2015; Zalla, 2017).

4 Methods and Results

4.1 Validation

4.1.1 Time-series pattern

Figure 1 presents a time-series analysis of central bank governor turnover events across countries from 1990 to 2023, distinguishing between continuity, regular, and irregular turnovers. On average, approximately 14 countries annually experienced either continuity or regular turnover events, with regular turnovers occurring in 8 countries and irregular turnovers in 5.

Two key patterns emerge. First, irregular turnovers exhibit a downward trend, reflecting the increasing recognition of central banks as key institutions for economic stability. Irregular turnovers peaked in 1992 and 1993, coinciding with significant global economic transitions. These included the aftermath of the 1980s debt crises in developing nations, the rise of East Asian 'tiger' economies, China's accelerated reforms, and India's economic liberalization. Such periods tested institutional frameworks, leading to governance disruptions, particularly in less developed economies or where central bank policies clashed with government objectives.

[Insert Figure 1 Here]

Second, continuity and regular turnovers show an upward trend, indicative of greater central bank independence and reduced political interference. This trend aligns with improved institutional stability and governance. Countries such as China, South

Korea, and India, which have transitioned from low-income to middle-income classifications, demonstrate this shift. These transitions often enhance governance and strengthen institutional frameworks, replacing irregular turnovers with regular turnovers or continuity. This pattern underscores the positive correlation between economic development and stability in central bank leadership.

4.1.2 Macroeconomic quantities and governor turnovers

Central bank governors play an important role in shaping economic policy and financial regulation, whether acting as individuals or as part of a board or committee (Blinder, 2004, 2007; Mishra & Reshef, 2019). Their economic beliefs, particularly regarding inflation, unemployment, and the capabilities of monetary policy, directly influence the outcomes of monetary policy (Romer & Romer, 2004). Successful chairmen like William McChesney Martin Jr. and Alan Greenspan navigated periods of low inflation and stable economic conditions by maintaining realistic views on monetary policy's limits. In contrast, Marriner Eccles and Arthur Burns, whose beliefs were less aligned with economic realities, presided over periods of instability and high inflation (Romer & Romer, 2004). These examples highlight how a governor's economic beliefs can shape policy successes and failures.

The identity of an incoming governor is often unknown leading up to a turnover, whether planned or unexpected, creating uncertainty about the future direction of monetary policy, where market participants lack clarity about the new appointee's priorities and approach to regulation. Media coverage during the period leading up to a turnover often speculates on potential candidates and their likely impact on monetary policy. These discussions heighten attention to the transition, amplifying uncertainty among market participants. As a result, news-based economic policy uncertainty indexes tend to spike in turnover years, reflecting the intensified focus on central bank leadership changes.

We begin by illustrating the relationship between economic policy uncertainty and central bank governor turnovers across 19 countries in Figure 4. Policy uncertainty rises

leading up to continuity and regular turnovers, whereas irregular turnovers exhibit a weaker and less consistent pattern. Table A.4 quantifies these effects. A difference-in-means test reveals that regular turnovers coincide with a statistically significant increase in economic policy uncertainty, consistent with speculation about the incoming governor's policy stance. Conversely, irregular turnovers correlate with a decline in uncertainty, likely reflecting governments' strategic efforts to maintain economic stability by delaying replacements during fragile periods. Further analysis shows that the increase in uncertainty is more pronounced in countries with high central bank independence (CBI), where transitions signal potential policy shifts. In contrast, uncertainty effects are muted in low-CBI countries, where central bank leadership changes are more politically influenced. These findings reinforce the view that central bank transitions, even when expected, are non-trivial events that influence market perceptions.

Next, we turn to the second validation exercise, examining the relationship between turnover events and the second moment of interest rates. Many studies posit that volatility and its components are conduits for uncertainty (Chay & Suh, 2009; Riddick & Whited, 2009; Bushman et al., 2010; Izhakian & Yermack, 2017; Kraft et al., 2018; Straub & Ulbricht, 2019). In our setting, the uncertainty pertains to the identity of the incoming governor and their approach to policymaking. To investigate whether the first and second moments of short-term interest rates, one of the central tools of monetary policy, respond differently during turnover periods compared to other times, we analyze quarterly OECD data using the following two regression models.

$$\Delta \mathrm{r}_{ct} = \beta_1 \mathrm{Turnover}_{ct} + \beta_2 \Delta \mathrm{r}_{ct-1} + \mathbf{\Gamma}' \mathbf{X}_{ct} + \phi_c + \phi_t + \mathrm{u}_{ct} \tag{1a}$$

$$\Delta \sigma_{r,ct} = \gamma_1 \mathrm{Turnover}_{ct} + \gamma_2 \Delta \sigma_{r,ct} + \gamma_3 \Delta \mathrm{r}_{ct} + \gamma_4 \Delta \mathrm{r}_{ct-1} + \mathbf{\Gamma}' \mathbf{X}_{ct} + \phi_c + \phi_t + \mathrm{v}_{ct} \tag{1b}$$

In Equation (1), the subscripts c and t denote country and time, respectively. $\Delta \mathrm{r}$ represents the first-differenced short-term interest rate, while $\Delta \sigma_r$ denotes the first-differenced standard deviation of the short-term interest rate, calculated using obser-

vations from the past 20 quarters. The primary independent variable is one of the three turnover events defined in Panel A of Table A.1. To address the persistence often observed in macroeconomic data, the model includes the lagged dependent variable. In Equation (1b), we also control for contemporaneous and lagged changes in interest rates, recognizing that the first and second moments may co-move. $\mathbf{X}$ represents a vector of macroeconomic controls: GDP growth, changes in the foreign exchange rate (relative to the USD), changes in the central bank independence index, and an indicator for whether a national election occurred. ϕ_c and ϕ_t denote country and time fixed effects, respectively. Country fixed effects account for time-invariant characteristics specific to each country, while time fixed effects capture common macroeconomic shocks, such as oil price fluctuations, that affect all countries in a given period.

[Insert Table 2 Here]

The results in columns (1)–(3) of Table 2 indicate no significant relationship between turnover events and the first moment (interest rate changes), as evidenced by the lack of statistically significant coefficients for Δr across all models. However, turnover events appear to influence the second moment (interest rate volatility). Specifically, continuity and regular turnovers, are associated with a statistically significant increase in the standard deviation of interest rates, as shown in columns (4) and (5). In contrast, irregular turnovers do not significantly affect the first or second moments of interest rates, as evidenced by the lack of statistical significance in columns (3) and (6).

Overall, the results in Table 2 suggest that regular turnovers are associated with higher interest rate volatility, while irregular turnovers exhibit no significant relationship with interest rate levels or volatility.

4.1.3 Placebo Tests

To evaluate the robustness of the associations between central bank governor turnovers and macroeconomic quantities, we conduct placebo tests to assess whether the findings in Table 2 are specific to the observed turnover events or influenced by

extraneous factors or measurement artifacts.

We generate 1,000 sets of random hypothetical turnover dates, ensuring the total number of central bank governors turning over in the original and random samples match. Using these placebo turnover years, we construct 1,000 placebo turnover flags based on the definitions in Table A.1. We focus on continuity and regular turnovers, as these categories show significant associations with economic policy uncertainty and the standard deviation of short-term interest rates in Table 2. We then run 1,000 regressions using the placebo turnover flags as independent variables and present histograms of the resulting coefficients and t-statistics in Figure 2.

[Insert Figure 2 Here]

The results indicate that placebo turnover events do not replicate the observed associations. Figure 2 reports average coefficients close to zero and marginally negative, again suggesting an effect contrary to the significant increases reported in Table 2. These findings suggest that random turnover events do not meaningfully influence economic policy uncertainty or interest rate volatility.

The placebo tests assessing the relationship between governor turnovers and economic policy uncertainty do not produce the same inference as those in Table A.4. Overall, the placebo tests show that randomly assigned turnover dates fail to replicate the associations observed in Tables 2 and A.4, supporting the idea that the documented relationships capture genuine dynamics linked to central bank governor turnovers rather than random variation. Building on these results, the next section explores how these turnover events affect bank lending, given the credit channel's role in monetary policy transmission.

4.2 Cross-border lending and central bank governor turnovers

This section examines how such turnover events in a bank's home country influence cross-border lending, focusing on regular and irregular turnovers as distinct forms of

uncertainty. Throughout this section, we use domestic country to refer to the bank's home country and foreign country to refer to the borrower's country.

4.2.1 Econometric approach

Regular turnovers occur after a fixed-term appointment, introducing predictable uncertainty. While these events create uncertainty about the incoming governor's policy preferences, they are unlikely to disrupt institutional credibility or continuity in central bank operations. The real-options framework posits that uncertainty discourages irreversible investments, prompting a 'wait-and-see' approach (Dixit, 1994). The varying temporal and cross-sectional nature of central bank turnovers may result in differential effects on domestic and cross-border lending. Specifically, the predictable uncertainty of regular turnovers may lead banks to temporarily reduce domestic lending while reallocating resources toward cross-border lending, assuming operational capacity and favorable risk conditions in foreign jurisdictions. This hypothesis aligns with risk diversification theories (Markowitz, 1952), which suggest that cross-border lending enables banks to mitigate domestic risks by reallocating capital to more stable foreign markets. Supporting this perspective, Cetorelli & Goldberg (2012) show that global banks leverage their international networks to adjust credit allocation during periods of domestic stress.

In contrast, irregular turnovers, often triggered by mid-term departures due to political conflicts, economic mismanagement, or external crises, introduce unpredictable uncertainty. Such events are frequently associated with broader economic instability, rendering them plausibly endogenous. Irregular turnovers may undermine confidence in central bank credibility, exacerbating uncertainty. The financial frictions framework (Bernanke & Gertler, 1990) predicts that heightened uncertainty tightens credit supply, particularly when economic downturns weaken bank balance sheets. Consequently, irregular turnovers are likely to constrain banks' ability and willingness to extend credit domestically and internationally. Evidence from De Haas & van Horen (2013) highlights how systemic uncertainty leads banks to contract cross-border lending, underscoring the vulnerability of international credit markets to institutional disruptions.

