How Do Central Bank Governor Turnovers Affect Uncertainty and Lending Globally?

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Abstract

This paper studies how predictable transitions in central bank leadership generate uncertainty about the future policy environment and shape the international allocation of bank credit. Exploiting the institutional timing of fixed-term central bank governor appointments, we show that cross-border loan volumes increase by approximately $90 million, while total lending remains broadly unchanged. These patterns are not driven by realized monetary policy actions: policy rates do not change around turnover events, while economic policy uncertainty and interest rate volatility rise. Lending reallocation reverses once the new governor takes office, consistent with uncertainty resolution. The effects are stronger when central banks exercise supervisory authority. These findings highlight governor turnovers as a distinct source of economic policy uncertainty with global credit implications.

JEL Classification Codes: G21, E58, F34.

Keywords: Central Bank Governors, Turnovers, Cross-border Lending, Monetary Policy Uncertainty.

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"What remains to be seen, however, is how Schlegel will shape monetary policy in the future after the era of Thomas Jordan, both in terms of content and communication."
— *Neue Zürcher Zeitung*, reporting on Switzerland's central bank leadership turnover, November 22, 2024.

1 Introduction

We examine how central bank governor turnover affects cross-border bank lending. Our setting exploits the institutional structure of fixed-term governor appointments across central banks, which predetermine the timing of leadership changes but leave the identity and policy stance of successors uncertain until an appointment is announced. This institutional feature provides a quasi-natural experiment to examine how banks respond as uncertainty about future monetary and regulatory conditions rises in their home countries. Monetary policy outcomes depend on the central bank governor's preferences (Romer & Romer, 2004; Blinder, 2004; Howes et al., 2025), so even when the timing of a governor's exit is predetermined, uncertainty about the incoming governor's identity creates uncertainty for banks about the future policy reaction function governing interest rates, liquidity provision, and bank supervision. What is surprising, however, is that despite their predictable timing, these turnovers generate economically meaningful uncertainty that leads banks to actively reallocate credit across borders.

Identifying how banks respond to central bank leadership transitions is empirically challenging for two reasons. First, adverse macroeconomic conditions can simultaneously trigger leadership changes and restrict credit. Second, within domestic markets, banks and firms are jointly exposed to the same policy environment, making it difficult to distinguish between shifts in banks' credit supply and changes in borrower credit demand. We exploit central bank governor turnovers at the end of fixed-term appointments, where tenure is predetermined and mandated by law. To isolate banks' responses, we turn to cross-border lending, which provides a cleaner setting by allowing us to compare foreign banks from countries where a central bank governor's term ends

with those where it does not, holding borrower conditions constant through extensive fixed effects. Using loan-level data from 43 economies, which collectively account for 86 percent of global GDP in 2023, we find that in the period leading up to a governor's turnover, cross-border lending increases by approximately 11.8 percent. This pattern reverses after the new governor takes office, consistent with the resolution of uncertainty and the real-options value of waiting.

To validate that fixed-term governor turnovers generate monetary policy uncertainty, we examine their association with established measures of uncertainty. Economic policy uncertainty indices tend to rise during the period leading up to a governor's turnover in a country. This increase is more pronounced in countries with central banks that have higher independence. Importantly, central bank governor turnovers are not associated with monetary policy tightening or loosening: interest rates remain unchanged in the lead-up to the turnover and in the first year of the incoming governor's term, whereas interest rate volatility rises prior to the turnover and subsequently declines once the new governor takes office. We do not observe these patterns in placebo tests with randomly assigned turnover dates. Panel regressions at the bank-year level show that total loan origination does not rise during this period. Instead, banks shift their portfolios toward foreign borrowers, increasing the share of cross-border lending. These results confirm that central bank governor turnovers are a credible source of uncertainty in monetary policy.

To estimate the effect of fixed-term governor turnovers on cross-border lending, we focus on turnover events in the lender's home country (domestic country). Our baseline sample consists of bank–firm pairs in which the lender and the borrower are governed by *different* central banks. Our regression framework exploits variation across banks whose home-country governors reach the end of their legally mandated terms, while holding borrower-side (foreign) factors constant. The fixed effects included in the regression specification absorb time-varying credit demand across borrowers' sectors, countries, foreign governor turnovers, foreign political cycles, persistent patterns in international bank-firm relationships, and bilateral ties between countries. This design

allows us to cleanly identify whether and how the impending conclusion of a central bank governor's fixed term influences banks' allocation of credit abroad.

Our baseline findings indicate that central bank governor turnovers lead to an increase in cross-border lending volume of approximately 88 million dollars, equivalent to 11.8 percent of the mean loan volume. Quantile regressions show that the turnover effect is present across the deal size distribution, while borrower heterogeneity analysis indicates that it is stronger in cyclical, infrastructure, financial, and service sectors than in defensive sectors. Further analysis suggests that alternative explanations based on political cycles and political regime changes do not confound our baseline results. These shifts in lending are not indiscriminate. Lending increases are concentrated in faster-growing foreign economies, as indicated by negative interactions between turnover events and GDP growth differentials (domestic minus foreign). Notably, the documented increase in cross-border lending reverses once a new governor assumes office, consistent with the resolution of uncertainty under a real-options framework.

The evidence suggests that our baseline finding is partly due to a decline in domestic investment. Using a two-stage least squares framework, we show that the contraction in domestic loan origination is associated with an increase in cross-border lending, consistent with banks redeploying capital when investment demand declines. This response is not uniform. Banks with broader international footprints are more likely to expand cross-border lending, consistent with lower frictions and greater flexibility in reallocating capital across markets. We show that lending structures also adapt: banks increase their reliance on syndicated loans and expand the number of participating lenders, thereby reducing their exposure to any single deal. We also find that the baseline effect is discernible when central banks also supervise banks, as governor turnovers create uncertainty over both monetary policy and regulation, prompting greater reallocation through cross-border lending.

Many lenders operate in countries beyond their own and those of their borrowers. As a result, a lender and a borrower (two parties to a lending transaction) may be indirectly exposed to policy uncertainty from leadership transitions in third-party countries–those

where neither the lender nor the borrower is domiciled, but where the lender maintains active lending operations. We find that such events affect bilateral loan outcomes. These results highlight that global financial integration aids the propagation of monetary policy uncertainty through global banks, affecting the global allocation of credit.

We also examine heterogeneity in types of central bank governor turnovers. Continuity events, where the current governor continues into a new term, are associated with a smaller increase in cross-border lending. In contrast, irregular turnovers, where a governor's term ends before schedule, lead to a reduction in cross-border lending. Together, these findings suggest that it is the nature and predictability of leadership transitions, not the occurrence of turnover alone, that drive shifts in credit allocation.

These findings contribute to several strands of literature. The extant literature, which builds on Pindyck (1991) and Dixit & Pindyck (1994), and is summarized by Campello & Kankanhalli (2024), highlights uncertainty's economic impact. Leahy & Whited (1996) demonstrate that heightened uncertainty increases the option value of waiting, discouraging investment due to its irreversible nature. This evidence is further corroborated by studies showing that monetary policy and political uncertainty dampen corporate investment (Julio & Yook, 2012, 2016; Gulen & Ion, 2016; Jens, 2017; Husted et al., 2020). We utilize the framework underlying this literature to examine how central bank governors influence cross-border lending. This study finds that, even in the absence of realized policy changes, uncertainty about future monetary and regulatory policy stemming from central bank governor turnover prompts globally active banks to temporarily reallocate cross-border lending; these effects reverse after the uncertainty is resolved. Correa et al. (2022) demonstrate that realized changes in monetary policy stance prompt globally active banks to rebalance cross-border lending through risk-taking and portfolio channels. Correa et al. (2023) additionally find that increased trade policy uncertainty leads to a contraction in domestic bank credit due to wait-and-see behavior and financial frictions. This study extends these findings by providing new evidence on the effect of policy uncertainty arising from governor turnovers.

Many studies on the credit channel of monetary policy transmission focus on liq-

uidity constraints and borrower characteristics. Smaller banks are disproportionately affected by monetary contractions (Kashyap & Stein, 2000; Campello, 2002). Weaker financial conditions of borrowers amplify reductions in credit growth (Ashcraft & Campello, 2007; Becchetti et al., 2011). Furthermore, systemic liquidity constraints interact with borrower vulnerabilities to influence credit supply (Jiménez et al., 2012). At the international level, cross-border banking flows are sensitive to monetary policy and monetary policy shocks (Peek & Rosengren, 1997, 2000; Cetorelli & Goldberg, 2012; Bruno & Shin, 2015; Correa et al., 2022). Our focus on governor turnovers highlights a distinct channel. Banks respond to monetary policy uncertainty by reallocating lending internationally.

Our study relates to research on leadership turnover in corporate governance. New CEOs often change investment policies, risk-taking, and internal priorities, which creates uncertainty while organizations adjust to their leadership (Eisfeldt & Kuhnen, 2013; Fee et al., 2013; Graham et al., 2013; Jenter & Kanaan, 2015; Pan et al., 2016; Kesner & Sebora, 1994; Shen & Cannella Jr, 2002; Zhang & Rajagopalan, 2010). Our setting is economically systematic because a central bank governor is a key executive in a country's monetary and supervisory architecture, and their preferences influence the central bank's policy stance. The economic consequences of central bank governor transitions remain largely unexplored. The institutional feature of fixed-term appointments, observed across central banks, provides a clean setting in which the identity of the incoming governor is a key source of uncertainty. We use this feature to show that governor turnovers are consequential for cross-border lending.

We also contribute to the strand of literature emphasizing the importance of central banks, central bank independence, and the leadership of central banks. Central bank independence is determined not only by legal framework but also by the appointment process that often involves partisan influences, which can complicate central banks' accountability and autonomy (Havrilesky, 1987; Hibbs, 1987; Chappell Jr et al., 1993; Cukierman et al., 1992, 1993; Sturm & De Haan, 2001; W. Bernhard et al., 2002; W. T. Bernhard, 2009; Adolph, 2013). Studies highlight the importance of the the clarity

of central bank communication and show that markets' reactions differ depending on whether central bank policy announcements provide new information or confirm existing expectations (Blinder et al., 2008; Binder, 2017; Borner, 2025). A central bank's policies are influenced by the beliefs of its leadership (Romer & Romer, 2004). Fos & Xu (2022) find that local regional economic conditions influence the votes of Federal Reserve Bank presidents on monetary policy, and Fos et al. (2024) report that voting power affects the policy stance. The political appointments of central bank governors can undermine independence, leading to distorted monetary policies (Goncharov et al., 2023; Ioannidou et al., 2024). We contribute to this literature by showing that even when central bank governor turnover timing is predetermined, leadership transitions generate policy uncertainty that affects cross-border lending. This finding underscores the importance of accounting for governor-level transitions in studies of monetary policy transmission.

2 Data Description

2.1 Central bank governor data

We construct data on central bank governor appointments using the KOF Swiss Economic Institute dataset developed by Dreher et al. (2008, 2010). This database tracks governor tenure across nearly all countries since 1970 and draws on a range of sources, including Morgan Stanley Dean Witter's Central Bank Directory and the contributions of Cukierman et al. (1992) and Sturm & De Haan (2001).

The dataset reports the statutory and actual length of a governor's tenure, and the nature of turnover. Regular turnovers correspond to a governor completing the term mandated by law or mutual agreement. An irregular turnover results from resignations or forced departures. We manually verify all turnover events through web searches and extend the dataset through 2023, focusing on the 34 years from 1990 to 2023.

Panel A of Table A.1 defines key country-year variables used as explanatory variables. Table A.2 presents the sample of 43 countries included in our sample. When defined, term lengths range from three to eight years. The appointment process, often influenced

by politics, varies across countries. These differences suggest that, in practice, central banks are rarely insulated from political influence.

2.2 Lending and other data

We obtain loan-level data from the Reuters Loan Pricing Corporation (LPC) Dealscan database. Each loan contract (package) may include multiple facilities, and our analysis is conducted at the facility level, provided that loan amount data is available for each facility. For syndicated loans, we identify lead lenders using the approach outlined in Ivashina (2009) and assign observations at the parent bank level, consistent with Mian (2006) and Giannetti & Laeven (2012). Facilities with multiple lead lenders are attributed to each lead lender individually. The sample spans the period from 1990 to 2023.

To supplement the loan-level data, we incorporate country-level political and macroeconomic variables. Electoral data, covering the years 2003 to 2023, are drawn from the Database of Political Institutions. This dataset provides measures of government stability, legislative fragmentation, and party affiliations. Macroeconomic indicators, including GDP growth and inflation, are sourced from the World Bank's World Development Indicators. Data on central bank independence and electoral timing are obtained from the Quality of Governance dataset, also produced by the World Bank.

Short-term interest rates are sourced from the OECD, based on aggregated secondary market data from central banks. We convert the monthly series to quarterly averages. These interest rate measures capture investor perceptions and policy expectations, making them suitable for analyzing market reactions to changes in central bank leadership.

Finally, we use country-level economic policy uncertainty indices from policyuncertainty.com, which compiles text-based measures of uncertainty developed by Baker et al. (2013, 2016) and extended in subsequent studies (Saxegaard et al., 2022; Armelius et al., 2017; 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). These indices pro-

vide complementary evidence on the informational environment surrounding turnover events.

