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

Kristle Romero Cortés* Mandeep Singh†

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Abstract

In many economies, central bank governors serve fixed terms, implying predetermined turnovers while the successor's identity and policy stance remain unknown until shortly before appointment. We exploit this feature across 43 countries to study how turnovers affect global bank credit. Cross-border lending rises 11.8 percent before a turnover, while total lending is unchanged, indicating a reallocation. Policy rates are stable while economic policy uncertainty and interest rate volatility rise. Lending reverses once the new governor takes office. Effects are larger at central banks with supervisory authority. These findings isolate governor turnovers as a distinct, plausibly exogenous source of economic uncertainty.

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*UNSW Business School, UNSW Sydney, Australia. Email: kristle.cortes@unsw.edu.au.

†Discipline of Finance, University of Sydney, Australia. Email: mandeep.singh@sydney.edu.au.

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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, on Swiss National Bank's leadership turnover, Nov. 22, 2024.

1 Introduction

Forward-looking economic decisions depend on expectations about future policy, which is determined by the policymaker. When a policymaker is set to be replaced, the mapping from economic conditions to policy actions becomes uncertain, even if the current policy remains unchanged. Existing measures of policy uncertainty do not isolate this source, as they aggregate across macroeconomic and political shocks. This distinction matters because predictable leadership transitions generate uncertainty about the future conduct of policy before any change occurs. We exploit fixed-term central bank governor appointments, which predetermine the timing of turnover but leave the successor's identity and policy stance unknown until shortly before appointment. Because monetary policy outcomes depend on the governor's preferences (Romer & Romer, 2004; Blinder, 2004; Howes et al., 2025), these transitions create exogenous variation in monetary policy uncertainty. We show that this uncertainty has first-order effects on the allocation, but not the level, of credit. Banks reallocate lending across borders in response to this uncertainty.

Empirically, identifying how banks respond to uncertainty arising from central bank leadership transitions presents two main challenges. First, policy changes often coincide with adverse macroeconomic conditions, making it difficult to disentangle the effects of uncertainty from those of the underlying economic environment. Second, within domestic markets, credit supply and demand are jointly determined as firms and banks are exposed to the policy environment, complicating efforts to isolate shifts in banks' credit supply. We address these challenges by exploiting the institutional feature of fixed-term central bank governor appointments, which predetermine the timing of leadership transitions and are exogenous to contemporaneous economic conditions. Our empirical

strategy leverages this variation in combination with a cross-border lending framework, comparing banks from countries experiencing an impending governor turnover to those that are not, while holding borrower-side conditions constant through extensive fixed effects. Using loan-level data from 43 economies, we find that in the period preceding a governor's turnover, cross-border lending increases by approximately 11.8 percent, while total lending remains unchanged. This pattern reverses after the new governor assumes 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 rather than reflecting changes in policy stance, we examine their association with established measures of *aggregate* uncertainty. Aggregate policy uncertainty indices rise in the period leading up to a governor's turnover, particularly in countries with greater central bank independence and outside of election cycles. At the same time, interest rates remain stable, while interest rate volatility increases prior to the transition and declines once the new governor takes office. These patterns are not observed in placebo tests with randomly assigned turnover dates. Consistent with uncertainty influencing the allocation rather than the aggregate supply of credit, total lending does not increase; instead, banks reallocate their portfolios toward foreign borrowers. These findings confirm that central bank governor turnovers are a credible source of monetary policy uncertainty.

To estimate the effect of monetary policy uncertainty induced by central bank governor turnovers on lending, we focus on turnover events in the lender's home country (domestic country) and restrict our attention to cross-border loans in which the lender and borrower are governed by different central banks. Our identification strategy exploits variation across banks whose home country governors reach the end of their legally mandated terms, while holding borrower-side (foreign) conditions constant. The regression specification includes fixed effects that absorb time-varying credit demand across borrowers' sectors and countries, foreign policy conditions, and persistent bilateral lending relationships. This empirical design allows us to cleanly identify whether

and how monetary policy uncertainty arising from an impending central bank governor turnover influences banks' allocation of credit abroad.