To isolate the effects of domestic central bank governor turnovers on cross-border lending outcomes, we employ the following regression model:

$$\text{Lending Outcome}_{ib_ckc't} = \beta_1 \text{Turnover}_{ct} + \Gamma' \mathbf{X}_{ct} + \mathbf{\Phi} + \epsilon_{ib_ckc't} \tag{2}$$

In equation (2), the subscripts i, b_c, c, k, c', and t denote the loan, lending bank, domestic country, borrower's industry (based on the Fama-French 17 industry classification), foreign country, and year, respectively. $\mathbf{X}$ represents a set of domestic macroeconomic control variables, namely, GDP growth, central bank independence index, FX rate, and an indicator for a national election year.

The term $\mathbf{\Phi}$ represents a set of fixed effects. To control for demand-side factors, we include industry-foreign country-year fixed effects. The underlying assumption is that firms within the same industry-foreign country exhibit similar credit demand patterns due to shared exposure to macroeconomic conditions, sector-specific shocks, and industry-wide borrowing practices. Industry-level policies, such as subsidies or regulatory changes, further justify this aggregation. Observations where the borrower and lender are from the same country are excluded due to the inclusion of these fixed effects, ensuring that β_1 is identified solely from cross-border lending observations.

Lender-industry-foreign country fixed effects account for time-invariant heterogeneity at the bank level and capture optimal matching between lenders and firms within a given industry-foreign country. Domestic-foreign country fixed effects address bilateral agreements or relations between the bank's and borrower's countries. Deal type and purpose fixed effects (and their interactions) further control for variations in credit demand. While borrower-time fixed effects are ideal for controlling credit demand shocks, as emphasized by Khwaja & Mian (2008) and Degryse et al. (2019), they are infeasible given the structure of our data. We double-cluster standard errors at the domestic, and foreign country levels for reliable inference (Abadie et al., 2023; Roberts & Whited, 2013).

4.2.2 Baseline Findings

4.2.2.1 Intensive Margins

The results in Table 3 demonstrate how central bank governor turnovers in lender countries influence cross-border lending patterns. In Panel A, which examines scenarios where the governor either continues into a new term or is replaced through a planned transition, cross-border lending increases by 9.1 to 10.1 million dollars, equivalent to 1.9 to 2.1 percent of the mean deal amount (473.8 million dollars). Panel B, focusing exclusively on regular turnovers involving a new appointee, shows a larger increase in cross-border lending, estimated at 21.8 million dollars, or 4.6 percent of the mean deal amount. The larger adjustment observed in Panel B suggests that predictable leadership changes involving a new appointment amplify cross-border credit flows. These findings, which account for time-varying heterogeneity in borrowers' countries, point to monetary policy uncertainty associated with the incoming central bank governor as a key factor in driving these lending adjustments.

[Insert Table 3 Here]

Panel C examines irregular turnovers, characterized by sudden departures of central bank governors. These events lead to a decline in cross-border lending, estimated at 8.8 to 9.1 percent, equivalent to 42.1 to 42.9 million dollars given the mean deal size (473.8 million dollars). This reduction reflects a heightened focus on managing domestic risks and liquidity constraints, which may restrict a bank's capacity to extend credit internationally during periods of heightened uncertainty.

These findings reveal distinct lending patterns across turnover events. Planned transitions, including both continuity and regular turnovers, result in increases in cross-border lending as banks reallocate credit internationally to balance domestic monetary policy uncertainty. In contrast, irregular turnovers, often occurring during economic downturns, coincide with reductions in cross-border lending. These patterns suggest

that the nature and predictability of central bank leadership transitions shape variations in international credit flows.

[Insert Figure 3 Here]

To better understand the economic size of these effects, we examine how the impact of central bank turnovers varies across loan amounts using quantile regressions (Figure 3). The results show that for regular turnovers, the increase in cross-border lending persists across all loan sizes, indicating a broad-based response to predictable leadership changes. However, for all turnover types, the effects are more pronounced for larger loans, suggesting that banks exercise greater caution with large deal sizes under uncertainty. This pattern aligns with the idea that uncertainty surrounding central bank leadership influences high-value lending decisions more strongly, similar to how firms adjust investment strategies when faced with policy uncertainty.

4.2.2.2 Loan spreads

The results in Table 4 show that turnover events involving continuity or regular transitions (Panels A and B) have no discernible impact on loan spreads. The turnover coefficients are statistically insignificant across all specifications, indicating that predictable transitions, whether involving a governor's continuation or the planned appointment of a new appointee, maintain stability in credit pricing. These results suggest that the institutional stability and policy continuity associated with planned transitions mitigate the need for lenders to adjust credit risk assessments.

[Insert Table 4 Here]

In contrast, Panel C demonstrates a significant increase in loan spreads during irregular turnovers. The coefficients indicate increases of 11.2 to 14.9 basis points, equivalent to 4.4 to 6.0 percent of the mean spread value of 249.9 basis points. Irregular

turnovers align with periods of broader economic instability. Lenders respond to these risks by demanding higher loan spreads, consistent with the increased risk premiums observed during uncertain periods (Gilchrist & Zakrajšek, 2012; Gilchrist et al., 2014). The findings reveal that central bank leadership transitions, depending on their nature and predictability, significantly alter credit pricing dynamics.

4.2.2.3 Maturity

The results in Table 5 examine the impact of central bank governor turnovers on the maturity of loan contracts. In Panel A, which includes both continuity events and regular turnovers, only one specification indicates a weakly significant increase in loan maturity. Panel B, focusing on regular turnovers, shows statistically significant increases in loan maturity, ranging from 0.7 to 1.7 months. This corresponds to a 1.3 to 3.0 percent increase relative to the mean maturity of 52.9 months. By extending maturities in cross-border lending, banks appear to secure longer-term contracts in response to temporary domestic monetary policy uncertainty tied to pre-determined governor transitions. This adjustment may reflect a deliberate strategy to stabilize income streams during periods of predictable leadership changes.

[Insert Table 5 Here]

In Panel C, irregular turnovers are associated with positive but mostly insignificant coefficients, with only one specification showing weak statistical significance. This indicates that banks do not systematically adjust loan maturities during irregular turnovers, likely due to heightened uncertainty and economic instability that make long-term commitments less feasible. Combined with the findings in Tables 3 and 4, these results suggest that banks prioritize adjusting loan amounts and spreads over maturities when responding to irregular turnovers.

4.2.2.4 Other loan contracting terms

The results in Table A.5 (Appendix) examine the impact of central bank governor turnovers on non-pricing loan terms, highlighting key differences between predictable transitions and irregular events. For continuity and regular turnovers, covenant use increases by 1 percent, primarily driven by continuity events, suggesting that banks incorporate safeguards when policy uncertainty arises. Regular turnovers lead to a 3.7 percent increase in syndicate size and a 1.3 percent decline in collateral requirements, reflecting banks' preference for risk-sharing while reducing reliance on collateral amid changing monetary conditions. These findings align with earlier results, where banks respond to predictable transitions by expanding lending while adjusting risk allocation.

For irregular turnovers, banks take a more cautious approach, reducing syndicate size by 4.7 percent and limiting performance pricing and refinancing flexibility. This shift suggests concerns about borrower creditworthiness and economic stability, consistent with lower loan volumes and higher spreads observed in earlier results. Overall, central bank leadership transitions shape the contractual structure of loans. Predictable turnovers encourage risk-sharing, while irregular events lead to more restrictive lending practices, reflecting how banks adapt to varying degrees of monetary policy uncertainty.

4.2.3 Heterogeneity in Deal Types and Purposes

The results in Table 6 show how central bank governor turnovers influence cross-border lending across different loan types and purposes. Revolving credit facilities, which offer borrowers flexible access to liquidity, are susceptible to short-term uncertainties and reflect banks' strategies for managing transitional shifts in monetary policy. Term loans, structured with fixed repayment schedules, support long-term commitments and risk-sharing. Acquisitions and takeovers involve high-stakes strategic financing, while general-purpose and working capital loans cater to operational needs. Analyzing these lending categories offers insight into how different types of financing respond to monetary policy uncertainty.

Under regular turnovers, cross-border lending increases for both revolvers and term

loans. Lending for acquisitions and takeovers also expands, with longer maturities indicating that banks view these transitions as opportunities for strategic investments. In contrast, lending for general-purpose and working capital loans remains steady, suggesting that operational financing is less affected by central bank leadership changes.

[Insert Table 6 Here]

Irregular turnovers, on the other hand, lead to declines in lending for both revolvers and term loans. Banks shorten maturities for revolvers to limit exposure, while spreads widen as compensation for heightened risk. General-purpose and working capital loans also see lower lending volumes alongside higher spreads. These adjustments align with the broader contraction in cross-border lending and tighter credit conditions documented in Tables 3 and 5, highlighting caution during unexpected leadership transitions.

Overall, these findings highlight how banks tailor their lending strategies based on the type of financing and the predictability of central bank turnovers. The shifts in credit allocation and lending terms reinforce the importance of deal-specific considerations in shaping cross-border lending decisions under varying degrees of monetary policy uncertainty.

4.2.4 Simultaneous turnovers

Simultaneous turnovers of central bank governors in domestic and foreign countries introduce compounded uncertainty, merging risks from both supply– and demand–side perspectives in cross-border lending. Previous findings indicate that regular turnovers in a bank's home country lead to credit reallocation internationally as banks navigate domestic monetary policy uncertainty. However, when simultaneous turnovers occur, the potential benefits of diversification are reduced due to overlapping uncertainties in both jurisdictions.

This section analyzes these dynamics using a framework based on the real options framework, which suggests that heightened uncertainty slows investment decisions as

agents value the opportunity to wait for more information. We capture cross-border lending dynamics using the following regression specification:

$$\text{Lending Outcome}_{ib_ckc't} = \beta_1 \text{Turnover}_{ct} \times \text{Turnover}_{c't} + \mathbf{\Psi} + \epsilon_{ib_ckc't} \tag{3}$$

The model incorporates a comprehensive set of fixed effects, denoted $\mathbf{\Psi}$, to control for heterogeneity. Industry-foreign country-year fixed effects account for time-varying demand shocks, while bank-industry-foreign country fixed effects address the matching between banks and firms within the same industry-foreign country. Domestic-foreign country fixed effects reflect bilateral relationships, and deal type-purpose fixed effects account for variations in transaction-specific demand. Additionally, domestic country-year fixed effects control for macroeconomic and time-varying factors in the bank's home country.