2.3 Central bank governor turnovers

Most countries appoint their own citizens as central bank governors to safeguard domestic economic interests. It follows that the labor market for central bank governors is local. Differences in governance, economic, and political priorities create heterogeneity in the institutional contexts in which governors operate. This section presents three examples to highlight the global central banking landscape, where autonomy, political influence, and economic conditions interact to determine the scope of central banks' leadership and the nature of central bank governor turnovers.

2.3.1 Ben Shalom Bernanke: USA (2006–2014)

Ben Bernanke, the 14th Chair of the Federal Reserve, served two terms from 2006 to 2014, initially appointed by President George W. Bush and reappointed by President Barack Obama. Given the de facto and de jure independence of the US Federal Reserve, Bernanke was able to respond pragmatically to systemic shocks by pursuing decisive and unconventional policies during the Global Financial Crisis. In our classification, Bernanke's reappointment exemplifies a *continuity* event. The conclusion of Bernanke's second term, by contrast, represents a *regular* turnover, a scheduled transition unrelated to prevailing economic or political conditions.

2.3.2 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 the institutional constraints of a developing economy. He launched an Asset Quality Review to address balance sheet risks posed by rising non-performing loans in public sector banks. Following the 2014 national elections, the new government's priorities shifted as it implemented controversial policies, including the demonetization of 86 percent of the currency in circulation. Despite these shifts, the RBI's limited legal independence and deep bureaucratic entanglement curtailed its operational autonomy. Rajan completed his term in September 2016, which we classify

as a regular turnover. Rajan faced substantial institutional and political constraints, illustrating how de jure and de facto independence diverge in less autonomous central banks, even when turnover timing is regular.

2.3.3 Soedradjad Djiwandono: Indonesia (1993–1998)

Appointed by President Suharto in 1993, J. Soedradjad Djiwandono served as the 10th Governor of Bank Indonesia during the Asian Financial Crisis in 1997. Facing severe currency depreciation, inflation, and a banking sector collapse, Djiwandono raised interest rates to stabilize the Indonesian rupiah, but the move, due to existing non-performing loans, increased default rates and accelerated capital outflows. These measures deepened the crisis. In February 1998, amid ongoing turmoil, Suharto dismissed Djiwandono. We classify this dismissal as an irregular turnover. Djiwandono's dismissal shows how political pressure and weaker economic fundamentals can override central bank leadership.

2.4 Central bank governor turnovers and uncertainty

In our context, uncertainty concerns the central bank's future policy stance arising from its governor's turnover. While the end date of a central bank governor's fixed term is predetermined by law, the identity, preferences, and communication style of the incoming governor generally remain unknown until shortly before appointment. Since central bank governors influence not only monetary policy decisions but also policy communication and, in many jurisdictions, bank supervision, governor turnover generates uncertainty regarding future central bank policies rather than contemporaneous macroeconomic conditions.

The timing of this uncertainty is clear. Governor term lengths are fixed and known in advance, making the year of turnover predictable. However, the successor is usually announced only shortly before the turnover. Consequently, the uncertainty is high in the period preceding the turnover and resolves once the new governor assumes office. This timing distinction motivates an empirical focus on the pre-turnover period and a separate analysis of the first year in office, which captures the resolution of uncertainty.

The identity of the central bank governor is important for banks, as governors shape the policy environment and expected constraints. Although the timing of governor turnovers is predetermined, the incoming governor's preferences, communication style, and supervisory approach are usually unknown until appointment, creating uncertainty about monetary policy, regulatory enforcement, and liquidity support. Such uncertainty affects banks' expected returns, risk exposure, and balance-sheet capacity, increasing the option value of waiting when lending decisions are irreversible (Pindyck, 1991; Dixit & Pindyck, 1994; Leahy & Whited, 1996; Julio & Yook, 2012, 2016; Gulen & Ion, 2016; Jens, 2017; Husted et al., 2020; Campello & Kankanhalli, 2024; Correa et al., 2022, 2023, among others). Banks are therefore less likely to issue new domestic loans, either because of greater caution in managing their balance sheets or because domestic borrowers postpone investment and borrowing.

For globally active banks, this uncertainty may not result in a contraction in total lending. Instead, such banks may reallocate lending to foreign markets where investment opportunities and policy environments are less directly affected by the turnover of the central bank governor in the bank's home country. Consequently, the framework predicts an increase in cross-border lending in the period leading up to the central bank governor's turnover, followed by a reversal once the new governor's identity and policy orientation are established and uncertainty is resolved.

2.5 Descriptive statistics

Table 1 reports the summary statistics of the variables used in the analysis. The average deal size is 743.6 million dollars. These magnitudes are comparable to those reported in other studies of cross-border lending using Dealscan data (Gao & Jang, 2021; Li & Ongena, 2025). Approximately 94 percent of deals are syndicated. The average syndicate consists of 11 participants drawn from 5 countries.

[Insert Table 1 Here]

Around 15 percent of observations coincide with a governor turnover in lenders'

home countries. Continuity events account for 10 percent of the sample. Regular and continuity events combined represent 25 percent of observations. Irregular turnovers are less frequent, making up 5 percent of the sample. At the portfolio level, banks' average exposure to domestic turnover events is 19 to 20 percent, while exposure to irregular turnovers is 7 to 10 percent. Overall, a sizable sample corresponds to years when central bank leadership transitions occur in banks' home countries.

3 Methods and Results

3.1 Validation

3.1.1 Time-series pattern

Figure 1 presents a time series of the total number of central bank governor turnovers across countries from 1990 to 2023. On average, eight countries undergo a change in leadership each year. The frequency of these events increases over time, reflecting the rise of central bank independence and a decline in political interference. As institutional frameworks mature, regular turnovers become more prevalent, illustrating a positive association between economic development and leadership stability in central banking.

[Insert Figure 1 Here]

3.1.2 Macroeconomic quantities and governor turnovers

As individuals or committee members, central bank governors play a crucial role in shaping central bank policies and regulations (Blinder, 2004, 2007; Mishra & Reshef, 2019). Their views on inflation, unemployment, and the scope of monetary policy influence the type and timing of policy interventions (Romer & Romer, 2004). Contrasting the leadership of William McChesney Martin Jr. and Alan Greenspan with that of Marriner Eccles and Arthur Burns, Romer & Romer (2004) emphasize that governors' beliefs can lead to different macroeconomic outcomes. Thus, central bank governor transitions could matter because the beliefs of individual governors shape the path of monetary and other central bank policies that affect all sectors of an economy.

In the period leading up to a central bank governor turnover, uncertainty looms as the identity, hence policy stance, communication style, and regulatory preferences, of the prospective governor are unknown. Press coverage often speculates on likely appointees, which amplifies attention to the upcoming turnover. This information gap generates uncertainty about the future course of central bank policies and regulation, which, we conjecture, is reflected in new-based measures of economic policy uncertainty (EPU). The results in Table 2 are consistent with this conjecture. The EPU is higher in the period leading up to a governor turnover within a country. Moreover, the increase in EPU is more pronounced among countries with central banks that have high independence from political influence. The results also suggest that the observed pattern is not due to political turnover events, as the positive association between EPU and governor turnover is statistically significant in non-election years. These results validate the view that the turnovers of central bank governors at the conclusion of fixed-term appointments are non-trivial events.

[Insert Table 2 Here]

We next examine whether central bank governor turnovers are associated with changes in the volatility of short-term interest rates. We focus on short-term (1-year) interest rates because central banks primarily target the short end of the yield curve, and these rates are likely more sensitive to changes in policy expectations and communication. In contrast, long-term rates embed additional risk premia and macroeconomic expectations, making them less suitable for capturing transitory uncertainty surrounding governor turnovers. Volatility is a channel through which uncertainty affects economic behavior (Chay & Suh, 2009; Riddick & Whited, 2009; Bushman et al., 2010; Izhakian & Yermack, 2017; Kraft et al., 2018; Straub & Ulbricht, 2019). We assess whether the first and second moments of interest rates respond differently in the lead-up to a governor

turnover using quarterly OECD data and the following 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 (1a), the dependent variable, Δr_{ct}, is the change in the short-term interest rate for country c in quarter t. In equation (1b), the dependent variable, $\Delta \sigma_{r_{ct}}$, is the change in interest rate volatility calculated as the rolling standard deviation over the past 20 quarters. To control for persistence in macroeconomic time series, both specifications include lagged dependent variables. $\mathbf{X}_{ct}$ is a vector of macroeconomic controls: real GDP growth, exchange rate changes (relative to the US dollar), changes in the central bank independence index, and an indicator for national elections. ϕ_c and ϕ_t represent country- and time-fixed effects, respectively, to control for time-invariant heterogeneity among countries and systematic global shocks, such as oil price.

[Insert Table 3 Here]

Results are reported in Table 3. Columns (1)–(2) show a lack of association between governor turnovers and changes in interest rates, indicating that turnover events are not systematically associated with monetary policy tightening or loosening. The results in columns (3)–(4) show a positive and statistically significant association between governor turnovers and changes in interest rate volatility. These results suggest that governor turnover events are preceded by heightened uncertainty about the central bank's future policy stance, rather than by contemporaneous changes in policy rates. We further assess whether realized policy changes that occur once a new governor takes office. In Table A.3, we analyze interest rate dynamics in the first year of the incoming governor's term. Consistent with the results in Table 3, the first year in office is not associated with changes in the level of interest rates, while interest rate volatility declines significantly. Together, these findings indicate that governor turnovers are

characterized by elevated uncertainty prior to appointment, followed by a resolution of uncertainty once the new governor assumes office, without systematic evidence of monetary tightening or loosening at either stage.

In placebo tests, we generate 1,000 sets of hypothetical turnover dates. We keep the total number of turnovers in each simulated dataset matches that of the actual sample. Using these placebo turnover years, we construct 1,000 dummy variables following the definitions in Table A.1. For each simulated dataset, we re-estimate the regressions, substituting the true governor turnover indicator with its placebo counterpart. Figures A.1 and A.2 plot histograms of estimated coefficients and t-statistics. The results confirm that the documented association between central bank governor turnover, policy uncertainty, and interest rate volatility is not systematically reproduced under random assignment of turnover events.

3.1.3 Bank-level lending patterns around turnovers

In this section, we test whether banks adjust the composition of their lending during periods of central bank governor turnover. If these transitions generate policy uncertainty, banks may shift credit away from domestic markets, where uncertainty is most pronounced, and toward foreign borrowers. Crucially, this shift should occur without a corresponding expansion in total lending. In this case, an increase in foreign lending reflects a reallocation, not an increase in credit growth.

Figure 2 plots the average share of foreign lending in the twelve quarters before and after a governor turnover in a bank's home country. The figure reveals a modest upward slope in the pre-turnover period, followed by a mild decline thereafter. In Appendix Figure A.4, we show the complementary pattern for the share of domestic lending, where the share decreases before the turnover and rises afterward. These patterns suggest that banks rebalance their lending portfolios in anticipation of the turnover, shifting credit abroad when domestic policy uncertainty is high, and reversing course once the new governor is appointed and uncertainty is resolved.

[Insert Figure 2 Here]

We formally test this reallocation using bank-year panel regressions, where the dependent variables are total loan origination volume and the share of lending allocated to foreign borrowers that do not share their central banks with the lending bank. Results are reported in Table A.4. We find no significant change in total lending volume during turnover periods, but a significant increase in the share of foreign lending. These findings support the view that banks do not increase overall credit supply; instead, they rebalance portfolios by shifting lending away from domestic markets toward foreign borrowers during periods of monetary policy uncertainty.

This compositional shift motivates our baseline focus on cross-border lending in the next section. Domestic credit markets offer limited traction for isolating supply-side responses, since both banks and firms are jointly exposed to the same macroeconomic environment. In contrast, cross-border lending provides a cleaner setting for identification by holding borrower-side conditions constant through the use of an extensive set of fixed effects. We can then assess how uncertainty arising from central bank leadership turnovers in the lender's home country correlates with changes in credit allocation.

We focus primarily on the period *leading up* to the turnover. When the identity of the next governor is unknown, uncertainty surrounding the direction of monetary, regulatory, or supervisory policy is likely to be elevated. Banks may reduce domestic credit, either to manage their own exposure to home-country uncertainty or because domestic firms delay investment, weakening local credit demand. We therefore hypothesize a positive relationship between central bank governor turnover in a focal bank's home country and its cross-border lending activity.

3.2 Cross-border lending and central bank governor turnovers

We now examine whether central bank governor turnover events in a bank's home country influence the volume and structure of cross-border lending. Throughout this section, we refer to the domestic country as the bank's home jurisdiction and the foreign country as the location of the borrower.