Our baseline findings indicate that central bank governor turnovers increase cross-border lending volume by approximately 11.8 percent, equivalent to 35 million dollars on a 300 million-dollar loan. 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. To isolate the component of domestic lending that responds to central bank governor turnover-induced uncertainty, we use a two-stage least squares design in which regular central bank governor turnovers instrument for domestic investment loan origination. The first stage captures the decline in domestic investment associated with impending turnovers, while the second stage shows that this predicted decline leads to higher cross-border lending. This pattern is consistent with banks redeploying capital when domestic investment demand weakens. The 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 prudential 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 monetary policy uncertainty stemming from central bank 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, which are unanticipated and often coincide with political or economic instability, lead to a decline in cross-border lending. This contrast reflects two distinct responses to uncertainty. Predictable turnover increases uncertainty about domestic policy without signaling systemic risk, leading banks to reallocate lending abroad. Irregular turnover signals broader instability, prompting banks to contract lending overall. Together, these findings show that banks respond to the uncertainty surrounding leadership transitions, not to turnover itself, and that this response differs between predictable and unanticipated transitions.

This study contributes to the literature on uncertainty and credit allocation in three ways. First, we construct a measure that captures uncertainty specifically related to the identity of the central bank policymaker, distinguishing it from broader policy uncertainty indicators that combine several sources. Second, we provide evidence that this form of uncertainty influences not only the total volume of credit but also its distribution, as banks adjust cross-border lending patterns rather than simply reducing aggregate lending. Third, we show that the effects of this uncertainty propagate through international banking networks, altering credit allocation in countries not directly subject to the policy change.

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 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 monetary policy uncertainty arising from central bank governor turnovers.

Many studies on the credit channel of monetary policy transmission focus on liquidity constraints and borrower characteristics. Smaller banks are disproportionately affected by monetary contractions (Kashyap & Stein, 2000; Campello, 2002). Weaker borrowers' financial conditions 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 the literature that emphasizes the importance of central banks, their independence, and their leadership. 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 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 the timing of central bank governor turnover is predetermined, leadership transitions generate monetary 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 via 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 are 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 World Bank's Quality of Governance dataset.

Short-term interest rates are sourced from the OECD and are 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 provide complementary evidence on the informational environment surrounding turnover events.

2.3 Central bank governor turnovers

Central bank governor turnovers occur within institutional frameworks that vary in terms of central bank independence, political oversight, and the scope of policy authority. Although most countries select domestic candidates, the institutional context in which governors operate differs markedly, shaping both the process of leadership transition and the resulting uncertainty. To clarify how these institutional features influence the nature of turnover-related uncertainty, we present three cases that correspond to the turnover types analyzed in our empirical framework.

2.3.1 Continuity and regular turnover in independent systems: United States

Ben Bernanke's tenure as Chair of the Federal Reserve from 2006 to 2014 illustrates both continuity and regular turnover in an independent central bank. His reappointment in 2008 represents a continuity event, while the conclusion of his second term and succession to Janet Yellen in 2014 constitutes a regular turnover. In this setting, where policy frameworks are stable and transitions are predictable, uncertainty arises primarily from differences in the incoming governor's policy preferences rather than from institutional or political instability.

2.3.2 Regular turnover under constrained autonomy: India

Raghuram Rajan's term as Governor of the Reserve Bank of India from 2013 to 2016 occurred in a setting characterized by constrained central bank autonomy and significant interaction between monetary and political authorities. While his departure followed the scheduled end of his term, the policy environment was influenced by shifting political priorities and institutional limitations. This example demonstrates that regular turnovers can still generate monetary policy uncertainty when central bank independence is limited.

2.3.3 Irregular turnover under political intervention: Indonesia

J. Soedradjad Djiwandono's dismissal as Governor of Bank Indonesia during the Asian Financial Crisis in 1998 is an example of an irregular turnover, precipitated by political intervention during a period of acute economic stress. These unscheduled transitions are typically unanticipated and coincide with heightened institutional and macroeconomic instability, resulting in a distinct form of monetary policy uncertainty compared to regular, scheduled leadership changes.

These cases underscore that the institutional context determines both the predictability of central bank governor turnover and the type of uncertainty it generates. In stable systems, scheduled transitions primarily create uncertainty regarding future policy direction. In contrast, irregular or politically motivated turnovers signal broader institutional risk. This distinction is central to our empirical strategy for identifying the effects

of different forms of monetary policy uncertainty on cross-border lending.