This design isolates the impact of simultaneous turnover events in domestic and foreign countries, with the interaction term capturing the effects of these concurrent uncertainties. Table 7 shows that simultaneous regular turnovers correspond to a 12.1 percent reduction in cross-border lending volumes, equal to approximately 57.3 million dollars of the mean deal value (473.8 million dollars). This reduction reflects the compounded uncertainty associated with dual policy transitions, prompting banks to adopt more cautious credit allocation strategies. Ahead of these events, loan spreads decrease by 23.3 basis points, or 9.3 percent of the mean spread, as banks aim to maintain competitive pricing in anticipation of heightened uncertainty. During turnover years, banks extend loan maturities by an average of 3.4 months (6.5 percent of the sample mean), suggesting a preference for structuring longer-term commitments to stabilize income streams under dual policy uncertainties.

[Insert Table 7 Here]

Other adjustments, studied in Table A.6, further underscore banks' responses to si-

multaneous turnovers. Syndicate size increases, allowing banks to distribute risks more effectively across participants. This redistribution supports lending at lower spreads for longer maturities. The reduced reliance on collateral highlights the challenges in assessing collateral value during uncertain monetary conditions, while the increased use of performance pricing mechanisms reflects banks' efforts to link lending terms to borrower performance, mitigating risks more flexibly. Irregular turnovers, often linked to underlying economic weaknesses, show no significant effects once time-varying macroeconomic heterogeneity is controlled for. This pattern indicates that the observed outcomes may reflect broader macroeconomic shocks rather than the irregular turnover events. The dispersed and inconsistent effects suggest that economic vulnerabilities likely dominate irregular turnovers.

These findings emphasize that the compounded uncertainties from simultaneous events reshape banks' risk-sharing strategies, loan structures, and credit terms, underscoring the interplay between monetary policy transitions and international credit markets.

4.2.5 Bank level exposures to turnover events

This section examines how central bank governor turnovers in third-party jurisdictions—countries not directly involved in the arm's length transaction between a lender and a borrower—impact cross-border lending. While the lender's and borrower's countries define the primary jurisdictions of the transaction, third-party countries where banks maintain lending operations can also introduce policy uncertainty. Global banks, with their extensive operations across multiple jurisdictions, are exposed not only to domestic and borrower-country turnovers but also to policy shifts in these third-party countries. Such turnovers contribute to systemic uncertainty, influencing lending behavior through indirect channels.

With extensive international operations, global banks adjust their lending practices in response to uncertainty from regular and irregular turnovers. Within a global interconnected system, heightened uncertainty increases the value of waiting, leading

banks to delay new credit commitments or reduce cross-border lending. Evidence from prior studies supports this view (Adrian & Shin, 2010; Avdjiev et al., 2020; Miranda-Agrippino & Rey, 2020; Correa et al., 2023). Banks may recalibrate their strategies to account for changes in global monetary policy and regulatory environments. These behaviors highlight how disruptions in one jurisdiction can propagate across the global financial network, influencing banks' lending decisions elsewhere.

To quantify these effects, we construct a bank-level turnover exposure measure, capturing the equally weighted average of turnover events in all countries where a bank has originated loans in the preceding five years. Specifically, the bank-level turnover measure is calculated as follows:

$$\text{Turnover}_{b_c t} = \frac{1}{\mathbb{N}_{\mathbb{C}_{bt}}} \sum_{\mathbb{C}_{bt}} \text{Turnover}_{c't} \qquad \text{where } c' \in \mathbb{C}_{bt} \tag{4}$$

where $\text{Turnover}_{c't}$ indicates the presence of a central bank governor turnover event in country c' in year t. $\mathbb{C}_{bt}$ represents the set of countries where bank b has originated loans between $t-5$ and $t-1$, and $\mathbb{N}$ is the size of this set. This measure reflects the scope of uncertainty global banks face across their operational networks.

Using these exposure measures, we estimate the association between bank-level turnover measures and cross-border lending outcomes with a regression specification that includes extensive fixed effects and takes the following form:

$$\text{Lending Outcome}_{ib_c kc't} = \beta_1 \text{Turnover}^{\mathbb{T}}_{bt} + \beta_1 \text{Irregular Turnover}_{bt} + \mathbf{\Psi} + \epsilon_{b_c ic't}. \tag{5}$$

The regression specification in equation (5) accounts for simultaneous exposure to both regular and irregular turnovers across multiple jurisdictions. The superscript $\mathbb{T}$ signifies either continuity or regular turnovers. The correlation between these two exposure measures is less than 12 percent, which is expected since a single country cannot simultaneously experience both types of turnovers in the same period.

[Insert Table 8 Here]

Table 8 shows that continuity and regular turnovers in third-party jurisdictions reduce lending volumes and increase loan spreads. A 1 percent increase in exposure to these turnovers is associated with a 0.04 percent decline in lending volumes and an increase in loan spreads by 1.5 to 3 basis points. These adjustments align with heightened uncertainty, as banks recalibrate their lending behavior to manage risks arising from third-party jurisdictions. While maturities remain unchanged, banks reduce the likelihood of including covenants and performance pricing, favoring greater flexibility for borrowers in *focal* transactions. Simultaneously, the use of refinancing options and amendments increases, reflecting efforts to maintain borrower relationships under uncertain conditions.

Irregular turnovers in third-party jurisdictions prompt more pronounced changes in lending behavior. Lending volumes decline by 0.3 percent, and loan spreads increase by 25.4 basis points, reflecting heightened compensation demands for credit risk. Syndicated lending increases alongside syndicate size, as banks pool resources to manage uncertainty. At the same time, the likelihood of collateralized loans and covenant use decreases, signaling a shift toward more flexible contractual terms. Despite these changes, maturities remain stable, suggesting that the primary adjustments occur in pricing and structural elements of loan contracts.

These findings highlight how central bank turnovers in third-party jurisdictions shape lending practices in global financial markets. By recalibrating credit volumes, pricing, and contract terms, banks demonstrate adaptive responses to uncertainty, ensuring operational stability across their global networks. These results reveal the intricate dependencies within international financial systems, where shifts in one jurisdiction reverberate through the global credit ecosystem, influencing risk management and strategic lending decisions.

5 Conclusion

This paper explores how central bank governor turnovers shape global financial dynamics, focusing on their effects on macroeconomic uncertainty, interest rate volatility, and cross-border lending. A central source of uncertainty arises from the uncertainty surrounding the identity of the incoming central bank governor, whose policy preferences and decisions influence the trajectory of central bank policies, including monetary policy. This uncertainty affects market expectations, prompting banks to adjust their credit allocation strategies.

The findings highlight distinct patterns in cross-border lending associated with different types of turnovers. Regular turnovers are linked to increases in lending volumes, reflecting how predictable uncertainty encourages banks to reallocate credit internationally. Irregular turnovers, by contrast, are associated with reductions in lending volumes and higher loan spreads, underscoring the heightened uncertainty around policy direction and economic stability during unexpected leadership changes. These results align with banks' rational adjustments to mitigate risks while maintaining credit flows.

Extending beyond the focal lender-borrower transactions, the analysis captures the systemic influence of central bank turnovers in third-party jurisdictions. Turnovers in these countries, neither the lender's home nor the borrower's country, introduce additional layers of uncertainty that shape lending behavior. Regular turnovers in third-party jurisdictions correspond to reduced lending volumes and modest increases in loan spreads as banks respond cautiously to diffuse uncertainty. However, irregular turnovers in these regions are associated with higher spreads, larger syndicates, and reduced collateral use, reflecting banks' strategic efforts to manage risks while preserving flexibility in challenging environments.

These findings underscore the interconnected nature of global financial systems, where policy transitions in one jurisdiction reverberate across others through shared financial linkages. By demonstrating how global banks adapt to uncertainty stemming

from central bank turnovers, this study contributes to a deeper understanding of how leadership transitions shape credit flows, pricing, and contractual terms. The results emphasize the complexity of operating within integrated financial markets and the critical role of strategic adaptation in navigating policy uncertainty.

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Table 1: **Summary statistics**
This table presents summary statistics for key variables used in various analyses in this paper. The sample period spans 34 years, starting in 1990.

Variable	N	Mean	SD	p25	p50	p75
Continuity and regular turnover	1,493	0.305	0.461	0.000	0.000	1.000
Regular turnover	1,493	0.180	0.384	0.000	0.000	0.000
Irregular turnover	1,493	0.111	0.314	0.000	0.000	0.000
Ln(Economic policy uncertainty)	3,863	4.690	0.557	4.359	4.663	4.999
Short-term interest rate - Level	4,105	4.862	5.577	1.043	3.713	6.447
Standard deviation of short-term Interest rate – Level	3,907	1.490	1.650	0.585	1.106	1.785
Deal amount (in mil USD)	221,699	473.763	1,254.535	50.470	140.000	405.230
Maturity (in months)	219,420	52.853	48.400	26.000	49.000	60.000
All-in spread drawn	143,764	249.923	170.328	125.000	225.000	325.000
Syndicated deal (1 = Yes, 0 = No)	221,699	0.944	0.229	1.000	1.000	1.000
Ln(Syndicate size) | Syndicated = 1	209,391	1.413	0.962	0.693	1.386	2.079
Syndicate size | Syndicated = 1	209,391	6.833	8.686	2.000	4.000	8.000
Covenants present (1 = Yes, 0 = No)	221,699	0.204	0.403	0.000	0.000	0.000
Collateralized (1 = Yes, 0 = No)	221,699	0.396	0.489	0.000	0.000	1.000
Performance pricing (1 = Yes, 0 = No)	221,699	0.086	0.281	0.000	0.000	0.000
Deal amended (1 = Yes, 0 = No)	221,699	0.367	0.482	0.000	0.000	1.000
Deal refinancing (1 = Yes, 0 = No)	221,699	0.394	0.489	0.000	0.000	1.000