3.2.1 Econometric approach and baseline results

Due to increased uncertainty about the policy stance of the incoming governor, domestic firms may delay investment (Pindyck, 1991; Dixit & Pindyck, 1994). Banks may curb domestic lending to limit their direct exposure to domestic uncertainty. Weaker credit demand and increased lender caution, together, create slack in domestic lending activity, which may encourage banks to reallocate funds abroad. This behavior is feasible only for banks with access to foreign lending markets, is consistent with risk diversification motives (Markowitz, 1952), and aligns with evidence that global banks adjust international exposures in response to domestic stress (Cetorelli & Goldberg, 2012). To identify the impact of governor turnovers on cross-border lending, we estimate the following regression:

$$\text{Ln(Deal amount)}_{ib_ckc't} = \beta_1 \text{Turnover}_{ct|g\neq g'} + \Gamma' \mathbf{X}_{ct} + \mathbf{\Phi} + \epsilon_{ib_ckc't}. \tag{2}$$

The dependent variable, in equation (2), is the logarithm of the deal amount for loan i originated by bank b headquartered in country c, to a borrower in industry k and country c' in year t. The variable $\text{Turnover}_{ct|g\neq g'}$ is a binary indicator equal to one if the central bank governor in bank b's home country c is scheduled to complete their fixed term in year t, and $g \neq g'$ indicates that the bank and borrower are governed by different central banks. $\mathbf{X}_{ct}$ is a vector of domestic macroeconomic controls. These controls are real GDP growth, the central bank independence index, changes in the exchange rate (relative to the US dollar), and an indicator for national elections. These account for confounding macroeconomic or institutional shifts that may co-occur with turnover events.

In equation (2), $\mathbf{\Phi}$ represents the set of fixed effects. Industry–foreign country-year fixed effects absorb time-varying demand shocks, such as industry regulation and standards, faced by borrowers operating in a given industry and country. These fixed effects also control for an industry's sensitivity to central bank policies such as interest rates (Irvine & Schuh, 2005) and exchange rates (Boutchkova et al., 2012). Lender-industry-

foreign country fixed effects control for the time-invariant lending relationships between a given bank and firms operating in a specific industry-foreign country. In addition, these fixed effects also control for bilateral associations such as geographic proximity, trade relationships, or financial integration between a domestic and foreign country, as banks' and borrowers' locations are nested within lender–industry–foreign country fixed effects. Finally, we include deal type-purpose fixed effects to account for contract-specific differences that may correlate with lending volume.

The condition $g \neq g'$ restricts the sample to cross-border lending, specifically, loan contracts where the lender and borrower operate under different central bank governors. Identification of β_1 exploits within industry-foreign country-year variation across foreign banks lending to borrowers in the same industry-foreign country-year, where some of these lenders face an impending governor turnover at home. These fixed effects ensure that the comparison is made among lenders operating in the same external environment, isolating the effect of home-country governor turnover on lending.

While borrower–time fixed effects are ideal for absorbing credit demand shocks, as emphasized by Khwaja & Mian (2008), they are infeasible given the high-dimensional nature of our cross-border data. Our fixed-effects structure provides a rigorous alternative that absorbs time-varying borrower-side conditions and institutional heterogeneity (Degryse et al., 2019). Standard errors are double-clustered by domestic and foreign countries for reliable inference (Abadie et al., 2023; Roberts & Whited, 2013).

Figure 3 plots the distribution of deal amounts separately for observations with and without an impending central bank governor turnover in the lender's home country. The distribution of turnover observations is shifted to the right. The average log deal size is larger during turnover periods: the mean of 5.11 when Turnover equals 1 and 5.01 when Turnover equals 0, corresponding to a difference of 0.09 log points. This suggests an unadjusted (for macroeconomic variables, deal type, and purpose fixed effects) increase of approximately 9 percent in deal size during turnover years.

[Insert Figure 3 Here]

Table 4 formalizes this association using a regression framework and reports the baseline estimates. The coefficient estimates in column (4) suggest that, in the year leading up to a central bank governor turnover, banks headquartered in affected countries increase cross-border lending by 11.8 percent. Figure 4 illustrates the economic significance by plotting the model-implied deal size with and without an impending turnover. Note that all specifications are conditioned on political election cycles, using a national election-year indicator variable whose coefficient estimates range from -0.027 to -0.022, suggesting an effect contrary to the positive central bank turnover effect. This horse race confirms that central bank leadership transitions drive our baseline findings. The economic significance of our findings is comparable in magnitude to that of Li & Ongena (2025), who report that a standard deviation increase in banks' GDP growth expectations raises lending by about 76 million dollars. To further benchmark the economic significance of these estimates, we compare the results to the bank lending channel findings of Kashyap & Stein (2000). In our sample, the average increase in the short-term interest rate during tightening episodes is approximately 45 basis points. Kashyap & Stein (2000) show that such tightening leads to a substantial contraction in bank lending. Compared to this benchmark, the observed 11.8 percent increase in cross-border lending during governor turnover periods is significant. Since tightening episodes are less pronounced during turnover years, the increase in cross-border lending likely reflects policy uncertainty from turnover rather than actual policy tightening. We also estimate quantile regressions and present estimates in Figure 5 that imply an effect equivalent to a 10–14 percent increase in loan volume, indicating that the turnover effect is present throughout the deal-size distribution.

[Insert Table 4 Here]

[Insert Figure 4 Here]

[Insert Figure 5 Here]

We conduct further tests to support the baseline results and their interpretation. In

Table A.7, we augment the baseline specification by including the interaction between the governor turnover flag and the national election dummy. The direct effect remains economically and statistically similar to its baseline counterpart in column (4) of Table 4. The coefficient on the interaction term is negative, which runs counter to the baseline. In Table A.8, we present additional tests examining the nature of political regime changes in lenders' countries. Specifically, we study four regimes in lenders' countries: closed autocracy, electoral autocracy, electoral democracy, and liberal democracy. Changes in regimes can generate significant institutional uncertainty, which is plausibly distinct from monetary policy uncertainty. We consider three types of change: no change, good change (e.g., moving from a closed autocracy to an electoral autocracy), and bad change (e.g., moving from an electoral democracy to an electoral autocracy). The direct effect of central bank governor turnover remains comparable to the baseline results. We document a decline in cross-border lending during simultaneous central bank governor turnover and a change in the political regime. This effect is directionally symmetric to good or bad changes in regimes relative to stable regimes. An improvement in the political environment implies better lending opportunities at home. In contrast, a deterioration in the political regime is generally accompanied by other adverse macroeconomic consequences that may weaken banks' fundamentals.

We further examine borrower heterogeneity. In Figure A.5, we present coefficient estimates for five broad sector groups. The coefficients are positive and comparable to the baseline coefficient for cyclical, infrastructure, financial, and service sectors. In contrast, the coefficient for borrowers from the defensive sector is statistically equal to zero. Facing central bank governor turnover at home, banks reallocate credit toward foreign borrowers whose investment opportunities are more sensitive to shifts in funding conditions. The heterogeneity analysis, therefore, shows that the baseline effect appears exactly where the mechanism predicts: in foreign industries with more cyclical investment and greater scope for banks to redeploy capital.

Taken together, the results from political cycles, political regime transitions, and borrower heterogeneity show that the main effect is not a by-product of domestic

political events and that it appears in the parts of the global syndicated loan market where banks have the most flexibility to reallocate credit in the period leading up to a central bank governor turnover in their home countries.

Our baseline findings indicate that central bank governor turnovers are associated with an increase in cross-border lending. To understand how this capital is allocated, we examine whether banks selectively lend to foreign countries with more favorable macroeconomic conditions during periods of domestic uncertainty. Table 5 tests this by interacting the turnover indicator with differentials in GDP growth, exchange rates, and inflation between the bank's home country and the borrower country.

The GDP growth differential is defined as the difference between domestic and foreign GDP growth rates. A positive value indicates faster growth in the lender's country, while a negative value implies that the borrower country is growing more quickly. We find a negative and statistically significant interaction between turnover and the GDP growth differential. In columns (2)-(4), the coefficients for the interaction terms lack statistical significance at the conventional level. The results suggest that banks do not increase cross-border lending indiscriminately. Instead, they reallocate capital selectively, favoring economies with stronger growth dynamics.

[Insert Table 5 Here]

The results so far show that central bank governor turnovers in lenders' home countries are associated with increased cross-border lending, particularly toward faster-growing foreign economies. This pattern suggests that banks reallocate capital abroad when domestic monetary policy becomes uncertain. A natural question is whether this reallocation persists after the uncertainty is resolved. We investigate whether cross-border lending declines when a new central bank governor takes office. Agents may delay irreversible decisions until uncertainty is resolved (Pindyck, 1991; Dixit & Pindyck, 1994). In this context, banks may temporarily increase foreign lending as a hedge, then adjust their portfolios once the new governor's policy stance becomes

clearer.

[Insert Table 6 Here]

Table 6 reports estimates from a modified version of our baseline regression, where the key variable of interest is a dummy variable that equals one in the first year of a new governor's term, following a planned turnover. The estimated coefficient is negative and statistically significant. This result implies a reversal in cross-border lending and is consistent with the wait-and-see behavior predicted by the real options framework. Banks respond to domestic policy uncertainty by reallocating credit abroad, but scale it back once the uncertainty is resolved.

3.3 Mechanisms

In this section, we examine why and how banks shift lending abroad before a central bank governor turnover. One possibility is that domestic firms delay investment, resulting in a slack in loan demand. Banks reallocate credit abroad in response. Another is that globally active banks have flexibility, as uncertainty at home makes foreign markets relatively more attractive. We test both channels. We also examine whether banks expand syndicates to share risk, consistent with precautionary behavior.

3.3.1 Decline in domestic lending

Governor turnovers may lead domestic firms to delay investment, lowering domestic credit demand. Banks facing fewer opportunities at home may reallocate capital abroad. This mechanism aligns with evidence that policy uncertainty depresses corporate investment. We test whether this domestic slack helps explain the observed increase in cross-border lending in a two-stage least squares setting.

In the first stage, we estimate aggregate domestic investment lending using loans for acquisition, capital expenditure, leveraged buyouts, project finance, real estate, sponsored buyouts, or takeovers as investment-related. We instrument the volume and number of such loans with an indicator for regular governor turnover. In the

second stage, we use the predicted value of domestic lending to explain foreign lending, measured as the log of deal amount, where the borrower and bank are headquartered in different monetary jurisdictions. We present results in Table 7 and in Figure 6.

[Insert Table 7 Here]

[Insert Figure 6 Here]

The first stage in Panel A (columns (1) and (3)) shows that domestic lending for investment-related loans declines significantly due to the impending central bank governor turnover. This result is consistent with the existing literature, which shows the dampening effect of uncertainty on corporate investment (Julio & Yook, 2012; Baker et al., 2013; Julio & Yook, 2016; Gulen & Ion, 2016; Jens, 2017). The second stage results in columns (2) and (4) show that lower predicted domestic lending is associated with more foreign lending, consistent with our baseline result that banks reallocate capital abroad when domestic opportunities contract.

To validate this channel, we run a placebo test using loans classified as general purpose, trade finance, recapitalization, working capital, or refinancing. These loan types are not typically associated with corporate investment and are therefore less likely to respond to uncertainty. The absence of significant effects in Panel B supports the interpretation that banks shift lending abroad in response to a decline in domestic investment loan demand before central bank governor turnover.

3.3.2 Loan portfolio diversification

The ability to reallocate capital abroad is not uniform across banks. A bank with a broad foreign footprint faces fewer frictions in shifting capital to external markets when domestic lending opportunities contract due to central bank governor turnover. This flexibility is central to the reallocation mechanism. In Table 8, we test whether only banks with broader international reach increase cross-border lending in the period

leading up to central bank governor turnover.

[Insert Table 8 Here]

Column (1) of Table 8 uses a continuous measure, namely the log of the number of foreign markets in which a bank is active. Column (2) uses a binary indicator equal to one if a bank's foreign market count is above the sample median. In both cases, the interaction terms are positive and statistically significant. The estimated effects indicate that cross-border lending increases in response to impending central bank governor turnover discernibly among banks with broad international exposure.

These results align with the portfolio theory. Agents with higher diversification options can better respond to changes in relative risk. In our setting, diversification across markets enables banks to mitigate exposure to domestic uncertainty by reallocating credit to stable external markets. This mechanism builds on the result in the previous section: once investment demand falls at home, only banks with sufficient foreign reach can deploy excess liquidity abroad. The pattern of results reinforces the interpretation that the increase in foreign lending is a deliberate reallocation shaped by the structure of the bank's operations.

3.3.3 Risk sharing via a loan syndicate

The cross-border reallocation of credit, documented in baseline results, does not, by itself, reveal how banks manage risk. If banks remain concerned about future funding shocks or a rebound in domestic credit demand once uncertainty resolves, they may limit their exposure to individual loans. Syndication provides a natural margin of adjustment. By sharing deals with other lenders, a bank maintains lending activity while reducing its exposure. This approach becomes more valuable when domestic uncertainty raises concerns about future liquidity and loan performance.

[Insert Table 9 Here]

In Table 9, we test whether central bank governor turnover increases the use of syndicates. Column (1) shows that banks are more likely to structure cross-border loans as part of syndicates during periods of turnover. Columns (2) and (3) show that these syndicates involve more participants, measured both in logs and levels. The results are consistent with banks responding to domestic uncertainty by sharing exposure. These results complement our earlier results. Banks with extensive international reach reallocate capital abroad, and those facing heightened uncertainty structure loans to distribute risk more widely. In line with the idea that syndication facilitates risk sharing, column (4) shows that the number of distinct lender nationalities in a syndicate also increases during turnover periods, highlighting that risk is shared not only across institutions but also across jurisdictions.