2.4 Central bank governor turnovers and monetary policy uncertainty

Prior work establishes that individual governors shape monetary policy outcomes (Romer & Romer, 2004; Blinder, 2004; Howes et al., 2025). Central bank governor turnovers create a predictable source of monetary policy uncertainty, as the timing of these transitions is set by statute and largely orthogonal to contemporaneous macroeconomic or financial conditions. However, the identity and policy stance of the incoming governor remain unknown until the appointment is announced, generating uncertainty about the future policy reaction function. This uncertainty arises not from the transition itself, but from the lack of information about the incoming governor's preferences. The heightened uncertainty is concentrated in the period preceding the turnover and resolves once the new governor takes office and their policy orientation becomes clear. Our empirical strategy, therefore, focuses on the pre-turnover period and the first year of the new governor's term, which together capture both the buildup and resolution of policy uncertainty.

Uncertainty about future policy influences banks' credit allocation through standard real-options mechanisms. When lending is partially irreversible, increased uncertainty raises the value of waiting, prompting domestic firms to delay investment and reducing domestic credit demand (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). Additionally, banks may also limit domestic lending to manage balance-sheet risk. For global banks, this does not necessarily result in a contraction of total lending. Instead, banks reallocate credit to foreign markets where monetary and regulatory conditions are not directly affected by the impending turnover of the domestic central bank governor. This framework predicts an increase in cross-border lending prior to the turnover, followed by a reversal as uncertainty is resolved.

This setting differs from aggregate measures of uncertainty, such as news-based

indices, which are endogenous to macroeconomic and political developments. Regular governor turnovers arise from institutional term limits rather than deteriorating fundamentals or crisis events. The relevant empirical question is whether banks respond to uncertainty generated by a predictable change in the policymaker responsible for future monetary and supervisory policy. This framework provides a clean setting to study how monetary policy uncertainty, arising from leadership transitions rather than realized policy changes, affects the global allocation of bank credit.

2.5 Descriptive statistics

Table 1 presents summary statistics characterizing the loan-level dataset. The average deal size is approximately 300 million dollars, which aligns with prior research using Dealscan data (Gao & Jang, 2021; Li & Ongena, 2025). Syndicated loans constitute approximately 94 percent of the sample, with each deal involving, on average, 11 participating lenders from 5 distinct countries. These features underscore the international nature of the syndicate and lending relationships analyzed in this study.

[Insert Table 1 Here]

Governor turnover events are a recurrent feature within the sample period. Approximately 15 percent of loan-level observations occur during periods when the lender's home-country central bank undergoes a leadership transition. Continuity events, in which the incumbent governor remains in office, comprise 10 percent of observations, while the combined incidence of regular and continuity events reaches 25 percent. Irregular turnovers, defined as unscheduled departures, account for 5 percent of the sample. At the portfolio level, banks face exposure to domestic turnover events in 19 to 20 percent of cases, and to irregular turnovers in 7 to 10 percent. These frequencies provide the empirical variation necessary to identify the effects of central bank leadership transitions on cross-border lending behavior.

3 Methods and Results

3.1 Validation

3.1.1 Central bank governor turnovers and monetary policy uncertainty

Central bank governor turnovers occur with regularity and are largely predetermined by institutional arrangements. As shown in Figure 1, an average of eight countries undergo a leadership transition each year, with the frequency of these events rising over time in tandem with greater central bank independence and reduced political intervention. These patterns underscore that governor turnovers represent a routine institutional feature, rather than infrequent or idiosyncratic disruptions.

[Insert Figure 1 Here]

If central bank governor turnovers introduce uncertainty regarding future policy, this should be reflected in higher *aggregate* economic policy uncertainty (EPU) prior to the transition. To test this hypothesis, we examine country-level EPU indices. Table 2 shows that EPU rises in the period preceding a governor's term end, with the effect more pronounced in countries characterized by greater central bank independence and in non-election years. This pattern is consistent with the interpretation that the observed increase in uncertainty is attributable to monetary policy uncertainty, rather than to political turnover or macroeconomic fundamentals.

[Insert Table 2 Here]

We next assess whether this increase in uncertainty is transmitted to financial markets. It is important to distinguish between changes in the level of policy and changes in uncertainty regarding future policy. If governor turnovers affect monetary policy uncertainty, then the mean of expected future short-term policy rates remains unchanged, while the dispersion of expectations about the future path of policy rates increases. As a result, interest rate levels (the first moment) should be stable, whereas interest rate

volatility (the second moment) should rise. We evaluate this prediction using quarterly country-level regressions of the following form:

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

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

where Δr_{ct} is the change in the short-term interest rate and $\Delta \sigma_{r,ct}$ is the change in interest rate volatility, measured as a rolling standard deviation over the past 20 quarters. $\mathbf{X}_{ct}$ 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 across countries and systematic global shocks.