Table 2: **Interest rate moments and central bank governor turnovers**

This table presents the results of a panel regression analyzing how central bank governor turnovers affect the first and second moments of interest rates, using data from 1990 to 2023. The dependent variable in columns (1)–(3) is the differenced interest rate, while columns (4)–(6) use the differenced standard deviation of the interest rate, estimated over the past 20 quarters. The main independent variables are dummy indicators for different types of governor transitions: columns (1) and (4) capture years *t-1* and *t* if a governor turns over or renews their term; columns (2) and (5) capture years *t-1* and *t* if a governor completes their term; and columns (3) and (6) capture turnovers mid-term. We control for the first lag of the dependent variable in each model to account for any persistence in interest rate moments. All models include country-level controls, such as GDP per capita growth, the differenced FX rate against the US dollar, the differenced Central Bank Independence Index, and a dummy for election years. The standard errors are clustered by country, and t-statistics are reported in parentheses. Statistical significance is reported at three levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

	(1)	(2)	(3)	(4)	(5)	(6)
	Dependent variable:					
	Δr			$\Delta \sigma_r$		
Continuity and Regular Turnover	-0.017			0.012**		
	(-0.349)			(2.386)		
Regular Turnover		-0.041			0.010*	
		(-1.095)			(1.714)	
Irregular Turnover			-0.056			0.001
			(-0.745)			(0.054)
Lagged $\Delta \sigma_r$				0.695***	0.696***	0.695***
				(18.789)	(18.975)	(19.067)
Δr				0.040***	0.040***	0.040***
				(2.962)	(2.953)	(2.939)
Lagged Δr	0.160*	0.160*	0.160*	-0.003	-0.003	-0.003
	(1.979)	(1.977)	(1.974)	(-0.400)	(-0.400)	(-0.400)
GDP Growth	0.025	0.025	0.025	-0.005***	-0.005***	-0.005***
	(1.527)	(1.515)	(1.528)	(-2.879)	(-2.862)	(-2.850)
ΔFX Rate	1.105*	1.105*	1.117*	0.109**	0.109**	0.109**
	(1.745)	(1.745)	(1.769)	(2.652)	(2.643)	(2.520)
ΔCentral Bank Independence Index	-2.171	-2.169	-2.183	0.098	0.097	0.097
	(-1.636)	(-1.636)	(-1.652)	(1.415)	(1.401)	(1.394)
Election held during the year (1 = Yes, 0 = No)	0.043	0.044	0.043	0.007	0.007	0.007
	(0.551)	(0.561)	(0.538)	(1.272)	(1.267)	(1.322)
R^2	0.194	0.195	0.195	0.645	0.644	0.644
N	4,105	4,105	4,105	3,907	3,907	3,907
Country FE	✓	✓	✓	✓	✓	✓
Time FE	✓	✓	✓	✓	✓	✓

Table 3: **Intensive margin and central bank governor turnovers in home countries**
This table presents the results of an analysis exploring the association between deal amount and central bank governor turnovers in lenders' home countries. In Panel A, the turnover event is *Continuity and regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor either transitions or continues into a new term. In Panel B, *Regular turnover* refers to a scenario where the dummy variable equals 1 for years *t-1* and *t* when a governor completes their term. In Panel C, *Irregular turnover*, with the dummy variable set to 1 if a governor exits mid-term. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to USD), central bank governor independence index, and an election year indicator. The sample period spans 34 years, from 1990 to 2023. Standard errors are clustered by bank's country and borrower's country, with t-statistics shown in parentheses. Significance levels are indicated as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

	(1)	(2)	(3)	(4)	(5)
	Dependent variable: Ln(Deal Amount)				
Panel A: Continuity and regular turnovers					
Turnover	0.019*	0.019*	0.021*	0.019*	0.019*
	(1.890)	(1.872)	(1.766)	(1.743)	(1.761)
R^2	0.536	0.536	0.549	0.552	0.553
Panel A: Regular turnovers					
Turnover	0.045***	0.045***	0.045***	0.045***	0.046***
	(3.315)	(3.207)	(3.582)	(3.659)	(3.728)
R^2	0.536	0.536	0.549	0.552	0.553
Panel A: Irregular turnovers					
Turnover	-0.095*	-0.088	-0.094*	-0.093*	-0.094*
	(-1.717)	(-1.593)	(-1.828)	(-1.869)	(-1.920)
R^2	0.536	0.536	0.549	0.552	0.553
N	221,699	221,699	221,699	221,699	221,699
Domestic Macroeconomic Controls	✓	✓	✓	✓	✓
Foreign country×Industry×Year fixed effects	✓	✓	✓	✓	✓
Lender×Foreign country×Industry fixed effects	✓	✓	✓	✓	✓
Domestic country×Foreign country fixed effects	✗	✓	✓	✓	✓
Deal purpose fixed effects	✗	✗	✓	✓	✗
Deal type fixed effects	✗	✗	✗	✓	✗
Deal purpose×Deal type fixed effects	✗	✗	✗	✗	✓

Table 4: **All-in spread (drawn) and central bank governor turnovers in home countries**
This table presents the results of an analysis exploring the association between the spread (all-in drawn) charged on a loan contract and central bank governor turnovers in lenders' home countries. In Panel A, the turnover event is *Continuity and regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor either transitions or continues into a new term. In Panel B, *Regular turnover* refers to a scenario where the dummy variable equals 1 for years *t-1* and *t* when a governor completes their term. In Panel C, *Irregular turnover*, with the dummy variable set to 1 if a governor exits mid-term. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to USD), central bank governor independence index, and an election year indicator. The sample period spans 34 years, from 1990 to 2023. Standard errors are clustered by bank's country and borrower's country, with t-statistics shown in parentheses. Significance levels are indicated as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

	(1)	(2)	(3)	(4)	(5)
	Dependent variable: Ln(All-in-spread Drawn)				
Panel A: Continuity and regular turnovers					
Turnover	-0.005	-0.005	-0.003	0.000	-0.001
	(-0.371)	(-0.391)	(-0.280)	(0.022)	(-0.092)
R^2	0.604	0.604	0.624	0.659	0.661
Panel A: Regular turnovers					
Turnover	-0.037***	-0.037***	-0.017	-0.014	-0.015
	(-3.693)	(-3.784)	(-1.275)	(-1.208)	(-1.449)
R^2	0.604	0.604	0.624	0.659	0.661
Panel A: Irregular turnovers					
Turnover	0.055*	0.058**	0.047*	0.046*	0.044*
	(1.799)	(2.034)	(1.973)	(1.744)	(1.857)
R^2	0.604	0.604	0.624	0.659	0.661
N	143,764	143,764	143,764	143,764	143,764
Domestic Macroeconomic Controls	✓	✓	✓	✓	✓
Foreign country×Industry×Year fixed effects	✓	✓	✓	✓	✓
Lender×Foreign country×Industry fixed effects	✓	✓	✓	✓	✓
Domestic country×Foreign country fixed effects	✗	✓	✓	✓	✓
Deal purpose fixed effects	✗	✗	✓	✓	✗
Deal type fixed effects	✗	✗	✗	✓	✗
Deal purpose×Deal type fixed effects	✗	✗	✗	✗	✓

Table 5: **Maturity and central bank governor turnovers in home countries**

This table presents the results of an analysis exploring the association between the maturity (in months) of a loan contract and central bank governor turnovers in lenders' home countries. In Panel A, the turnover event is *Continuity and regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor either transitions or continues into a new term. In Panel B, *Regular turnover* refers to a scenario where the dummy variable equals 1 for years *t-1* and *t* when a governor completes their term. In Panel C, *Irregular turnover*, with the dummy variable set to 1 if a governor exits mid-term. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to USD), central bank governor independence index, and an election year indicator. The sample period spans 34 years, from 1990 to 2023. Standard errors are clustered by bank's country and borrower's country, with t-statistics shown in parentheses. Significance levels are indicated as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

	(1)	(2)	(3)	(4)	(5)
	Dependent variable: Ln(Maturity)				
Panel A: Continuity and regular turnovers					
Turnover	0.003	0.003	0.006	0.008*	0.008
	(0.202)	(0.258)	(0.642)	(1.814)	(1.438)
R^2	0.308	0.308	0.350	0.513	0.526
Panel A: Regular turnovers					
Turnover	0.014	0.013**	0.030***	0.030***	0.030***
	(0.926)	(2.070)	(3.525)	(5.220)	(4.827)
R^2	0.308	0.308	0.350	0.514	0.526
Panel A: Irregular turnovers					
Turnover	0.019**	0.009	0.001	0.003	0.005
	(2.253)	(0.480)	(0.043)	(0.419)	(0.623)
R^2	0.308	0.308	0.350	0.513	0.526
N	219,420	219,420	219,420	219,420	219,420
Domestic Macroeconomic Controls	✓	✓	✓	✓	✓
Foreign country×Industry×Year fixed effects	✓	✓	✓	✓	✓
Lender×Foreign country×Industry fixed effects	✓	✓	✓	✓	✓
Domestic country×Foreign country fixed effects	✗	✓	✓	✓	✓
Deal purpose fixed effects	✗	✗	✓	✓	✗
Deal type fixed effects	✗	✗	✗	✓	✗
Deal purpose×Deal type fixed effects	✗	✗	✗	✗	✓

Table 6: **Deal purpose and type heterogeneity, and central bank governor turnovers in home countries**