3.3.4 Institutional scope of central banks

We next explore whether the effect of governor turnovers depends on the institutional scope of a central bank. In many countries, central banks not only conduct monetary policy but also regulate the banking sector. Central bank governor transitions in dual-function central banks amplify uncertainty because the incoming governor's stance is unclear not only on monetary policy but also on prudential regulation. We construct a time-varying indicator, *Central bank dual function*, equal to one when the central bank in the lender's home country also holds formal supervisory authority. Table 10 presents results.

[Insert Table 10 Here]

We find that impending governor turnovers in countries where the central bank does not supervise banks are associated with an 8.3 percentage point increase in deal size, suggesting that the baseline effect remains economically meaningful and statistically significant. By contrast, turnovers in impending governor turnovers dual-function central banks imply a 12.5 percentage point increase in deal size, roughly 1.5 times larger. These results corroborate our baseline findings and suggest that governor transitions matter most when the scope of the office is broadest.

3.4 Bank level exposures to turnover events

Banks operate across multiple countries. An arm's-length transaction between a borrower and a bank may inadvertently be exposed to central bank governor turnovers in third-party countries. These are the countries where neither the focal borrower nor the focal bank is domiciled, but the focal bank has an exposure via lending operations. These exposures contribute to systemic uncertainty, potentially shaping lending behavior even when the turnover does not occur in the lender's or borrower's home country.

In highly interconnected markets, policy uncertainty in one part of a bank's operating network can influence credit decisions elsewhere. Within this context, the real options framework suggests that rising uncertainty increases the value of delaying credit commitments. Previous work shows that global banks recalibrate their lending in response to shifts in monetary or regulatory conditions across different jurisdictions (Adrian & Shin, 2010; Avdjiev et al., 2020; Miranda-Agrippino & Rey, 2020; Correa et al., 2023). We build on this insight by quantifying the impact of exposure to third-party leadership transitions on the volume and terms of cross-border lending.

To do so, we construct a bank-level exposure measure that captures the share of lending countries experiencing a central bank governor turnover in a given year. Specifically, we define:

$$\text{Turnover}_{b_c t} = \frac{1}{\mathbb{N}_{\mathbb{C}_{bt}}} \sum_{\mathbb{C}_{bt}} \text{Turnover}_{c't} \qquad \text{where } c' \in \mathbb{C}_{bt}. \tag{3}$$

In equation (3), $\mathbb{C}_{bt}$ denotes the set of countries where bank b headquartered in country c originated loans in the preceding five years, and $\mathbb{N}_{\mathbb{C}_{bt}}$ denotes the number of such countries. This exposure measure represents the proportion of a bank's active jurisdictions that are affected by turnover events in a given year. Using this measure, we estimate the following regression:

$$\text{Lending Outcome}_{ib_c kc't} = \beta_1 \text{Turnover}_{bt} + \beta_1 \text{Irregular Turnover}_{bt} + \mathbf{\Psi} + \epsilon_{b_c i c' t}. \tag{4}$$

Here, Turnover_{bt} and $\text{Irregular Turnover}_{bt}$ capture regular term-completion events and

unscheduled leadership transitions, respectively. The fixed effects Ψ mirror those used in prior specifications, but augmented with domestic country-year fixed effects to account for macro conditions at a focal bank's home country. Given that we can estimate a bank-level turnover exposure measure for all banks, we implement equation (4) across three distinct samples: (i) our baseline cross-border sample where $g \neq g'$, (ii) the domestic sample where $g = g'$, and (iii) the full set of loan contracts. Including the domestic sample is informative because it allows us to assess whether banks scale back lending not only abroad, but also at home when they are exposed to policy uncertainty elsewhere in their lending network.

[Insert Table 11 Here]

The results in Table 11 show that when a greater share of a bank's lending network experiences regular central bank turnovers, the volume of lending declines, but only for cross-border transactions. In Column (1), where borrowers are located outside the lender's home country, the effect is large and statistically significant, consistent with banks deferring international exposures during periods of policy uncertainty. In contrast, Column (2) shows no effect for domestic transactions, where the lender and borrower are governed by the same central bank, suggesting that policy uncertainty in third-party jurisdictions leads banks to delay capital commitments, but only in markets where they face greater informational frictions and exit costs. In Column (3), where all transactions are pooled, the average effect remains negative, underscoring the systemic nature of international rebalancing in response to uncertainty shocks.

The pattern differs when third-party uncertainty arises from irregular turnovers, which signal deeper institutional risk. These episodes lead to a significant decline in domestic lending, while the effect on cross-border transactions is negative but lacks statistical significance. That banks scale back domestic deals, where macro and regulatory conditions are controlled for, suggests that irregular transitions shape portfolio-wide risk assessments, not just bilateral credit frictions. This finding supports the interpreta-

tion that uncertainty propagates through banks' internal capital allocation processes. In other words, uncertainty does not need to be focal to matter.

3.5 Other turnover types and cross-border lending

We now ask whether this response is specific to regular transitions or whether banks adjust their behavior similarly across other types of turnover. This distinction matters because not all leadership changes generate the same degree of uncertainty. Table 12 presents results for three alternative scenarios: *continuity* (where the same governor is reappointed), continuity or regular turnovers combined, and irregular turnovers (where a governor exits mid-term).

Column (1) focuses on continuity events, characterized by the reappointment of the sitting governor. These events represent the lowest form of policy uncertainty, as leadership remains unchanged. If markets anticipate this continuation, uncertainty should be minimal. The results show that, during such periods, cross-border lending increases but with lower economic significance. These patterns are consistent with our prior that central bank turnover events lack perfect prediction on the identity of the new incoming governor. The option of waiting still carries some value, and banks may adjust lending, but more conservatively as a result.

[Insert Table 12 Here]

Column (2) evaluates the combined category of continuity or regular turnovers. This broader definition serves as a benchmark to assess whether the effects previously attributed to turnover are primarily driven by genuine leadership change. The results show that the increase in cross-border lending is concentrated in cases of regular turnover, where a new governor assumes office. This finding supports the interpretation that it is the uncertainty associated with incoming leadership, rather than the completion of a fixed term itself, that triggers banks' reallocation of capital.

Lastly, in column (3), we turn to irregular turnovers, which occur when a governor

exits before completing their term. These events are typically unanticipated and are likely to reflect domestic economic or political instability. The negative coefficient highlights an asymmetry. Predictable turnovers increase, and irregular turnovers lead to retrenchment in cross-border lending. The latter is consistent with heightened concerns about systemic risk. Overall, the findings in Table 12 suggest that the underlying nature and predictability of the turnover shape how banks adjust their cross-border credit exposure.

4 Conclusion

The direction of causality between real and financial outcomes is often ambiguous. This paper shows that monetary policy uncertainty arising from central bank leadership changes has measurable consequences for the global allocation of credit. We use the institutional structure of fixed-term governor appointments to isolate exogenous variation in monetary policy uncertainty and trace its effects on cross-border lending behavior.

We demonstrate that, in the period leading up to a central bank governor's turnover in their home country, banks increase cross-border lending and that this increase reverses once the new governor takes office. Total credit supply does not expand. Banks reallocate lending from domestic to foreign borrowers, favoring faster-growing economies, and rely more on syndication, concentrating the effect among banks with higher international geographic diversification. Domestic investment lending declines during the pre-turnover period, and this contraction predicts increased foreign lending, consistent with a real-options response to uncertainty. The results demonstrate that predictable institutional leadership changes, even in the absence of policy shocks, affect cross-border credit allocation.

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Table 1: **Summary statistics**

This table presents summary statistics for the key variables used in the paper's analyses. The symbol '*' denotes the full sample, which includes both domestic and foreign observations. The symbol '#' denotes the domestic sample, where the bank and borrower have a common central bank governor, i.e., both parties to a transaction are from the same region. In contrast, foreign observations refer to cases where the bank and borrower do not share a central bank governor, implying they are associated with different central banks. Syndicate diversity is measured as the number of distinct lender nationalities in a syndicated loan. The sample covers a 34-year period beginning in 1990.

	N	Mean	SD	p10	p25	p50	p75	p90
Ln(deal amount (in mil USD))	52,903	5.655	1.404	3.912	4.700	5.642	6.613	7.488
Deal amount (in mil USD)	52,903	743.596	1,492.430	50.000	110.000	282.090	745.000	1,786.000
Syndicated (1 = Yes, 0 = No)	52,903	0.945	0.228	1.000	1.000	1.000	1.000	1.000
Syndicate size | Syndicated = 1	49,988	10.602	11.906	1.000	3.000	6.000	15.000	26.000
Syndicate diversity | Syndicated = 1	49,988	5.239	3.972	1.000	2.000	4.000	8.000	11.000
Central bank governor turnover	52,903	0.149	0.356	0.000	0.000	0.000	0.000	1.000
Central bank governor turnover - Continuity	52,903	0.097	0.296	0.000	0.000	0.000	0.000	0.000
Central bank governor turnover - Continuity or Regular	52,903	0.246	0.431	0.000	0.000	0.000	0.000	1.000
Central bank governor turnover - Irregular	52,903	0.049	0.215	0.000	0.000	0.000	0.000	0.000
First year in office	52,903	0.065	0.246	0.000	0.000	0.000	0.000	0.000
Bank exposure to central bank governor turnovers	52,903	0.157	0.121	0.047	0.071	0.116	0.195	0.341
Bank exposure to central bank irregular governor turnovers	52,903	0.098	0.084	0.000	0.033	0.075	0.140	0.217
Domestic GDP growth	52,903	2.476	2.032	0.471	1.663	2.524	3.589	4.483
Domestic FX Rate (relative to USD)	52,903	26.298	238.082	0.667	0.938	1.000	1.485	87.780
Domestic central bank independence index	52,903	0.636	0.332	0.144	0.154	0.808	0.956	0.956
Domestic - Election held (1 = Yes, 0 = No)	52,903	0.249	0.433	0.000	0.000	0.000	0.000	1.000
Bank exposure to central bank governor turnover#	162,652	0.200	0.160	0.026	0.095	0.167	0.286	0.385
Bank exposure to central bank irregular governor turnover#	162,652	0.071	0.080	0.000	0.000	0.056	0.108	0.174
Bank exposure to central bank governor turnover*	215,555	0.190	0.153	0.026	0.091	0.162	0.270	0.375
Bank exposure to central bank irregular governor turnover*	215,555	0.078	0.082	0.000	0.000	0.068	0.119	0.200

Table 2: **Validation: Policy uncertainty and central bank governor turnovers**

This table examines how central bank governor turnovers are associated with existing measures of monetary policy uncertainty in the time series. The dependent variable is the logarithm of country-level economic policy uncertainty. The dependent variable *Central bank governor turnover* is a dummy variable for year *t-1* and *t* if a governor completes their term and a new governor takes over the position in year *t*. 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 time, with t-statistics in parentheses. Significance: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent variable: Ln(Economic Policy Uncertainty)						
	Sample used:						
	All	Economy Type		Central Bank Independence		Election Held	
		Developed	Emerging	Low	High	No	Yes
Central bank governor turnover	0.075***	0.061***	0.092***	0.039*	0.104***	0.105***	-0.007
	(5.062)	(2.892)	(3.638)	(1.916)	(5.141)	(6.070)	(-0.245)
Election year	0.026*	0.020	0.048	0.007	0.052**		
	(1.791)	(1.334)	(1.364)	(0.333)	(2.424)		
GDP growth	-0.045***	-0.039***	-0.044***	-0.056***	-0.035***	-0.044***	-0.051***
	(-10.727)	(-8.455)	(-7.995)	(-11.969)	(-8.034)	(-9.119)	(-12.626)
FX rate	0.000***	0.000***	0.002***	0.001***	0.000***	0.000***	0.002***
	(6.284)	(3.104)	(10.970)	(4.997)	(3.728)	(5.547)	(8.971)
Central bank independence index	0.695***	0.530***	0.653***	1.734***	-0.272***	0.613***	0.983***
	(8.541)	(6.496)	(5.569)	(10.123)	(-3.432)	(7.207)	(5.983)
N	6,755	4,677	2,078	2,892	3,863	5,111	1,644
R^2	0.199	0.153	0.261	0.304	0.138	0.193	0.252
Country FE	✓	✓	✓	✓	✓	✓	✓

Table 3: **Validation: 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)–(2) is the differenced interest rate, while columns (3)–(5) use the differenced standard deviation of the interest rate, estimated over the past 20 quarters. The main independent variables are dummy indicators for years *t-1* and *t* if a governor completes their term in year *t*. 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)
	Dependent variable:				
	Δr		$\Delta\sigma_r$		
Central bank governor turnover	-0.030	-0.041	0.012*	0.012*	0.010*
	(-0.770)	(-1.095)	(2.003)	(1.998)	(1.714)
Lagged $\Delta\sigma_r$			0.713***	0.725***	0.696***
			(17.566)	(19.969)	(18.975)
Δr				0.040**	0.040***
				(2.567)	(2.953)
Lagged Δr	0.183*	0.160*		-0.004	-0.003
	(2.016)	(1.977)		(-0.425)	(-0.400)
Election held during the year		0.044			0.007
		(0.561)			(1.267)
GDP growth		0.025			-0.005***
		(1.515)			(-2.862)
ΔFX Rate		1.105*			0.109**
		(1.745)			(2.643)
ΔCentral bank independence index		-2.169			0.097
		(-1.636)			(1.401)
R^2	0.172	0.195	0.609	0.638	0.644
N	4,147	4,105	3,916	3,916	3,907
Country FE	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓

Table 4: **Central bank governor turnovers and cross-border lending**

This table presents the results of an analysis exploring the association between the logarithm of deal amount and central bank governor turnovers in lenders' home countries. The turnover event is *regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor completes their term and a new governor takes over the position in year *t*. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to the 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 the bank's country and the 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)
	Dependent variable: Ln(Deal amount)			
Central bank governor turnover	0.110***	0.106***	0.110***	0.112***
	(4.664)	(5.465)	(6.242)	(6.264)
Election held during the year	-0.027**	-0.022	-0.023	-0.024
	(-2.139)	(-1.358)	(-1.370)	(-1.441)
GDP Growth	0.013	0.013	0.013	0.013
	(1.312)	(1.399)	(1.484)	(1.503)
FX Rate	0.000***	0.000***	0.000***	0.000***
	(2.971)	(3.532)	(3.275)	(3.370)
Central bank independence index	0.113*	0.043	0.067**	0.051*
	(1.969)	(1.662)	(2.425)	(1.931)
R^2	0.646	0.666	0.669	0.672
N	52,903	52,903	52,903	52,903
Macroeconomic controls	✓	✓	✓	✓
Bank × Industry × Foreign Country FE	✓	✓	✓	✓
Industry × Foreign Country × Year FE	✓	✓	✓	✓
Deal Purpose FE	✗	✓	✓	✗
Deal Type FE	✗	✗	✓	✗
Deal Purpose × Deal Type FE	✗	✗	✗	✓

Table 5: **Central bank governor turnovers and cross-border lending: Borrower country heterogeneity**

This table presents the results of an analysis exploring the association between deal amount and central bank governor turnovers in lenders' home countries and characteristics of borrowers' countries. The turnover event is *regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor completes their term and a new governor takes over the position in year *t*. The *GDP growth differential* is defined as the difference between the GDP growth of the lender's country and the GDP growth of the borrower's country. The *FX rate differential*, *Inflation rate differential*, and *Central bank independence differential* are defined analogously. 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)				
Central bank governor turnover	0.083***	0.109***	0.105***	0.123***	0.096***
	(3.209)	(4.654)	(5.783)	(4.298)	(3.051)
GDP growth differential	0.020*				0.019
	(1.759)				(1.471)
Central bank governor turnover × GDP growth differential	-0.051***				-0.054**
	(-3.380)				(-2.283)
FX rate differential		0.000***			0.000***
		(9.474)			(3.636)
Central bank governor turnover × FX rate differential		-0.000			-0.000
		(-1.088)			(-0.117)
Inflation rate differential			-0.019		-0.018
			(-1.117)		(-1.104)
Central bank governor turnover × Inflation rate differential			-0.000		0.001
			(-0.076)		(0.183)
Central bank independence differential				0.038	0.006
				(0.695)	(0.077)
Central bank governor turnover × Central bank independence differential				0.077	0.092*
				(1.240)	(1.814)
R^2	0.672	0.672	0.672	0.666	0.666
N	52,903	52,903	52,903	52,903	52,903
Bank × Industry × Foreign Country FE	✓	✓	✓	✓	✓
Industry × Foreign Country × Year FE	✓	✓	✓	✓	✓
Deal Purpose × Deal Type FE	✓	✓	✓	✓	✓

Table 6: **Central bank governor turnovers and reversal in cross-border lending**
This table presents the results of an analysis exploring the association between the logarithm of the deal amount and central bank governor turnovers in lenders' home countries. The independent variable, *First year in office*, is a dummy variable that equals 1 (0 otherwise) for year *t* if a new governor took over the position in year *t-1*. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to the 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)
	Dependent variable: Ln(deal amount)
First year in office	-0.090***
	(-2.991)
R^2	0.671
N	52,903
Domestic macroeconomic controls	✓
Bank × Industry × Foreign Country FE	✓
Industry × Foreign Country × Year FE	✓
Deal Purpose × Deal Type FE	✓

Table 7: **Central bank governor turnovers, domestic investment, and cross-border lending: IV Estimates**

This table presents two-stage least squares regression results examining whether central bank governor turnover in a bank's home country affects its foreign lending by reducing domestic loan demand. Panel A uses investment-related domestic loans as the endogenous variable, defined as the total volume and number of loans issued for acquisition, capital expenditure, leveraged buyout, project finance, real estate, sponsored buyout, or takeover purposes. These are instrumented using a dummy for regular central bank governor turnover, defined as years *t–1* and *t* when a governor completes their term and is replaced in year *t*. Columns (1) and (3) report the first-stage regressions; columns (2) and (4) report second-stage results. Panel B reports placebo tests using non-investment domestic loans, specifically, those issued for general purpose, recapitalization, trade finance, working capital, or refinancing. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to the 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: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Panel A

	(1)	(2)	(3)	(4)
	First stage	Second stage	First stage	Second stage
	Dependent variable:			
	Ln(Domestic lending)	Ln(Deal amount)	Ln(Number of domestic loans)	Ln(Deal amount)
Central bank governor turnover	-0.495***		-0.153**	
	(-2.824)		(-2.356)	
Ln(Domestic lending)		-0.323***		
		(-4.155)		
Ln(Number of domestic deals)				-1.045***
				(-3.753)
N	45,611	45,611	45,611	45,611
Domestic macroeconomic controls	✓	✓	✓	✓
Bank × Industry × Foreign Country FE	✓	✓	✓	✓
Industry × Foreign Country × Year FE	✓	✓	✓	✓
Deal Purpose × Deal Type FE	✓	✓	✓	✓

Panel B – Placebo

	(1)	(2)	(3)	(4)
	First stage	Second stage	First stage	Second stage
	Dependent variable:			
	Ln(Domestic lending)	Ln(Deal amount)	Ln(Number of domestic loans)	Ln(Deal amount)
Central bank governor turnover	0.060		-0.057	
	(0.466)		(-0.659)	
Ln(Domestic lending)		2.100		
		(0.428)		
Ln(Number of domestic deals)				-2.213
				(-0.725)
N	48,964	48,964	48,964	48,964
Domestic macroeconomic controls	✓	✓	✓	✓
Bank × Industry × Foreign Country FE	✓	✓	✓	✓
Industry × Foreign Country × Year FE	✓	✓	✓	✓
Deal Purpose × Deal Type FE	✓	✓	✓	✓

Table 8: **Central bank governor turnovers, loan portfolio diversification and cross-border lending**

This table examines whether banks with a broader foreign lending presence respond differently to central bank governor turnover in their home countries. The dependent variable in both columns is the logarithm of the deal amount in foreign syndicated loans. The key variable of interest is a dummy for regular central bank governor turnover, defined as years *t–1* and *t* when a governor completes their term and is replaced in year *t*. In column (1), we measure the extent of a bank's international operations using the continuous variable Ln(number of foreign lending markets). In column (2), we replace the continuous measure with a dichotomous indicator, High number of foreign markets, which equals 1 (0 otherwise) if a bank's number of foreign lending markets is above the sample median. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to the 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)
	Dependent variable: Ln(deal amount)	
Central bank governor turnover	-0.009	0.039***
	(-0.250)	(3.319)
Ln(number of foreign lending markets)	0.033	
	(0.896)	
Central bank governor turnover × Ln(number of foreign lending markets)	0.086**	
	(2.602)	
High international footprint		-0.066*
		(-2.011)
Central bank governor turnover × High number of foreign markets		0.234**
		(2.722)
N	51,198	51,198
R^2	0.668	0.672
Domestic macroeconomic controls	✓	✓
Bank × Industry × Foreign Country FE	✓	✓
Industry × Foreign Country × Year FE	✓	✓
Deal Purpose × Deal Type FE	✓	✓

Table 9: **Central bank governor turnovers and syndicate structure**

This table presents the results of an analysis exploring the association between the deal syndicate structure and central bank governor turnovers in lenders' home countries. The turnover event is *regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor completes their term and a new governor takes over the position in year *t*. In column (1), the dependent variable, *Syndicated*, is a dichotomous variable that equals 1 (0 otherwise) if a deal is syndicated. In column (2), the dependent variable is the logarithm of the number of participants in a deal syndicate. Column (3) presents results from a Poisson regression where the dependent variable is the count of syndicate participants. In column (4), the dependent variable is Syndicate diversity, measured as the number of distinct lender nationalities in a syndicated loan. In columns (3) and (4), the reported R^2 is the pseudo R^2. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to the 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)
	Dependent variable:			
	Syndicated	Ln(Syndicate size) | Syndicated	Syndicate size | Syndicated	Syndicate diversity | Syndicated
Central bank governor turnover	0.008***	0.049***	0.042**	0.053***
	(2.821)	(3.057)	(2.452)	(2.729)
R^2	0.534	0.663	0.551	0.341
N	52,903	49,988	49,988	49,988
Macroeconomic controls	✓	✓	✓	✓
Bank × Industry × Foreign Country FE	✓	✓	✓	✓
Industry × Foreign Country × Year FE	✓	✓	✓	✓
Deal Purpose × Deal Type FE	✓	✓	✓	✓

Table 10: **Central bank governor turnovers, bank supervision, and cross-border lending**

This table reports the effect of central bank governor turnover on deal size, comparing countries where the central bank also serves as bank supervisor with those where it does not. The independent variable is a dummy variable that equals 1 (0 otherwise) for year *t* if a new governor took over the position in year *t-1*. *Central bank dual function* is a dichotomous variable that equals 1 (0 otherwise) if a bank in the home country not only conducts monetary policy but also supervises banks. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to the 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)
	Dependent variable: Ln(deal amount)
Governor turnover	0.080**
	(2.390)
Governor turnover × Central bank dual function	0.174**
	(2.497)
Central bank dual function	-0.136***
	(-3.985)
R^2	0.672
N	52,903
Domestic macroeconomic controls	✓
Bank × Industry × Foreign Country FE	✓
Industry × Foreign Country × Year FE	✓
Deal Purpose × Deal Type FE	✓

Table 11: **Bank-level exposure to central bank governor turnovers and cross-border lending**

This table presents the results of an analysis exploring the association between lending activity and central bank governor turnovers. The dependent variable is the natural logarithm of the deal amount. The key independent variables are measured at the bank-year level and equal $\frac{1}{\mathbb{N}_{\mathbb{C}_{bt}}} \sum_{\mathbb{C}_{bt}} \text{Turnover}_{c't}$. 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 key independent variable is based on the *Regular turnover*, which is a dummy variable that equals 1 for years *t-1* and *t* when a governor completes their term, and a new governor takes over the position in year *t*. We also include a bank's exposure to *irregular turnover*, which is a dummy variable that equals 1 for years *t-1* and *t* when a governor exits mid-term in year *t*. 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)		
Bank-level exposure to central bank governor turnover	-0.877***	-0.019	-0.041**
	(-11.764)	(-1.018)	(-2.032)
Bank-level exposure to *irregular* central bank governor turnover	-0.418	-0.304***	-0.288***
	(-1.037)	(-5.502)	(-4.209)
R^2	0.695	0.500	0.559
N	52,903	162,653	215,555
Bank × Industry × Foreign Country FE	✓	✓	✓
Industry × Foreign Country × Year FE	✓	✓	✓
Domestic country × Year FE	✓	✓	✓
Deal Purpose × Deal Type FE	✓	✓	✓
Sample	Foreign Banks	Local banks	All banks

Table 12: **Central bank governor turnovers and cross-border lending: Other turnover types**

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*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor continues into a new term. In Panel B, the turnover event is *Continuity or regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor either continues into a new term or completes their term and a new governor takes over the position in year *t*. 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)
	Dependent variable: Ln(Deal amount)		
	Central bank governor turnover type:		
	Continuity	Continuity or regular	Irregular
Central bank governor turnover	0.031**	0.095***	-0.051
	(2.286)	(8.060)	(-1.671)
R^2	0.671	0.672	0.671
N	52,903	52,903	52,903
Domestic macroeconomic controls	✓	✓	✓
Bank × Industry × Foreign country FE	✓	✓	✓
Industry × Foreign country × Year FE	✓	✓	✓
Deal Purpose × Deal Type FE	✓	✓	✓

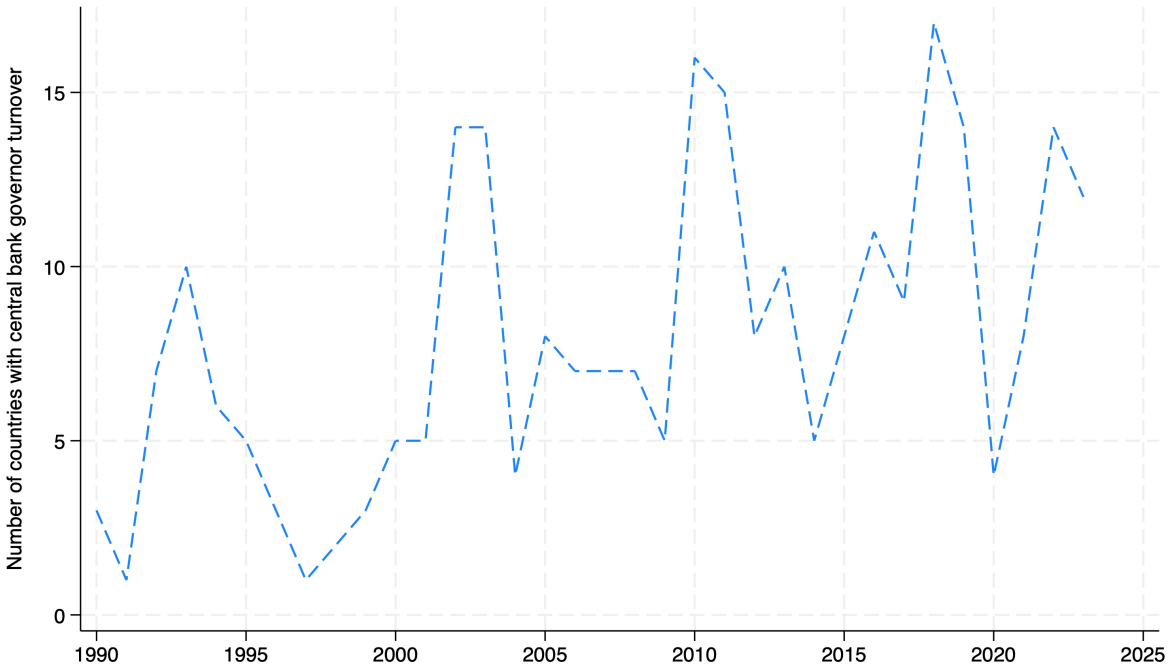


Figure 1: The figure illustrates the time series of the total number of countries in the penultimate year $t-1$ or the year t relative to a central bank governor turnover event. The sample comprises a balanced panel of 43 countries spanning 34 years (1990–2023).