[Insert Table 3 Here]

The results reported in Table 3 are consistent with this prediction. Turnover events do not coincide with changes in interest rates but are associated with higher interest rate volatility in the period preceding the transition. In the first year following the appointment of a new governor, interest rate volatility subsides while levels remain stable (Table A.3). These findings indicate that governor turnovers primarily affect uncertainty about future policy, rather than the policy stance itself.

To verify that these patterns are not attributable to coincidental timing, we conduct placebo tests using randomly assigned turnover dates. Across 1,000 sets of hypothetical turnover dates, re-estimating the same specifications yields no systematic changes in EPU or interest rate volatility (Figures A.1 and A.2). These results confirm that fixed-term governor turnovers generate a temporary increase in monetary policy uncertainty, which dissipates once the new governor assumes office.

3.1.2 Within-bank reallocation around turnovers

A key requirement for interpreting the baseline results as reallocation rather than credit expansion is that total lending remains unchanged around governor turnovers. If monetary policy uncertainty instead increases overall credit supply, an observed rise in cross-border lending could reflect expansion rather than substitution across markets. We therefore examine whether banks adjust the composition of lending across domestic and foreign borrowers without changing aggregate loan origination.

[Insert Figure 2 Here]

Figure 2 presents the evolution of the foreign lending share in the quarters before and after a central bank governor turnover in the lender's home country. The foreign share increases prior to the turnover and subsequently declines once the new governor assumes office. Appendix Figure A.4 documents the corresponding decline and recovery in domestic lending. These patterns indicate that banks reallocate credit abroad in response to heightened uncertainty and reverse the reallocation once uncertainty resolves. Regression analysis at the bank-year level corroborates these patterns. Turnover events are not associated with changes in total lending volume, but are linked to an increase in the share of foreign lending (Table A.4). The combination of stable aggregate lending and a higher foreign share indicates that banks rebalance their portfolios across borders rather than expand overall credit supply.

This within-bank reallocation underscores the empirical motivation for focusing on cross-border lending. In domestic credit markets, it is difficult to disentangle shifts in credit supply from changes in borrower demand, as both banks and firms are jointly exposed to the same policy environment. By contrast, cross-border lending enables us to hold borrower-side conditions constant and isolate the effect of home-country monetary policy uncertainty on banks' allocation decisions. Accordingly, the empirical analysis centers on the period preceding the turnover, when uncertainty regarding the incoming governor is most pronounced. During this interval, domestic lending

contracts while foreign lending expands, consistent with banks reallocating credit in response to elevated monetary policy uncertainty.

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

When domestic monetary policy uncertainty rises, firms delay investment (Dixit & Pindyck, 1994), reducing domestic credit demand. If aggregate credit origination does not change, banks must reallocate lending across markets, implying an increase in cross-border lending. Section 3.1.2 documents this pattern at the bank level: the share of foreign lending rises while total lending remains unchanged. We now test this implication in a loan-level framework that allows us to isolate the effect of central bank governor turnover-induced monetary policy uncertainty on the allocation of credit across borrowers. We test this prediction using loan-level regressions of the form:

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

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), Φ 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.[1] 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 and purpose fixed effects to account for contract-specific differences that may correlate with lending volume. Standard errors are double-clustered by domestic and foreign countries for reliable inference (Abadie et al., 2023; Roberts & Whited, 2013).

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. The fixed effects used in equation (2) ensure that the comparison is made among lenders operating in the same external environment, isolating the effect of home-country governor turnover on lending.

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 deal amounts shifts to the right when a lender faces an impending

[1]While borrower-time fixed effects are ideal for absorbing credit demand shocks, as emphasized by Khwaja & Mian (2008), they are infeasible in our sample without a substantial loss of power, as few firms borrow from multiple banks within a given year. The fixed effects used in equation (2) provide a rigorous alternative that absorbs time-varying borrower-side conditions and institutional heterogeneity (Degryse et al., 2019).

governor turnover at home. Average log deal size is 5.11 during turnover years and 5.01 otherwise, a difference of 0.09 log points, or about 9 percent.