This table presents the results of heterogeneity analysis. The dependent variable varies by panel. In columns (1)-(6), we focus on deal types: *Revolvers* and *Term Loans*. In columns (7)-(12), we focus on two deal purposes: *Acquisitions* and *Takeovers*, and *General Purpose* and *Working Capital*. In columns (1), (4), (7), and (10), the turnover event is *Continuity and regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor either transitions or continues into a new term. In columns (2), (5), (8), and (11), *Regular turnover* refers to a scenario where the dummy variable equals 1 for years *t-1* and *t* when a governor completes their term. In columns (3), (6), (9), and (10), *Irregular turnover*, with the dummy variable set to 1 if a governor exits mid-term. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to USD), central bank governor independence index, and an election year indicator. The sample period spans 34 years, from 1990 to 2023. Standard errors are clustered by bank's country and borrower's country, with t-statistics shown in parentheses. Significance levels are indicated as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Deal type:						Deal purpose:					
	Revolvers			Term Loans			Acquisitions and takeovers			General purpose and working capital		
	Turnover type:											
	Continuity and regular	Regular	Irregular	Continuity and regular	Regular	Irregular	Continuity and regular	Regular	Irregular	Continuity and regular	Regular	Irregular
Panel A: Dependent variable: Ln(Deal Amount)												
Turnover	0.036	0.052**	-0.134*	-0.011	0.032**	-0.063*	-0.030	0.200***	-0.037	-0.004	-0.011	-0.268***
	(1.606)	(2.632)	(-1.707)	(-0.860)	(2.240)	(-1.916)	(-0.693)	(7.173)	(-0.674)	(-0.189)	(-0.551)	(-8.591)
R^2	0.506	0.506	0.507	0.597	0.597	0.597	0.718	0.719	0.718	0.542	0.542	0.542
N												
Panel B: Dependent variable: Ln(All-in-spread drawn)												
Turnover	0.005	-0.005	0.071**	0.001	-0.011	0.019	0.070***	-0.030	-0.046	0.004	-0.005	0.104***
	(0.708)	(-0.677)	(2.613)	(0.236)	(-0.815)	(1.432)	(3.406)	(-0.987)	(-0.783)	(1.000)	(-1.108)	(18.041)
R^2	0.557	0.557	0.557	0.698	0.698	0.698	0.777	0.777	0.777	0.650	0.650	0.650
N												
Panel C: Dependent variable: Ln(maturity)												
Turnover	-0.013**	0.014	-0.028*	0.019***	0.043***	0.044	0.023	0.066**	-0.011	0.002	0.018	0.001
	(-2.600)	(1.575)	(-1.701)	(3.166)	(4.584)	(1.618)	(1.677)	(2.654)	(-0.714)	(0.155)	(1.495)	(0.068)
R^2	0.398	0.398	0.398	0.390	0.390	0.390	0.647	0.647	0.647	0.458	0.458	0.458
N												
Domestic Macroeconomic Controls	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Foreign country×Industry×Year fixed effects	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Lender×Foreign country×Industry fixed effects	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Domestic country×Foreign country fixed effects	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Deal purpose×Deal type fixed effects	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Table 7: **Simultaneous turnovers in Lenders' and borrowers' countries**
This table presents the results of an analysis exploring the association between lending activity and central bank governor turnovers in lenders' and borrowers' countries. The turnover events are as follows: BC-Turnover denotes a turnover event in a borrower's country, while LC-Turnover represents a similar event in a bank's domicile country. In Panel A, the turnover event is *Continuity and regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor either transitions or continues into a new term. In Panel B, *Regular turnover* refers to a scenario where the dummy variable equals 1 for years *t-1* and *t* when a governor completes their term. In Panel C, *Irregular turnover*, with the dummy variable set to 1 if a governor exits mid-term. The sample period spans 34 years, from 1990 to 2023. Standard errors are clustered by bank's country and borrower's country, with t-statistics shown in parentheses. Significance levels are indicated as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

	(1)	(2)	(3)
	Dependent variable:		
	Ln(Deal Amount)	Ln(All-in spread drawn)	Ln(Maturity)
Panel A: Continuity and regular turnovers			
LC–Turnover×BC–Turnover	-0.049	-0.046	0.022*
	(-1.176)	(-1.516)	(1.791)
R^2	0.559	0.666	0.529
Panel B: Regular turnovers			
LC–Turnover×BC–Turnover	-0.129**	-0.098**	0.063**
	(-2.094)	(-2.065)	(2.357)
R^2	0.559	0.666	0.529
Panel C: Irregular turnovers			
LC–Turnover×BC–Turnover	-0.076	0.038	0.040
	(-1.043)	(0.526)	(1.154)
R^2	0.559	0.666	0.529
N	221,699	143,764	219,420
Borrower country×Industry×Year fixed effects	✓	✓	✓
Lender×Foreign country×Industry fixed effects	✓	✓	✓
Domestic country×Foreign country fixed effects	✓	✓	✓
Domestic country×Year fixed effects	✓	✓	✓
Deal purpose×Deal type fixed effects	✓	✓	✓

Table 8: **Cross-border lending and bank-level exposure to central bank governor turnovers**

This table presents the results of an analysis exploring the association between lending activity and central bank governor turnovers. In column (1), the dependent variable is the natural logarithm of total number of originations. The dependent variable in column (2) is the all-in spread. In column (3), the dependent variable is the logarithm of maturity (in months). The key independent variables are measured at the bank-year level, and equals $\frac{1}{\mathbb{N}_{\mathbb{C}_{bt}}} \sum_{\mathbb{C}_{bt}} \text{Turnover}_{c't}$. Here, $\text{Turnover}_{c't}$ indicates the presence of a central bank governor turnover event in country c' in year t. $\mathbb{C}_{bt}$ represents the set of countries where bank b has originated loans in the past five years., and $\mathbb{N}$ is the size of this set. The industry classification is based on 17 Fama-French industries. The sample period spans 34 years, from 1990 to 2023. Standard errors are clustered by bank's country and borrower's country, with t-statistics shown in parentheses. Significance levels are indicated as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

	(1)	(2)	(3)
	Dependent variable:		
	Ln(Deal Amount)	Ln(All-in spread drawn)	Ln(Maturity)
Panel A:			
Continuity and regular turnovers	-0.044*	0.015***	0.010
	(-1.917)	(3.718)	(0.372)
Irregular turnovers	-0.297***	0.257***	0.011
	(-4.045)	(9.612)	(0.272)
R^2	0.559	0.666	0.529
Panel B			
Regular turnovers	-0.041**	0.028***	-0.017
	(-2.032)	(6.931)	(-0.681)
Irregular turnovers	-0.288***	0.254***	0.006
	(-4.209)	(9.700)	(0.162)
R^2	0.559	0.666	0.529
N	221,699	143,764	219,420
Foreign country×Industry×Year fixed effects	✓	✓	✓
Lender×Foreign country×Industry fixed effects	✓	✓	✓
Domestic country×Foreign country fixed effects	✓	✓	✓
Domestic country×Year fixed effects	✓	✓	✓
Deal purpose×Deal type fixed effects	✓	✓	✓

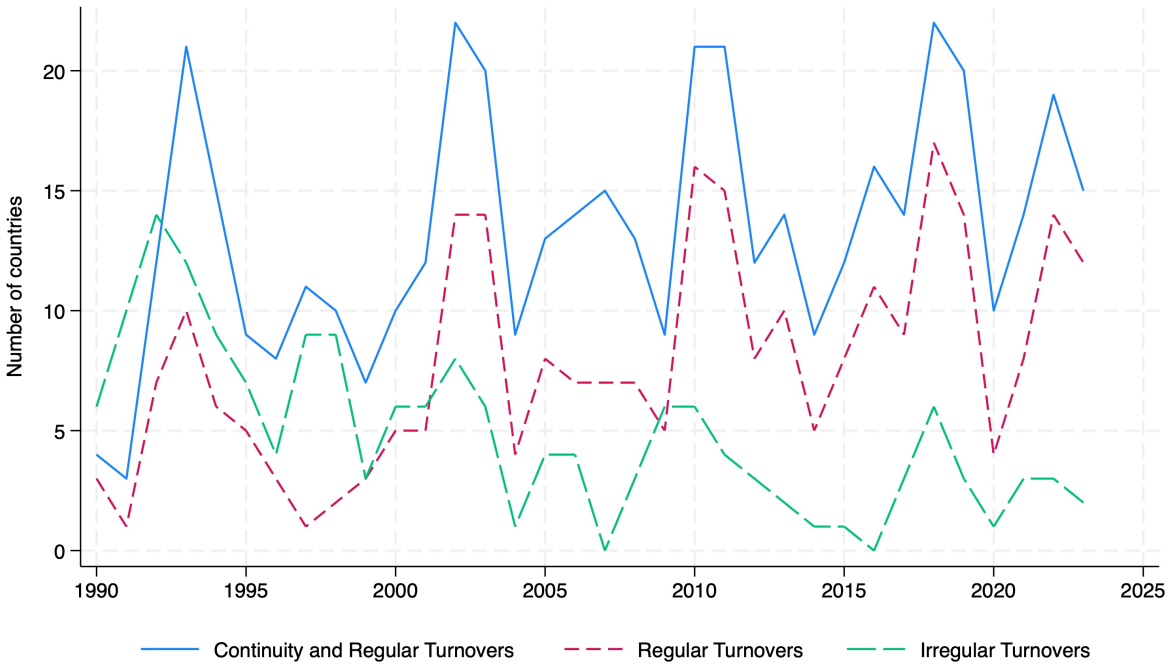


Figure 1: The figure illustrates the time series of the total number of countries in the penultimate year $(t-1)$ or the year (t) relative to a central bank governor turnover event. The sample consists of a balanced panel of 43 countries over a 34-year period (1990–2023). The variable *Continuity or regular turnovers* is a dummy that equals 1 for years *t-1* and *t* if a governor either continues in office or begins a new term. *Regular turnovers* is a dummy equal to 1 for years *t-1* and *t* if a governor completes their term. *Irregular turnovers* is a dummy equal to 1 if a governor leaves office mid-term.