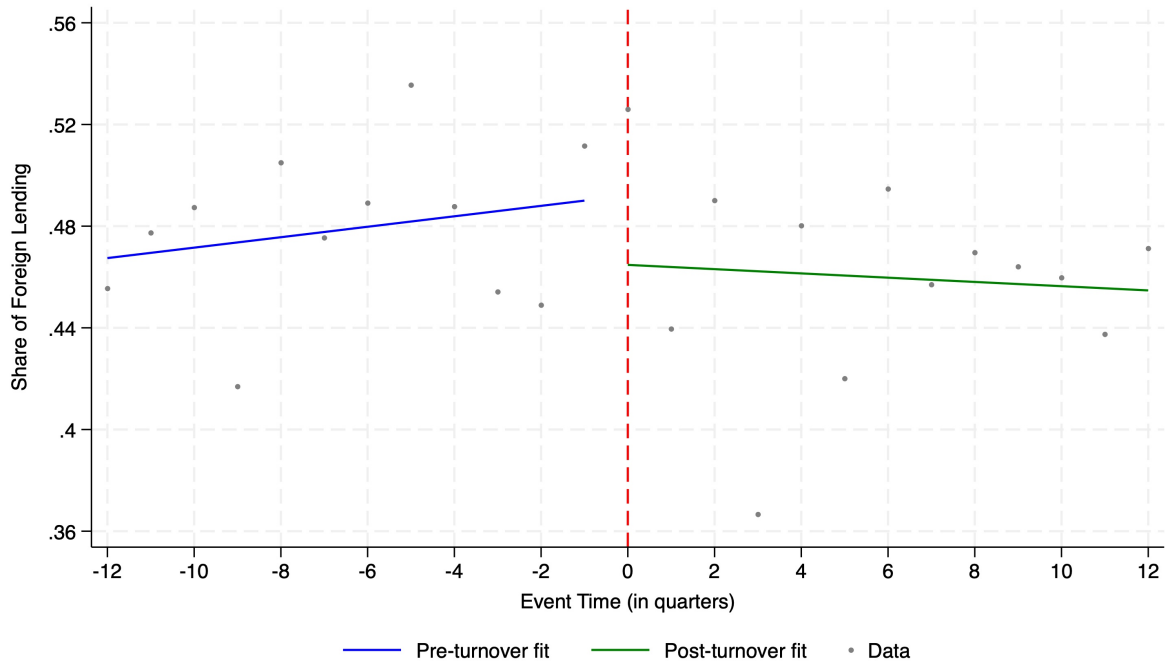


Figure 2: This figure plots the average share of foreign lending extended by banks headquartered in countries undergoing a central bank governor turnover. For each identified turnover event in a bank's home country, we construct an event window spanning twelve quarters before and after the turnover quarter. The sample includes banks that have exposure to multiple central banks. To compute the foreign lending share, we calculate the total loan amount extended to foreign borrowers (defined as those under the different central banks relative to that of the lending bank) as a fraction of total lending. This line plot represents the linear fit separately for the pre- and post-turnover period. The figure shows that the share of foreign lending is lower in the quarters before a central bank governor's turnover.

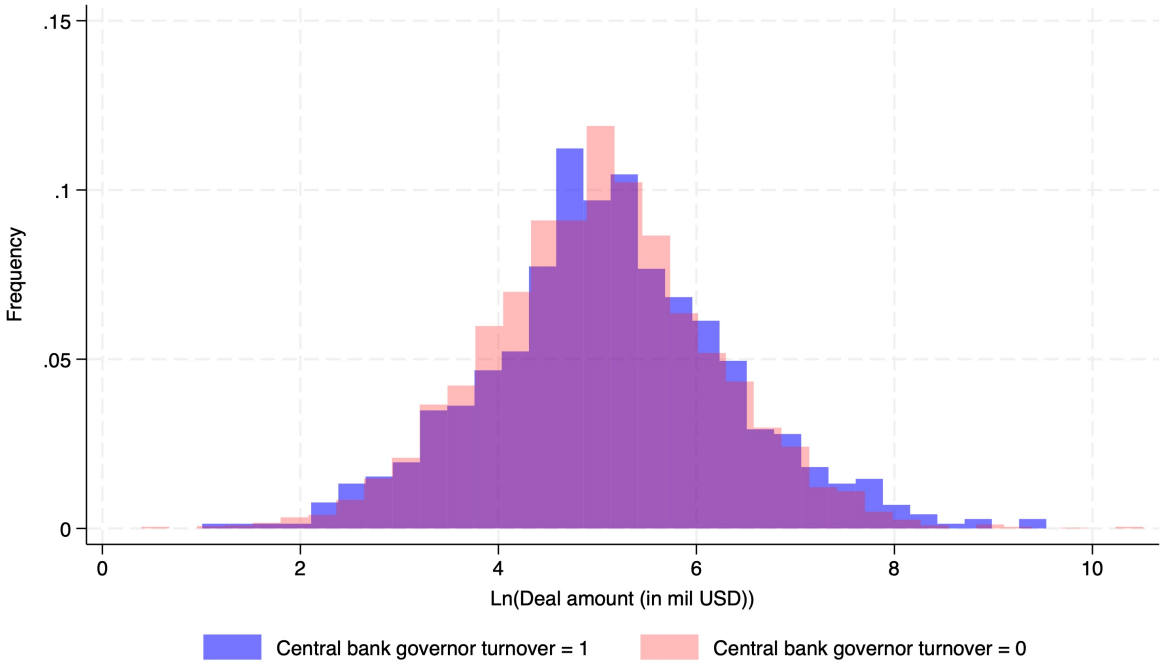


Figure 3: This figure shows the distribution of the logarithm of deal size (in mil USD) for turnover and non-turnover years. The average log deal size is 5.11 in turnover years and 5.02 in non-turnover years. The sample covers 34 years, from 1990 to 2023.

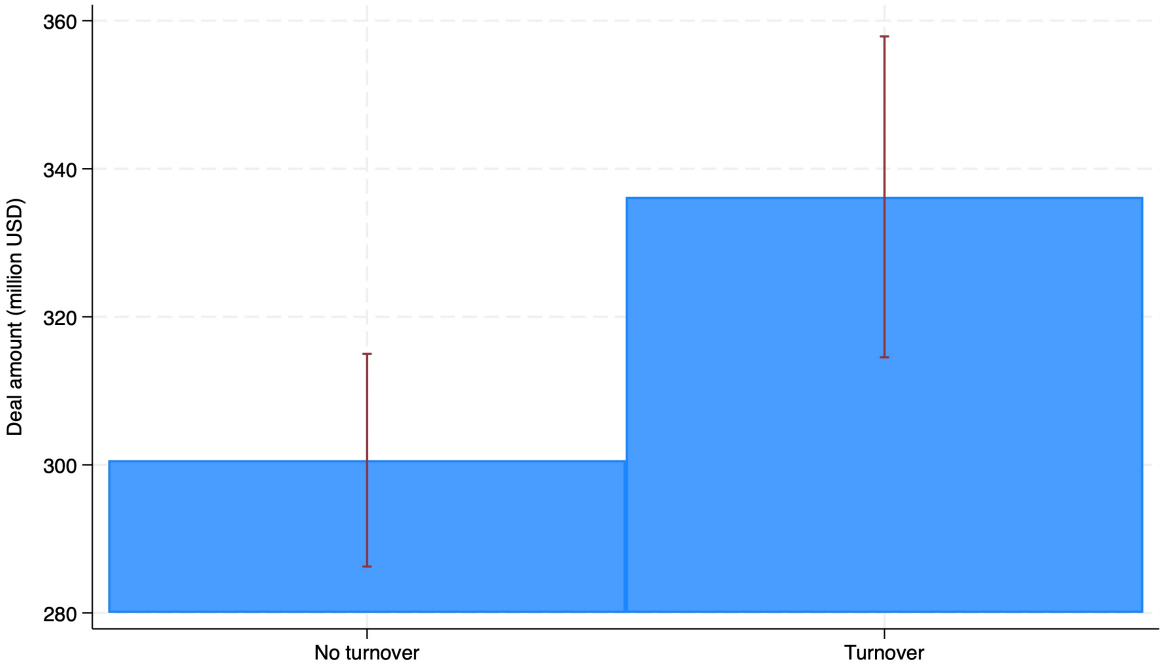


Figure 4: The figure shows the predicted deal amount implied by the regression specification column (4) of Table 4 for cases with and without an upcoming governor turnover. Predictions are obtained by exponentiating the fitted log model. The difference reflects the estimated 11.8 percent increase in deal size. The specification includes lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to the USD), central bank governor independence index, and an election year indicator. The sample period spans 34 years, from 1990 to 2023.

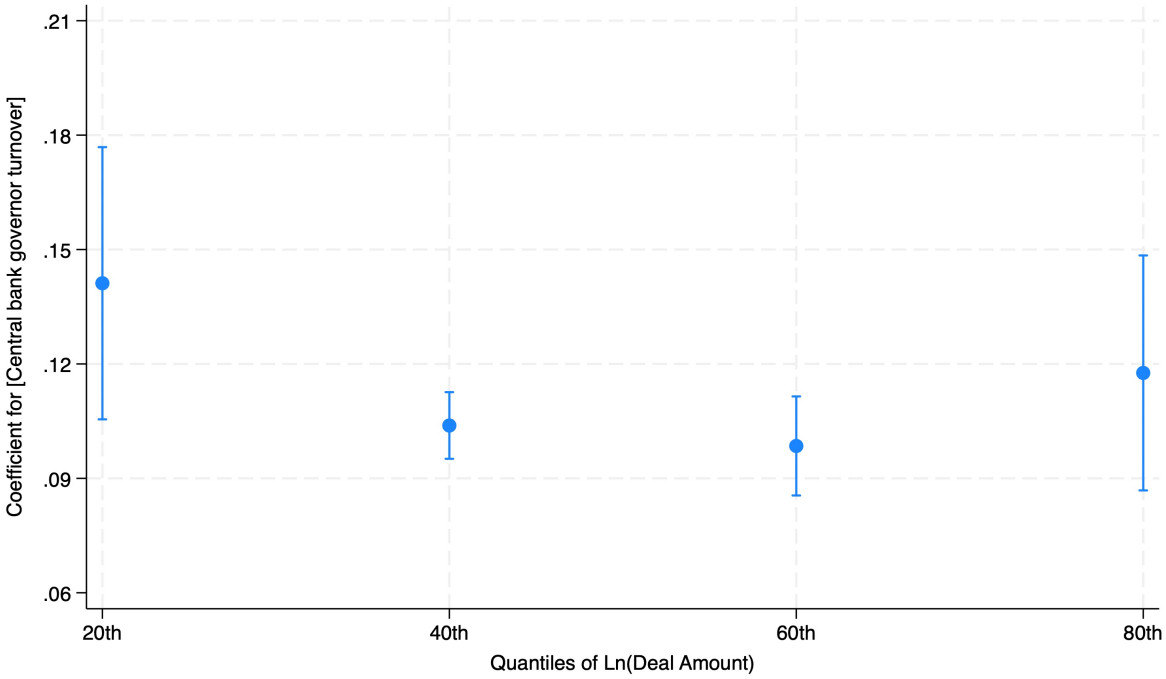


Figure 5: This figure presents coefficient estimates for quantile regressions, where the dependent variable is the logarithm of deal size.