Table 4 formalizes this pattern using a regression framework and reports the baseline estimates. The estimates in column (4) suggest that cross-border lending increases by 11.8 percent in the period preceding a governor turnover. Figure 4 shows the corresponding model-implied deal sizes without and with an impending turnover of approximately 300 and 335 million dollars, respectively. These estimates are not driven by political turnover, as all specifications condition on election timing, and the election-year coefficient is negative, between -0.027 and -0.022, opposite in sign to the documented turnover effect.

The key coefficient in column (4) of Table 4 is comparable to magnitudes in other works that study cross-border lending in different contexts. Li & Ongena (2025) show that a one-standard-deviation increase in banks' GDP growth expectations raises lending by about 76 million dollars, which is on the same order of magnitude as the effect we document here. The effect is significant even when expressed in the language of monetary policy transmission, à la Kashyap & Stein (2000). In our sample, the average increase in short-term rates during tightening episodes is about 45 basis points. Against that benchmark, an 11.8 percent increase in cross-border lending is economically significant. At the same time, because policy rates remain flat around governor turnovers, the increase we document is best interpreted as a response to uncertainty about future policy rather than to realized tightening or loosening. Additional checks suggest that the baseline effect is not driven by outliers. The quantile regression results in Figure 5 imply increases in loan volume of 10 to 14 percent across the deal-size distribution, indicating that the turnover effect is present throughout the deal-size distribution.

[Insert Table 4 and Figures 3, 4, and 5 Here]

Additional tests show that the baseline effect is not driven by domestic political conditions. Augmenting the baseline specification with an interaction between governor

turnover and election timing yields a direct turnover effect that is unchanged relative to Table 4, while the interaction term is negative (Table A.7). This indicates that the increase in cross-border lending is not driven by election cycles and is distinct from the effects of political turnover. We further examine whether broader political regime changes account for the results. Table A.8 classifies lending countries into four regimes–closed autocracy, electoral autocracy, electoral democracy, and liberal democracy–and distinguishes between stable regimes and transitions, including both improvements and deterioration. The direct effect of governor turnover remains comparable to the baseline. In contrast, simultaneous regime changes are associated with a decline in cross-border lending, regardless of whether the change reflects an improvement or deterioration in political conditions. These patterns suggest that regime transitions generate a different form of uncertainty, one that depends on domestic macroeconomic fundamentals.[2]

We next examine borrower heterogeneity. Figure A.5 reports estimates across five sector groups. The effect is positive and comparable to the baseline for cyclical, infrastructure, financial, and service sectors, but is absent for defensive sectors. This pattern is consistent with the mechanism: banks reallocate credit toward foreign borrowers whose investment opportunities are more sensitive to funding conditions and can absorb additional capital when domestic lending weakens. These results show that the increase in cross-border lending, documented in Table 4, is not a by-product of political events and arises precisely in settings where banks can reallocate credit. The evidence, therefore, supports an interpretation based on monetary policy uncertainty rather than broader institutional or political shocks.

Banks reallocate cross-border lending selectively rather than indiscriminately. Table 5 interacts the turnover indicator with differences in macroeconomic conditions between the lender's and the borrower's country. We find that the interaction with GDP growth differentials is negative and statistically significant. This result suggests that, as

[2]Improvements in the political regime coincide with stronger domestic economic prospects, which expand lending opportunities at home and prompt banks to reallocate credit toward domestic borrowers. Conversely, when the political regime deteriorates, macroeconomic conditions weaken, resulting in a contraction in the total volume of credit that banks extend both domestically and internationally.

uncertainty rises ahead of a central bank governor turnover, banks actively reallocate lending toward foreign economies with stronger growth prospects. Interactions with exchange rates and inflation are not statistically significant. These patterns suggest that banks reallocate capital toward destinations with stronger investment opportunities when domestic monetary policy uncertainty rises.

[Insert Table 5 Here]

The reallocation is temporary. Once the new governor takes office and uncertainty is resolved, cross-border lending declines. Table 6 shows that cross-border lending falls in the first year of the incoming governor's term, reversing the increase observed prior to turnover. This pattern is consistent with a real-options framework (Pindyck, 1991; Dixit & Pindyck, 1994): banks expand foreign lending while domestic policy is uncertain and scale it back once the policy outlook becomes clear.