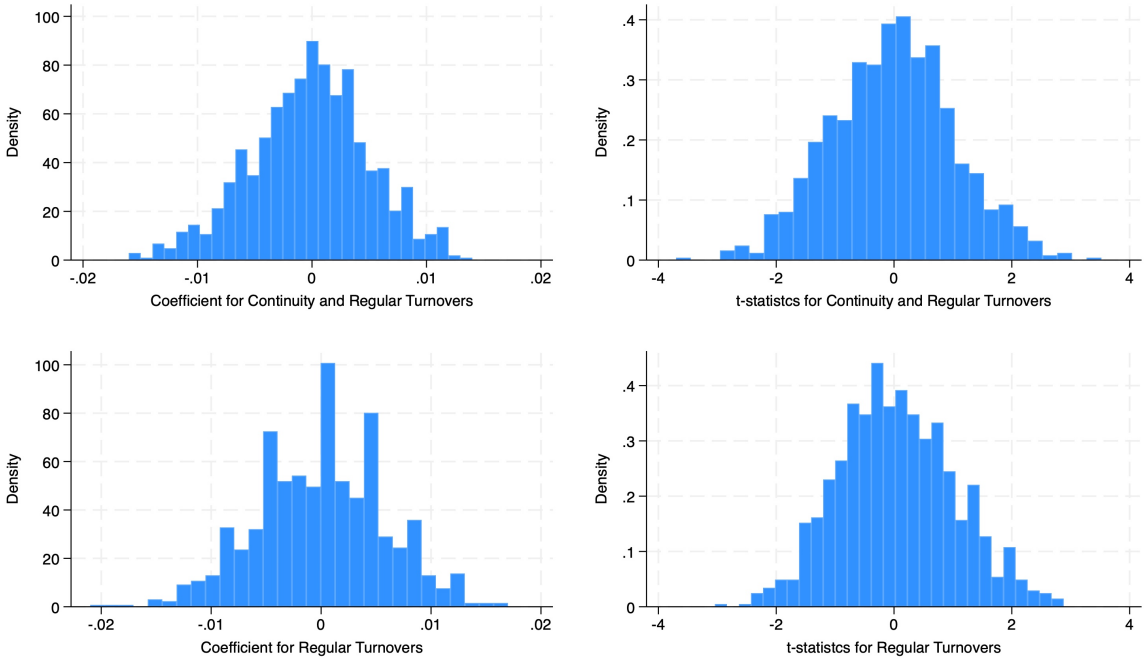
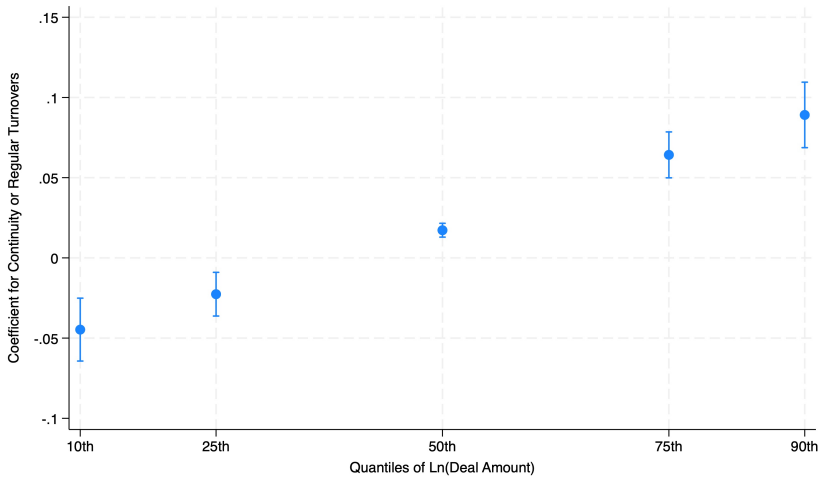
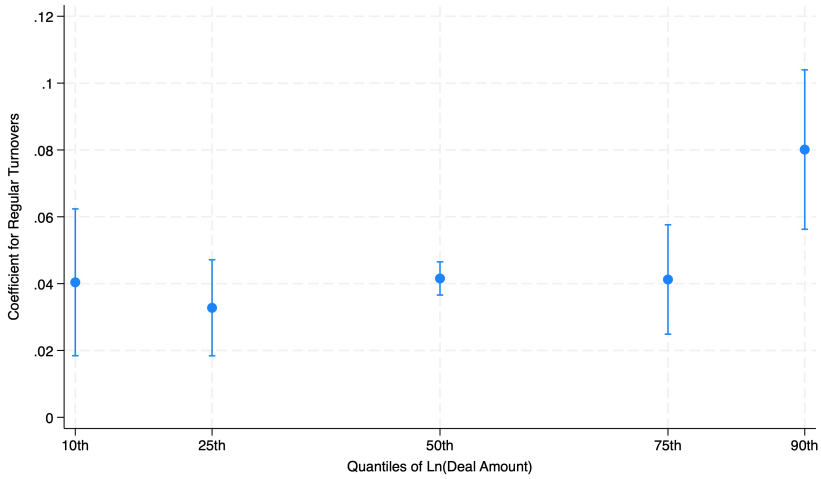


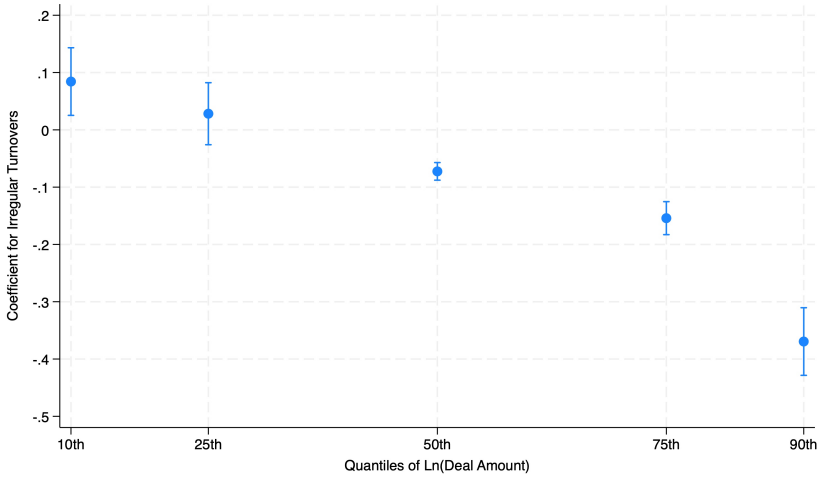
Figure 2: The figure presents the results of two placebo tests assessing the association between central bank governor turnovers and the standard deviation of short-term interest rates. The top row shows the distribution of coefficients and t-statistics from 1,000 placebo regressions, where we simulate the timing of either continuity or regular turnovers using 1,000 randomly generated dichotomous variables. These variables are constructed to match the total number of events in the original dataset. Based on these, we construct placebo Continuity and Regular Turnovers, a dichotomous variable set to 1 (0 otherwise) for years $t-1$ and t when the corresponding random variable takes a value of 1 for year t. The bottom row presents the results of a separate placebo test focusing exclusively on regular turnovers. Here, we generate 1,000 random dichotomous variables to simulate the timing of regular turnovers and construct placebo Regular Turnovers, a dichotomous variable that equals 1 (0 otherwise) if its corresponding randomly generated variable equals 1 for year t. The distributions of coefficients and t-statistics for each placebo test employing 1,000 regressions are shown in their respective panels.



(a) Continuity or Regular Turnovers



(b) Regular Turnovers



(c) Irregular Turnovers

Figure 3: This figure presents coefficient estimates for quantile regressions, where the dependent variable is the logarithm of deal size.

Online Appendix

Turning Point: How Banks Shift Lending During Times of Uncertainty

Table A.1: **Variables' descriptions**
This table presents the definitions of key variables used in the later sections of this study.

Variable	Description
Panel A: Country level variables	
Continuity and regular turnovers	A dichotomous variable that equals 1 (0 otherwise) for year *t-1* and *t* if a governor turns over or continues to a new term in year *t*.
Regular turnovers	A dichotomous variable that equals 1 (0 otherwise) for year *t-1* and *t* if a governor turns over in year *t*.
Irregular turnovers	A dichotomous variable that equals 1 (0 otherwise) for year *t-1* and *t* if a governor turns over midterm in year *t*.
Election held during the year	A dichotomous variable that equals 1 (0 otherwise) if a country holds major elections in year *t*.
Central Bank Independence Index	This index is based on Cukierman et al. (1992).
Panel B: Bank level variables	
Continuity and regular turnovers	This metric represents the average of a dichotomous variable set to 1 (and 0 otherwise) for years *t-1* and *t* when a central bank governor either turns over or begins a new term in year *t*. The average is calculated across countries where the bank has operated within the past five years.
Regular turnovers	This metric represents the average of a dichotomous variable set to 1 (and 0 otherwise) for years *t-1* and *t* when a central bank governor turns over in year *t*. The average is calculated across countries where the bank has operated within the past five years.
Irregular turnovers	This metric represents the average of a dichotomous variable set to 1 (and 0 otherwise) for years *t-1* and *t* when a central bank governor turns over midterm in year *t*. The average is calculated across countries where the bank has operated within the past five years.

Table A.2: **Central bank governor appointment process across countries**
This table presents the details of the authorities responsible for the appointment of the governor of the central bank in a country and the standard tenure length of a governor's appointment.

Country	Governor appointing authority	Term length
Australia	The Treasurer, who is a member of the federal government's cabinet.	7 Years
Austria	The President of Austria upon a proposal from the Austrian Federal Government.	6 Years
Belgium	The King.	5 Years
Canada	The Governor-in-Council with Cabinet approval.	7 Years
Chile	The President of the Republic.	5 Years
China	The President based on the nomination from the premier of the State Council.	5 Years
Colombia	The Board of Directors of the Central Bank.	4 Years
Czech Republic	The President of the Czech Republic.	6 Years
Denmark	The King nominates one of the governors to serve as the Chairman of the Board of Governors.	Not defined
Egypt	The President of the Arab Republic of Egypt.	4 Years
Finland	The President of Finland.	7 Years
France	The Council of Ministers.	6 Years
Germany	The President of the Federal Republic of Germany.	8 Years
Great Britain	The Monarch, upon recommendation from the Chancellor of the Exchequer.	8 Years
Greece	The President of the Hellenic Republic, upon the proposal of the Minister of Finance.	6 Years
Hong Kong	The Chief Executive who is the head of the Hong Kong SAR.	5 Years
Hungary	The President of Hungary based on the recommendation of the Prime Minister.	6 years
India	The Government of India.	3 Years
Indonesia	The President of Indonesia with the approval of the People's Representative Council.	5 Years
Ireland	The President of Ireland based on the recommendation of the Government.	7 Years
Italy	The President of the Republic.	6 Years.
Japan	The Cabinet and formally appointed by the Emperor.	5 Years.
Malaysia	The Yang di-Pertuan Agong (the King of Malaysia) on the advice of the Prime Minister.	5 Years
Mexico	The President of Mexico with the approval of the Senate.	6 Years
Netherlands	The Monarch, upon the recommendation of the Dutch government.	7 Years
New Zealand	The Minister of Finance.	5 Years
Norway	The King of Norway in the Council of State.	6 Years
Pakistan	The President of Pakistan.	5 Years
Peru	The Executive Branch and ratified by the Permanent Commission of the Congress.	5 Years
Philippines	The President of the Philippines with the consent of the Commission on Appointments.	6 Years
Poland	The President of Poland based on a proposal from the Prime Minister.	6 Years
Portugal	The President of the Republic.	5 Years
Qatar	The Emir of Qatar.	Not defined
Saudi Arabia	The King of Saudi Arabia.	4 Years
Singapore	The President of Singapore, acting on the advice of the Prime Minister.	Not defined
South Africa	The President of South Africa.	5 Years
South Korea	The President of South Korea with the consent of the National Assembly.	4 Years
Spain	The Monarch, upon the recommendation of the Spanish government.	6 Years
Sweden	The General Council of the Riksbank.	6 Years
Switzerland	The Federal Council based on the recommendation of the Bank Council.	6 Years
Thailand	The King of Thailand upon the recommendation of the Minister of Finance.	5 Years
Turkey	The President of Turkey.	4 Years
United States	The President nominates and the US Senate confirms.	4 Years

Table A.3: **Distribution of Borrowers and Banks Across Countries**
This table presents the distribution of borrowers and banks across countries in the study's sample. It reports the number of unique borrowers and the number of banks operating in each borrower country. The sample includes 48,176 unique borrowers from 43 countries and 1,409 unique banks from 41 countries, reflecting the broad cross-border lending coverage analyzed in this study.