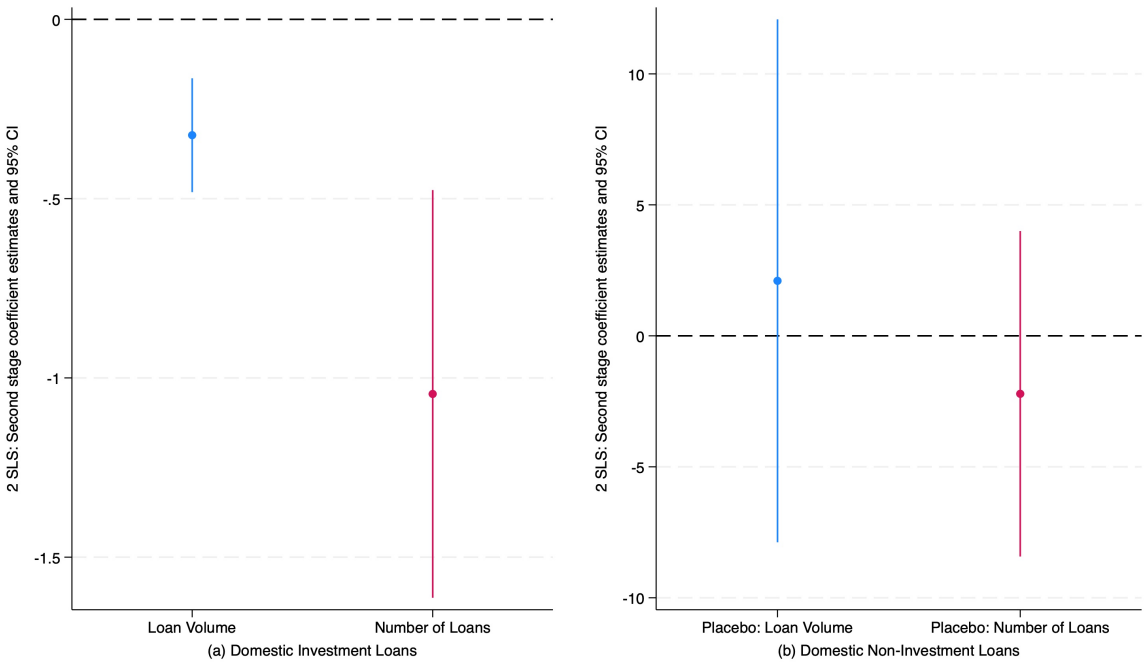


Figure 6: This figure presents coefficient estimates for the second stage of the 2-stage least squares regressions testing domestic decline in investment as conduits through which banks shift lending cross-border in the lead up to a central bank governor turnover at home.

Online Appendix

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	
Regular turnovers	A dichotomous variable that equals 1 (0 otherwise) for year *t-1* and *t* if a governor turns over in year *t*.
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*.
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	
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.
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.
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: **Validation: Interest rate moments and first year in office**

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)–(2) is the differenced interest rate, while columns (3)–(5) use the differenced standard deviation of the interest rate, estimated over the past 20 quarters. The independent variable, *First year in office*, is a dummy variable that equals 1 (0 otherwise) for year *t* if a new governor took over the position in year *t-1*. 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)
	Dependent variable:				
	Δr		$\Delta \sigma_r$		
First year in office	0.025	0.038	-0.013**	-0.014**	-0.012**
	(0.442)	(0.755)	(-2.503)	(-2.462)	(-2.042)
Lagged $\Delta \sigma_r$			0.713***	0.725***	0.696***
			(17.583)	(20.025)	(19.105)
Δr				0.040**	0.040***
				(2.567)	(2.954)
Lagged Δr	0.183*	0.160*		-0.004	-0.003
	(2.016)	(1.977)		(-0.427)	(-0.402)
Election held during the year		0.043			0.007
		(0.542)			(1.323)
GDP growth		0.026			-0.006***
		(1.526)			(-2.919)
ΔFX Rate		1.108*			0.108**
		(1.750)			(2.623)
ΔCentral bank independence index		-2.165			0.096
		(-1.635)			(1.391)
R^2	0.172	0.195	0.609	0.638	0.644
N	4,147	4,105	3,916	3,916	3,907
Country FE	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓

Table A.4: **Central bank governor turnovers, and bank-level loan volume and share of foreign lending**

This table reports results from panel regressions examining how central bank governor turnover in lender countries affects bank-level lending activity. Column (1) uses the logarithm of total loan volume across both domestic and foreign markets as the dependent variable. Column (2) uses the foreign lending share, defined as the ratio of a bank's foreign loan volume to its total loan volume. The key independent variables are dummy indicators for years *t–1* and *t*, where *t* denotes the year a central bank governor completes their term. The analysis is restricted to banks with both domestic and foreign lending activity. Results are qualitatively similar when banks with only domestic or only foreign lending are included. The standard errors are clustered by bank, 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)
	Dependent variable:	
	Ln(Deal volume)	Share of foreign lending
Central bank governor turnover	0.091	0.022***
	(1.487)	(2.862)
R^2	0.726	0.621
N	5,252	5,252
Bank FE	Yes	Yes
Year FE	Yes	Yes

Table A.5: **Central bank governor turnover and *within*-loan allocation to lenders**
This table reports results from regressions examining how central bank governor turnover in a lender's home country affects lending among participating lenders within a syndicated loan. The dependent variable is the logarithm of the allocated deal amount, computed as the product of a lender's loan share and the total deal size. The main independent variable is a dummy equal to one in years *t–1* and *t*, where *t* is the year a central bank governor completes their term in the lender's country. Column (2) includes an interaction with an indicator, $\mathbb{1}_{g \neq g'}$, for whether the lender and borrower belong to different central banks. All regressions include fixed effects for the loan, as well as the lender-by-industry-by-borrower country, and standard errors are two-way clustered by lender and borrower country. Statistical significance is reported at three levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

	(1)	(2)
	Dependent variable: Ln(Deal amount)	
Central bank governor turnover	0.018**	-0.003
	(2.484)	(-0.346)
$\mathbb{1}_{g \neq g'}$		0.025
		(0.292)
Central bank governor turnover $\times \mathbb{1}_{g \neq g'}$		0.022*
		(1.696)
R^2	0.898	0.897
N	140,500	178,375
Loan FE	Yes	Yes
Bank $\times$ Industry $\times$ Borrower's Country FE	Yes	Yes
Sample	No Turnover in borrowers' country	Full

Table A.6: **Central bank governor turnover, loan pricing, and maturities**
This table reports the effect of central bank governor turnover on loan spreads (relative to LIBOR), and maturities (in months) in columns (1) and (2), respectively. The independent variable is a dummy variable that equals 1 (0 otherwise) for year *t* if a new governor took over the position in year *t-1*. *Central bank dual function* is a dichotomous variable that equals 1 (0 otherwise) if a bank in the home country not only conducts monetary policy but also supervises banks. In column (2), we employ a Poisson regression, and the reported R^2 is pseudo R^2. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to the 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)
	Dependent variable:	
	Ln(All-in spread)	Maturity (in months)
Governor turnover	-0.014	0.035***
	(-0.899)	(3.499)
R^2	0.794	0.583
N	40,534	52,903
Domestic macroeconomic controls	✓	✓
Bank × Industry × Foreign Country FE	✓	✓
Industry × Foreign Country × Year FE	✓	✓
Deal Purpose × Deal Type FE	✓	✓

Discussion: Spreads and maturities are two important terms of debt contracts. Spreads reflect compensation for borrower-specific risks. We measure them using the all-in drawn spread relative to LIBOR. In our sample, the average spread is 224 basis points with a standard deviation of 173 basis points. In column (1), the coefficient lacks statistical significance. This finding is consistent with our empirical design, which holds borrowers' macroeconomic factors constant via fixed effects, and with our validation exercise, which shows that short-term interest rates do not respond significantly to impending governor turnovers. Maturity is a contractual term lenders can use to manage the uncertainty they face from home-country central bank governor turnovers. When lenders face heightened domestic policy uncertainty, they may prefer longer maturities to lock in terms until the policy environment stabilizes, rather than bearing the risk of refinancing under potentially unfavorable conditions. In column (2), the Poisson regression estimate of 0.035 implies an increase of about 2 months relative to the average maturity of 57.7 months. The results in this table are consistent with lenders using maturity, rather than pricing, in addition to lending volume, to manage uncertainty created by impending governor turnovers in their countries.

Table A.7: **Central bank governor turnovers and cross-border lending**

This table presents the results of an analysis exploring the association between the logarithm of deal amount and central bank governor turnovers in lenders' home countries. The turnover event is *regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor completes their term and a new governor takes over the position in year *t*. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to the 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 the bank's country and the 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)
	Dependent variable: Ln(Deal amount)	
Central bank governor turnover	0.118***	0.115***
	(4.954)	(5.160)
Election year	-0.019	-0.022
	(-1.065)	(-1.281)
Central bank governor turnover x Election year	-0.024	-0.012
	(-1.371)	(-0.497)
R^2	0.671	0.672
N	52,903	52,903
Macroeconomic controls	✓	✓
Bank × Industry × Foreign Country FE	✓	✓
Industry × Foreign Country × Year FE	✓	✓
Deal Purpose × Deal Type FE	✓	✓

Discussion: This table presents further corroborating evidence demonstrating the robustness of baseline results to political election cycles. In both specifications, the point estimate for central bank governor turnover is both statistically and economically robust, whereas that for the election-year indicator is economically small and lacks statistical significance at any conventional level. The coefficient for the interaction term in column (2) is also insignificant. Moreover, the signs on the election year dummy and its interaction with governor turnover suggest that the implied effect would be the opposite of our baseline results. These results suggest that political uncertainty-based explanations do not confound our baseline results.

Table A.8: **Political Regime Changes, Central bank governor turnovers and cross-border lending**

This table presents the results of an analysis exploring the association between the logarithm of deal amount and central bank governor turnovers in lenders' home countries. The turnover event is *regular turnover*, defined by a dummy variable equal to 1 for years *t-1* and *t* if a governor completes their term and a new governor takes over the position in year *t*. All specifications include lenders' country-year macroeconomic controls: GDP growth, foreign exchange rate (relative to the USD), central bank governor independence index, and an election year indicator. There are four political regimes based on lenders' countries: closed autocracy, electoral autocracy, electoral democracy, and liberal democracy. The ↑ indicates a change towards a more liberal political regime (e.g., electoral autocracy to electoral democracy) and ↓ indicates the opposite. The omitted category is no change in political regime. The sample period spans 34 years, from 1990 to 2023. Standard errors are clustered by the bank's country and the 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)
	Dependent variable: Ln(Deal amount)	
Central bank governor turnover	0.119***	0.124***
	(5.614)	(5.090)
Political regime change ↑	-0.775***	-0.774***
	(-5.064)	(-4.989)
Political regime change ↓	-0.448***	-0.239***
	(-6.817)	(-2.901)
Central bank governor turnover × Political regime change ↑		-1.232***
		(-7.040)
Central bank governor turnover × Political regime change ↓		-0.416***
		(-3.220)
GDP growth	0.015	0.014
	(1.544)	(1.480)
FX rate	0.000***	0.000***
	(3.539)	(3.492)
Central bank independence index	0.018	0.019
	(0.829)	(0.791)
Election year	-0.023	-0.023
	(-1.301)	(-1.301)
R^2	0.673	0.673
N	52,903	52,903
Macroeconomic controls	✓	✓
Bank × Industry × Foreign Country FE	✓	✓
Industry × Foreign Country × Year FE	✓	✓
Deal Purpose × Deal Type FE	✓	✓

Discussion: The results in this table suggest that central bank governor transitions when accompanied by political transitions in lenders' countries towards or away from democracy are associated with lower cross-border lending. The direct effect of the central bank governor turnover remains positive and corresponds to instances of no political regime change in lenders' countries. The negative interaction coefficients suggest that when fundamental institutional changes are underway, banks face economic, political, and regulatory uncertainty outside the central bank's domain, which may dampen the baseline effect we document.

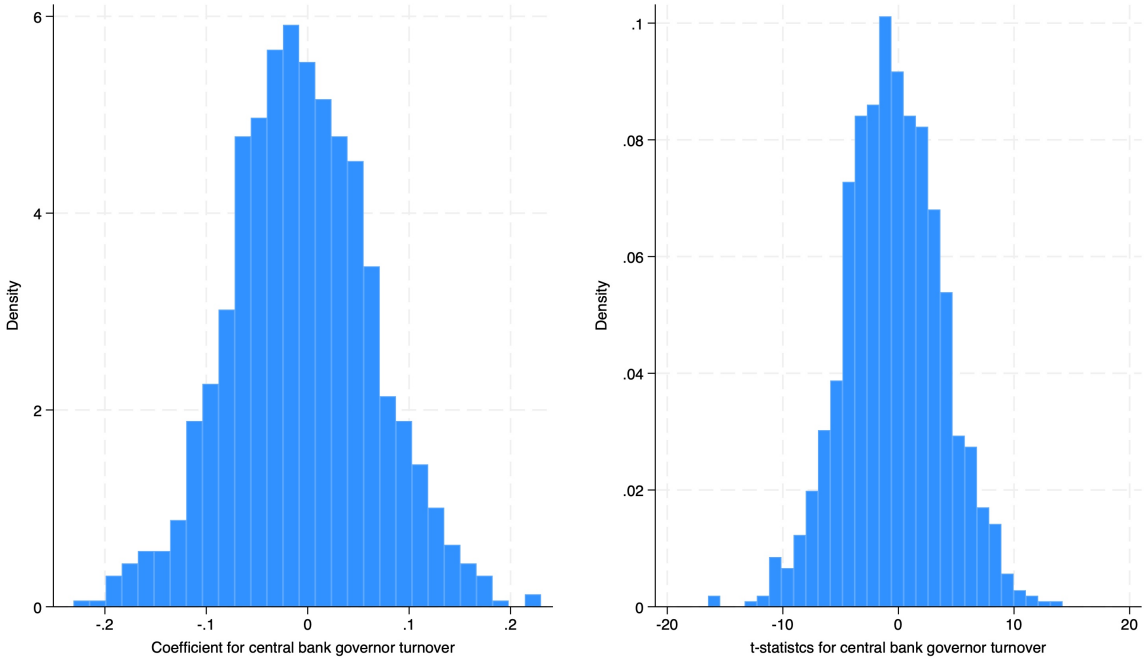


Figure A.1: The figure presents the results of placebo tests assessing the association between central bank governor turnovers and economic policy uncertainty. The top row shows the distribution of coefficients and t-statistics from 1,000 placebo regressions, where we simulate the timing of either continuity 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 central bank governor 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.