Index	Borrower Country	Number of Borrowers	Number of Banks
1	Australia	702	22
2	Austria	39	14
3	Belgium	74	8
4	Canada	2,145	23
5	Chile	158	6
6	China	860	34
7	Colombia	66	6
8	Czech Republic	55	1
9	Denmark	61	8
10	Egypt	28	9
11	Finland	99	5
12	France	1,185	28
13	Germany	697	47
14	Great Britain	1,623	43
15	Greece	69	8
16	Hong Kong	481	.
17	Hungary	53	7
18	India	940	48
19	Indonesia	349	48
20	Ireland	139	5
21	Italy	560	48
22	Japan	7,241	140
23	Malaysia	209	22
24	Mexico	347	9
25	Netherlands	377	16
26	New Zealand	157	.
27	Norway	147	5
28	Pakistan	40	9
29	Peru	81	4
30	Philippines	122	17
31	Poland	66	10
32	Portugal	66	10
33	Qatar	19	4
34	Saudi Arabia	38	18
35	Singapore	327	13
36	South Africa	105	11
37	South Korea	395	25
38	Spain	639	67
39	Sweden	177	6
40	Switzerland	149	17
41	Thailand	215	10
42	Turkey	150	21
43	United States	26,726	559

Table A.4: **Policy uncertainty and central bank governor turnovers**

This table examines how central bank governor turnovers are associated with existing measures of monetary policy uncertainty. The dependent variable is the logarithm of country-level economic policy uncertainty. Panel A presents the results of the difference in means tests. Panel B.1 uses a dummy variable equal to 1 for years *t-1* and *t* if a governor turns over or continues to a new term. Panel B.2 uses a dummy equal to 1 for years *t-1* and *t* if a governor completes their term. Panel B.3 uses a dummy equal to 1 if a governor turns over mid-term. The country-level control variables are the growth in the gross domestic product (GDP) per capita, the foreign exchange (FX) rate relative to the US dollar, the central bank independence index (0 = low, 100 = high), and an indicator variable signifying whether an election was held in a country. The sample covers 1990–2023. All specifications include country fixed effects. Standard errors are clustered by country, with t-statistics in parentheses. Significance: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Panel A: Difference in Means

Dependent variable: Ln(Economic Policy Uncertainty)			
	0	1	Difference
Continuity and Regular Turnovers	4.672	4.689	0.017
Regular Turnovers	4.663	4.729	0.066***
Irregular Turnovers	4.688	4.534	-0.154***

Panel B: Within Country Variation

	(1)	(2)	(3)	(4)	(5)
	Dependent: Ln(Economic Policy Uncertainty)				
Panel B.1					
Continuity and Regular Turnovers	0.038***	0.031*	0.046*	0.020	0.047***
	(2.767)	(1.732)	(1.827)	(0.941)	(2.794)
GDP Growth	-0.045***	-0.039***	-0.043***	-0.057***	-0.035***
	(-10.776)	(-8.500)	(-7.769)	(-11.959)	(-8.135)
FX Rate	0.000***	0.000***	0.002***	0.001***	0.000***
	(6.167)	(2.943)	(10.775)	(4.995)	(3.561)
Central Bank Independence Index	0.702***	0.528***	0.702***	1.739***	-0.242***
	(8.522)	(6.444)	(5.807)	(10.098)	(-2.971)
Election Held during the year (1 = Yes, 0 = No)	0.025*	0.019	0.043	0.006	0.051**
	(1.683)	(1.299)	(1.199)	(0.295)	(2.371)
R^2	0.197	0.152	0.258	0.304	0.134
Panel B.2					
Regular Turnovers	0.075***	0.061***	0.092***	0.039*	0.104***
	(5.062)	(2.892)	(3.638)	(1.916)	(5.141)
GDP Growth	-0.045***	-0.039***	-0.044***	-0.056***	-0.035***
	(-10.727)	(-8.455)	(-7.995)	(-11.969)	(-8.034)
FX Rate	0.000***	0.000***	0.002***	0.001***	0.000***
	(6.284)	(3.104)	(10.970)	(4.997)	(3.728)
Central Bank Independence Index	0.695***	0.530***	0.653***	1.734***	-0.272***
	(8.541)	(6.496)	(5.569)	(10.123)	(-3.432)
Election Held during the year (1 = Yes, 0 = No)	0.026*	0.020	0.048	0.007	0.052**
	(1.791)	(1.334)	(1.364)	(0.333)	(2.424)
R^2	0.199	0.153	0.261	0.304	0.138
Panel B.3					
Irregular Turnovers	0.006	0.106***	-0.017	-0.012	0.051
	(0.271)	(3.593)	(-0.562)	(-0.446)	(1.036)
GDP Growth	-0.045***	-0.040***	-0.042***	-0.057***	-0.035***
	(-10.783)	(-8.550)	(-7.681)	(-11.906)	(-8.179)
FX Rate	0.000***	0.000***	0.002***	0.001***	0.000***
	(6.129)	(2.923)	(10.729)	(4.793)	(3.462)
Central Bank Independence Index	0.701***	0.536***	0.693***	1.722***	-0.214***
	(8.526)	(6.532)	(5.632)	(9.976)	(-2.600)
Election Held during the year (1 = Yes, 0 = No)	0.024	0.022	0.029	0.004	0.052**
	(1.635)	(1.486)	(0.853)	(0.192)	(2.455)
R^2	0.196	0.152	0.257	0.304	0.133
N	6,755	4,677	2,078	2,892	3,863
Country Type	All	Developed	Emerging	Low CBI	High CBI

Table A.5: **Non-pricing terms of a loan contract and central bank governor turnovers in home countries**

This table presents the results of an analysis exploring the association between various non-pricing terms of a loan contract and central bank governor turnovers in lenders' home countries. In Panel A, the turnover event is *Continuity and regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor either transitions or continues into a new term. In Panel B, *Regular turnover* refers to a scenario where the dummy variable equals 1 for years *t-1* and *t* when a governor completes their term. In Panel C, *Irregular turnover*, with the dummy variable set to 1 if a governor exits mid-term. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to USD), central bank governor independence index, and an election year indicator. The sample period spans 34 years, from 1990 to 2023. Standard errors are clustered by bank's country and borrower's country, with t-statistics shown in parentheses. Significance levels are indicated as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent variable:						
	Syndicated	Ln(Syndicate size) | Syndicated	Collateralized	Covenants	Performance Pricing	Refinancing	Amendment
Panel A: Continuity and regular turnovers							
Turnover	-0.004	0.007	-0.003	0.010*	-0.002	0.004	0.005
	(-1.525)	(0.963)	(-0.575)	(2.001)	(-0.729)	(0.731)	(0.875)
R^2	0.406	0.494	0.514	0.532	0.294	0.472	0.512
Panel A: Regular turnovers							
Turnover	0.002	0.037**	-0.013**	-0.002	0.000	0.010	-0.002
	(0.763)	(2.593)	(-2.296)	(-0.489)	(0.066)	(1.569)	(-0.339)
R^2	0.406	0.494	0.514	0.532	0.294	0.472	0.512
Panel A: Irregular turnovers							
Turnover	0.009	-0.047**	-0.004	-0.012	-0.003*	-0.003*	-0.029***
	(1.670)	(-2.444)	(-0.163)	(-0.829)	(-1.828)	(-1.828)	(-2.756)
R^2	0.406	0.494	0.514	0.532	0.294	0.294	0.513
N	221,699	209,391	221,699	221,699	221,699	221,699	221,699
Domestic Macroeconomic Controls	✓	✓	✓	✓	✓	✓	✓
Foreign country×Industry×Year fixed effects	✓	✓	✓	✓	✓	✓	✓
Lender×Foreign country×Industry fixed effects	✓	✓	✓	✓	✓	✓	✓
Domestic country×Foreign country fixed effects	✓	✓	✓	✓	✓	✓	✓
Deal purpose×Deal type fixed effects	✓	✓	✓	✓	✓	✓	✓

Table A.6: **Simultaneous turnovers in Lenders' and borrowers' countries**

This table presents the results of an analysis exploring the association between lending activity and central bank governor turnovers in lenders' and borrowers' countries. The turnover events are as follows: BC-Turnover denotes a turnover event in a borrower's country, while LC-Turnover represents a similar event in a bank's domicile country. In Panel A, the turnover event is *Continuity and regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor either transitions or continues into a new term. In Panel B, *Regular turnover* refers to a scenario where the dummy variable equals 1 for years *t-1* and *t* when a governor completes their term. In Panel C, *Irregular turnover*, with the dummy variable set to 1 if a governor exits mid-term. The sample period spans 34 years, from 1990 to 2023. Standard errors are clustered by bank's country and borrower's country, with t-statistics shown in parentheses. Significance levels are indicated as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent variable:						
	Syndicated	Ln(Syndicate size) | Syndicated	Collateralized	Covenants	Performance Pricing	Refinancing	Amendment
Panel A: Continuity and regular turnovers							
LC–Turnover×BC–Turnover	-0.006	0.661	-0.063***	0.022	0.011	0.003	0.004
	(-1.039)	(1.586)	(-2.939)	(1.381)	(0.804)	(0.156)	(0.462)
R^2	0.414	0.608	0.521	0.537	0.297	0.477	0.518
Panel B: Regular turnovers							
LC–Turnover×BC–Turnover	-0.027**	0.541*	-0.086***	-0.016	0.025***	-0.014	-0.018
	(-2.391)	(1.954)	(-7.205)	(-1.038)	(2.784)	(-0.905)	(-1.058)
R^2	0.414	0.608	0.521	0.537	0.297	0.477	0.518
Panel C: Irregular turnovers							
LC–Turnover×BC–Turnover	-0.004	0.807	-0.034	0.037**	0.014	-0.090***	-0.110***
	(-0.398)	(1.538)	(-1.129)	(2.535)	(0.913)	(-6.190)	(-5.473)
R^2	0.414	0.608	0.521	0.537	0.297	0.477	0.518
N	221,699	209,391	221,699	221,699	221,699	221,699	221,699
Borrower country×Industry×Year fixed effects	✓	✓	✓	✓	✓	✓	✓
Lender×Foreign country×Industry fixed effects	✓	✓	✓	✓	✓	✓	✓
Domestic country×Foreign country fixed effects	✓	✓	✓	✓	✓	✓	✓
Domestic country×Year fixed effects	✓	✓	✓	✓	✓	✓	✓
Deal purpose×Deal type fixed effects	✓	✓	✓	✓	✓	✓	✓

Table A.7: **Cross-border lending and bank-level exposure to central bank governor turnovers**

This table presents the results of an analysis exploring the association between various non-pricing lending terms and central bank governor turnovers. The key independent variables are measured at the bank-year level, and equals $\frac{1}{\mathbb{N}_{\mathbb{C}_{bt}}} \sum_{\mathbb{C}_{bt}} \text{Turnover}_{c't}$. Here, $\text{Turnover}_{c't}$ indicates the presence of a central bank governor turnover event in country c' in year t. $\mathbb{C}_{bt}$ represents the set of countries where bank b has originated loans in the past five years., and $\mathbb{N}$ is the size of this set. The industry classification is based on 17 Fama-French industries. The sample period spans 34 years, from 1990 to 2023. Standard errors are clustered by bank's country and borrower's country, with t-statistics shown in parentheses. Significance levels are indicated as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent variable:						
	Syndicated	Ln(Syndicate size) | Syndicated	Collateralized	Covenants	Performance Pricing	Refinancing	Amendment
Panel A:							
Continuity and regular turnovers	-0.008**	-0.120	0.004	-0.004	0.005*	0.023***	0.016*
	(-2.324)	(-1.317)	(0.605)	(-1.429)	(1.937)	(3.854)	(1.830)
Irregular turnovers	0.221***	0.804*	-0.107***	-0.094***	0.007	-0.046*	-0.062
	(11.140)	(1.867)	(-3.649)	(-3.285)	(1.492)	(-1.753)	(-1.602)
R^2	0.415	0.608	0.524	0.533	0.303	0.474	0.524
Panel B							
Regular turnovers	-0.003	-0.032	-0.007	-0.010***	-0.004***	0.010	0.039***
	(-1.343)	(-0.498)	(-1.019)	(-2.791)	(-4.471)	(1.591)	(3.094)
Irregular turnovers	0.223***	0.835*	-0.109***	-0.094***	0.005	-0.052*	-0.063
	(10.836)	(1.940)	(-3.740)	(-3.216)	(0.869)	(-1.863)	(-1.550)
R^2	0.415	0.608	0.524	0.533	0.303	0.474	0.524
N	221,699	209,391	221,699	221,699	221,699	221,699	221,699
Foreign country×Industry×Year fixed effects	✓	✓	✓	✓	✓	✓	✓
Lender×Foreign country×Industry fixed effects	✓	✓	✓	✓	✓	✓	✓
Domestic country×Foreign country fixed effects	✓	✓	✓	✓	✓	✓	✓
Domestic country×Year fixed effects	✓	✓	✓	✓	✓	✓	✓
Deal purpose×Deal type fixed effects	✓	✓	✓	✓	✓	✓	✓

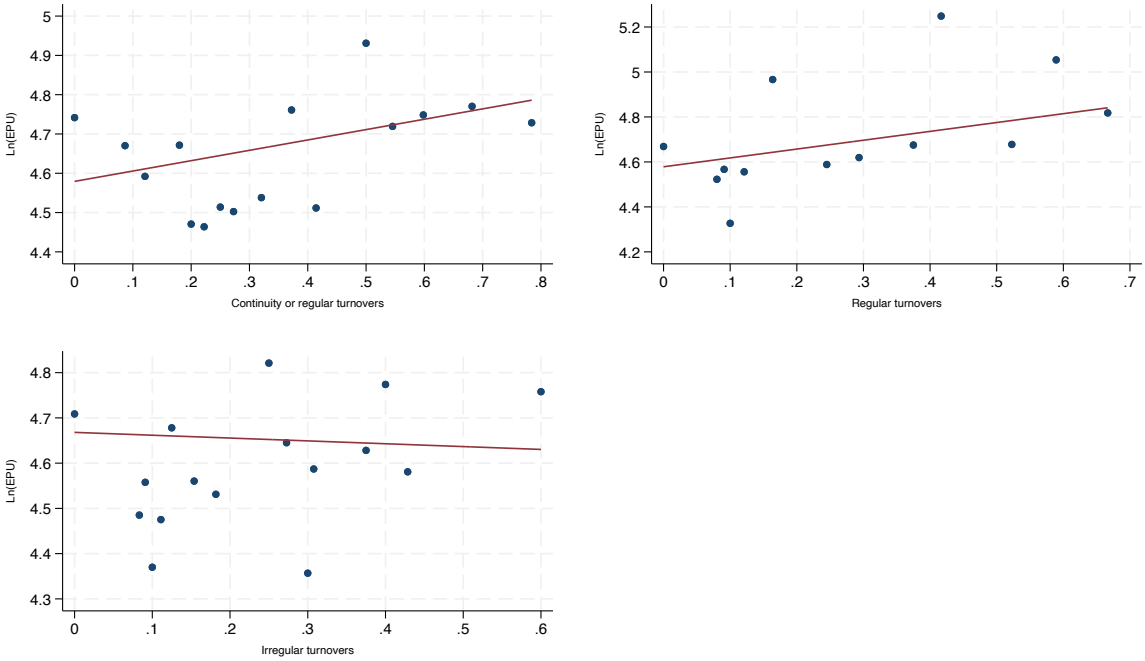


Figure 4: The figure presents a binscatter plot illustrating the relationship between economic policy uncertainty (log-transformed) and various central bank governor turnover events across the 1990-2023 sample period. The x-axis displays three types of turnover events captured by dichotomous variables: (top-left) *Continuity and Regular Turnovers*, which equals 1 for the years $t-1$ and t if a governor either turns over or continues into a new term in year t; (top-right) *Regular Turnovers*, indicating planned turnover events, where the variable equals 1 in years $t-1$ and t if a governor turns over at the scheduled end of a term in year t; and (bottom-left) *Irregular Turnovers*, representing midterm or unexpected turnover events, where the variable is 1 in years $t-1$ and t if a governor is replaced midterm in year t.

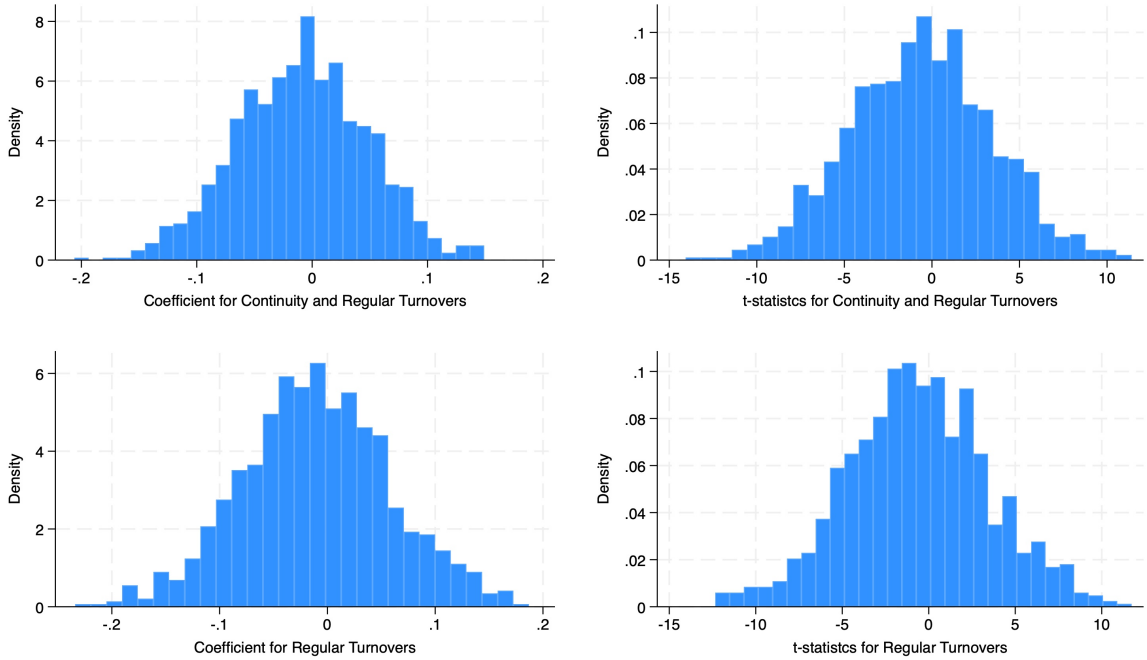


Figure 5: The figure presents the results of two placebo tests assessing the association between central bank governor turnovers and economic policy uncertainty. The top row shows the distribution of coefficients and t-statistics from 1,000 placebo regressions, where we simulate the timing of either continuity or regular turnovers using 1,000 randomly generated dichotomous variables. These variables are constructed to match the total number of events in the original dataset. Based on these, we construct placebo Continuity and Regular Turnovers, a dichotomous variable set to 1 (0 otherwise) for years $t-1$ and t when the corresponding random variable takes a value of 1 for year t. The bottom row presents the results of a separate placebo test focusing exclusively on regular turnovers. Here, we generate 1,000 random dichotomous variables to simulate the timing of regular turnovers and construct placebo Regular Turnovers, a dichotomous variable that equals 1 (0 otherwise) if its corresponding randomly generated variable equals 1 for year t. The distributions of coefficients and t-statistics for each placebo test employing 1,000 regressions are shown in their respective panels.