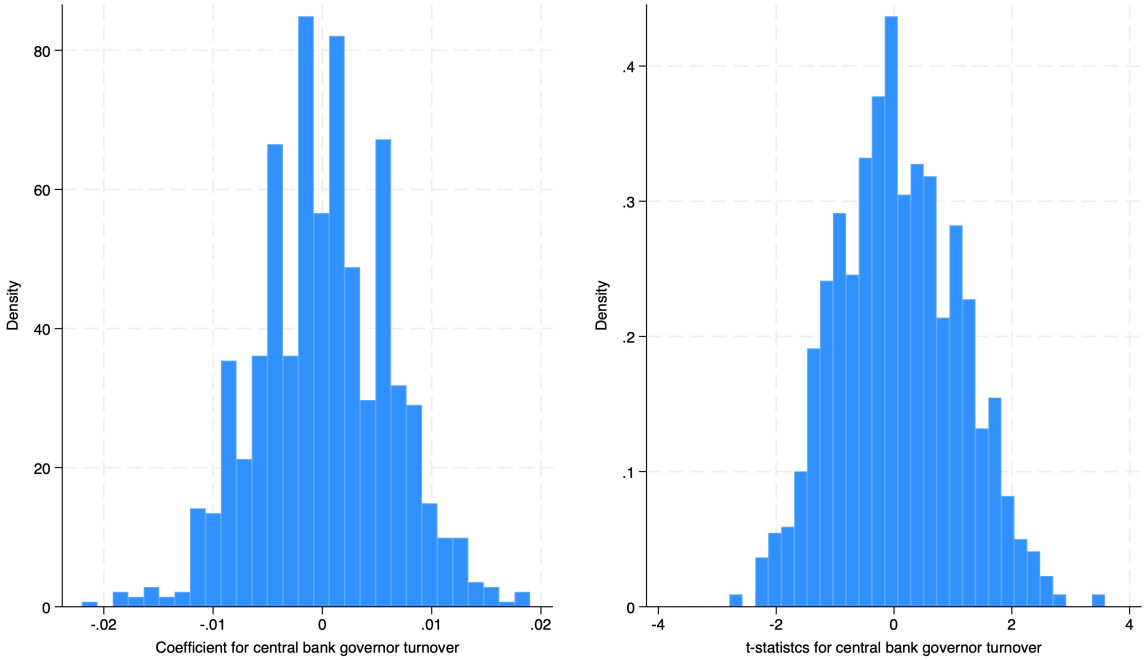


Figure A.2: The figure presents the results of two placebo tests assessing the association between central bank governor turnovers and the standard deviation of short-term interest rates. The top row shows the distribution of coefficients and t-statistics from 1,000 placebo regressions, where we simulate 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.

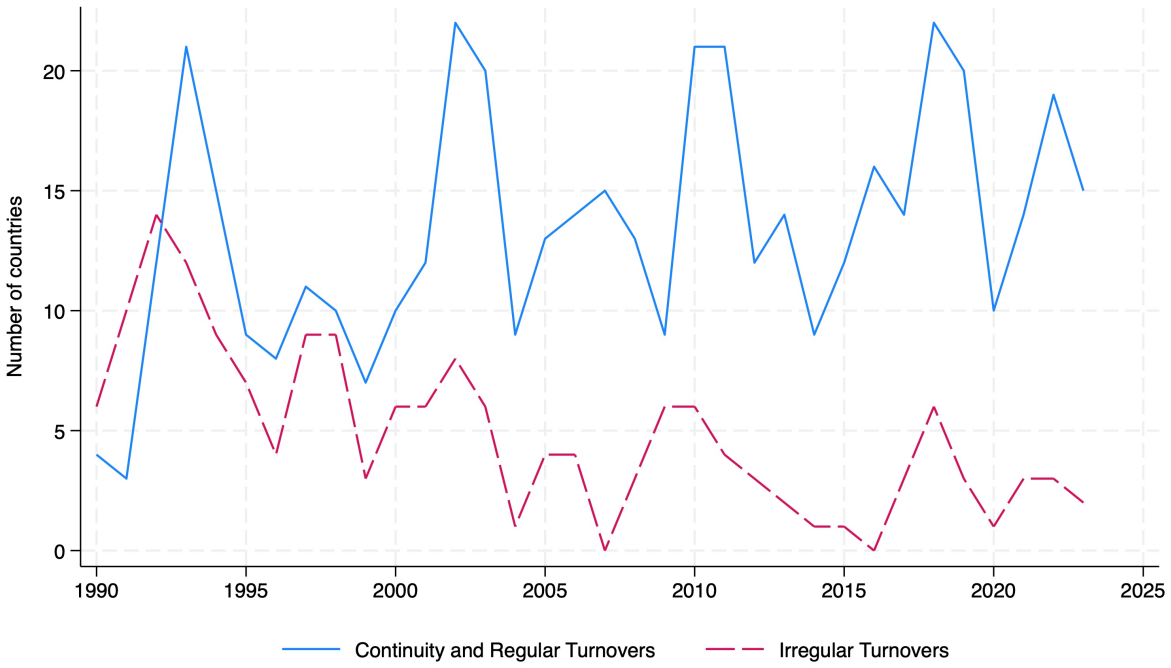


Figure A.3: The figure illustrates the time series of the total number of countries in the penultimate year $t-1$ or the year t relative to a central bank governor turnover event in the year t. In this figure, we consider two other types of turnovers. *Continuity or regular turnovers* are those where a governor completes their current term and continues into a new term, or a new governor takes over the position. *Irregular turnovers* are when a governor leaves office mid-term. The sample consists of a balanced panel of 43 countries over a 34-year period (1990–2023).

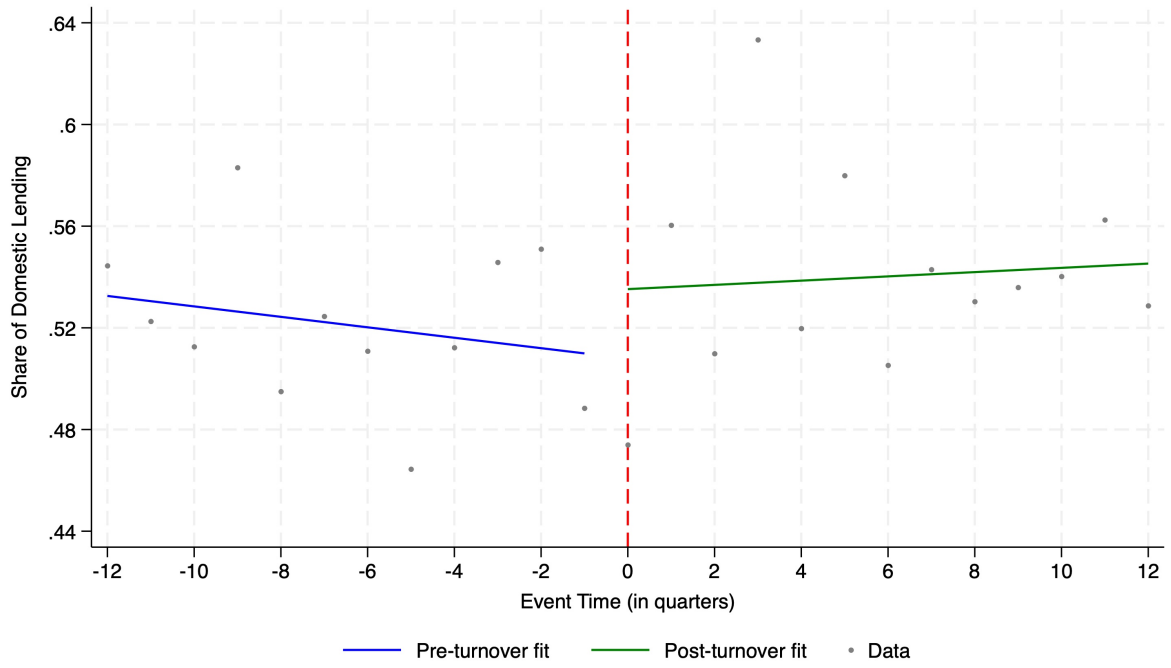


Figure A.4: This figure plots the average share of domestic lending extended by banks headquartered in countries undergoing a central bank governor turnover. For each identified turnover event in a bank's home country, we construct an event window spanning eight quarters before and after the turnover quarter. The sample includes banks that have exposure to multiple central banks. To compute the domestic lending share, we calculate the total loan amount extended to domestic borrowers (defined as those under the same central bank as the lending bank) as a fraction of total lending. This line plot presents the average domestic share across all turnover events at each event time. This line plot represents the linear fit separately for the pre- and post-turnover period. The figure shows that the share of foreign lending is lower in the quarters before a central bank governor's turnover.

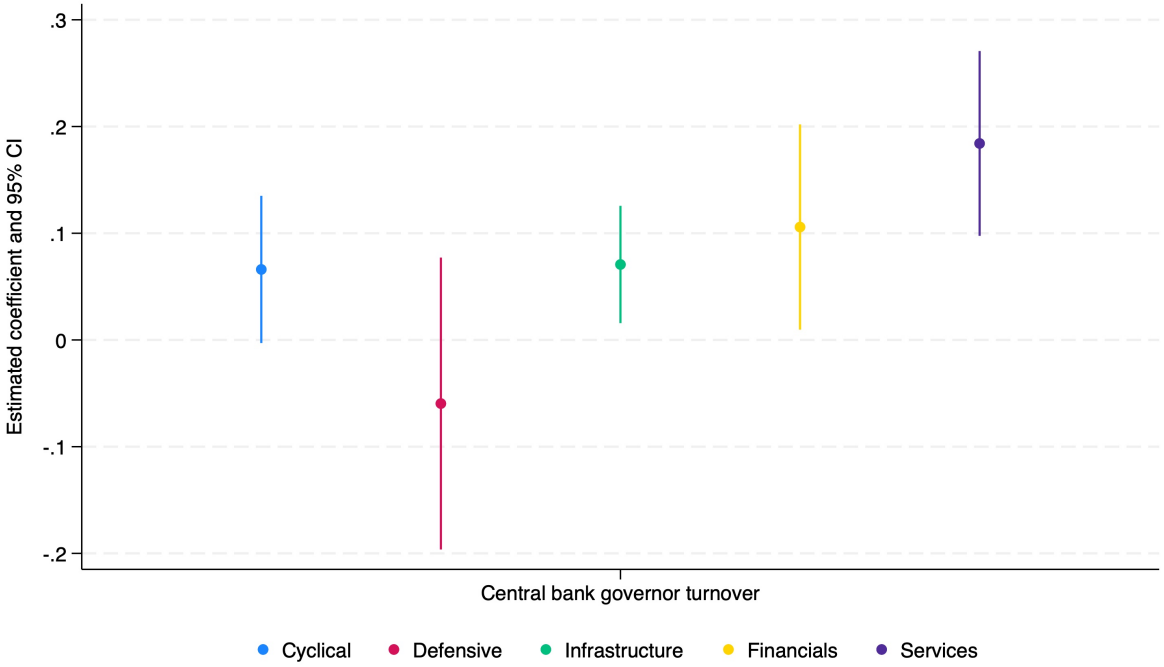


Figure A.5: This figure presents coefficient estimates and 95 percent confidence intervals from regressions of log deal amount on central-bank governor turnover, estimated separately for five borrower-industry groups. Industries are classified into five groups based on the 17 Fama-French industry categories: Cyclical (Mining, Oil, Textiles, Chemicals, Steel, Fabricated Products, Machinery/Equipment, Automobiles); Defensive (Food, Consumer Durables, Drugs/Tobacco, Utilities); Infrastructure (Construction, Transportation); Financials (Banks/Insurance/Other Financial); and Services (Retail and Other).

Discussion: The figure displays heterogeneous effects of central bank governor turnover across borrower-industry groups. All but one sector show positive and statistically significant coefficients. Borrowers in defensive sectors are regulated and demonstrate less cyclicality. The point estimate for this sector is statistically insignificant. When domestic uncertainty increases, global banks shift lending abroad to borrowers capable of absorbing large, investment-heavy facilities and tapping global demand rather than to stable, low-variability, and regulated sectors.