[Insert Table 6 Here]

3.3 Mechanisms

To understand the drivers of the increase in cross-border lending observed around central bank governor turnovers, we examine three potential mechanisms. First, we assess whether a decline in domestic investment prompts banks to reallocate credit abroad. Second, we investigate whether globally active banks are more likely to shift lending internationally in response to heightened uncertainty. Third, we analyze whether banks increase risk sharing by expanding syndication structures. In addition, we test whether these effects are amplified in settings where central banks also supervise banks, as turnovers in such contexts generate uncertainty over both monetary policy and regulatory oversight.

3.3.1 Decline in domestic lending

Central bank governor turnovers increase monetary policy uncertainty, prompting firms to postpone irreversible investment decisions. The resulting decline in domestic investment reduces credit demand within the home country, thereby generating excess lending capacity among banks. This slack enables banks to reallocate capital toward foreign borrowers.

To empirically isolate the effect of governor turnover-induced monetary policy uncertainty on domestic and cross-border lending, we implement a two-stage least squares framework. In the first stage, we instrument domestic investment lending with an indicator variable for regular central bank governor turnover, thereby capturing the exogenous variation in lending attributable to monetary policy uncertainty. Domestic investment lending is defined as loans extended for acquisition, capital expenditure, leveraged buyouts, project finance, real estate, sponsored buyouts, and takeovers. This approach allows us to identify the decline in domestic lending that is specifically linked to uncertainty surrounding the impending leadership transition. In the second stage, we use the predicted component of domestic investment lending from the first stage as an explanatory variable for cross-border lending, measured as the logarithm of loan amounts where the lender and borrower are headquartered in different monetary jurisdictions. This empirical strategy directly links the contraction in domestic investment lending, induced by central bank governor turnover, to the observed expansion in foreign lending.

[Insert Table 7 and Figure 6 Here]

Results are reported in Table 7 and Figure 6. The first stage shows that domestic investment lending declines prior to governor turnover, consistent with the established effect of uncertainty on investment (Julio & Yook, 2012; Baker et al., 2013; Julio & Yook, 2016; Gulen & Ion, 2016; Jens, 2017). The second stage shows that lower predicted domestic lending is associated with higher cross-border lending. This pattern indicates that banks reallocate capital abroad in response to reduced domestic investment demand.

To further validate this mechanism, we conduct a placebo analysis by repeating the empirical strategy with non-investment loan categories, including general-purpose, trade finance, recapitalization, working capital, and refinancing loans. These types of loans are likely less responsive to investment decisions and, by extension, to monetary policy uncertainty. The absence of significant effects in these categories supports the interpretation that the observed reallocation of lending is partly driven by a decline in domestic investment induced by domestic central bank governor turnover.

3.3.2 Loan portfolio diversification

The degree to which banks adjust their lending in response to domestic monetary policy uncertainty is shaped by their ability to operate in foreign markets. Banks with broader international networks encounter lower barriers to reallocating capital abroad, making them more likely to increase cross-border lending when monetary policy uncertainty rises in the period leading up to a central bank governor turnover in their home country.

Table 8 tests this mechanism by interacting the turnover indicator with measures of banks' foreign market exposure. The results show that cross-border lending rises more for banks with greater international reach. This finding is robust to alternative measures of foreign exposure, whether defined continuously as the log of the number of foreign markets or discretely as an indicator for banks above the median level of foreign activity. In both specifications, the interaction terms are positive and statistically significant.

[Insert Table 8 Here]

These results are consistent with active portfolio reallocation. Banks with broader geographic diversification are able to respond to changes in relative risk by shifting lending toward foreign markets as domestic uncertainty increases. Together with earlier evidence of declining domestic investment, these findings indicate that only banks with sufficient foreign reach are able to redeploy excess lending capacity abroad. The observed increase in cross-border lending thus reflects a targeted reallocation driven by

banks' operational scope, rather than a uniform adjustment across all institutions.

3.3.3 Risk sharing via loan syndication

Monetary policy uncertainty in the domestic market increases the risk of future funding constraints and potential loan underperformance, prompting banks to reallocate risk within their lending portfolios. In this context, loan syndication emerges as a key channel through which banks can maintain lending volumes while mitigating exposure to individual loans by distributing risk among multiple lenders. We test whether loan syndication increases around central bank governor turnovers in Table 9.

[Insert Table 9 Here]

The results show that cross-border loans are more likely to be syndicated in the period preceding central bank governor turnover, and that syndicates include more participating lenders, both in absolute terms and in logarithmic terms. These findings indicate that banks respond to domestic monetary policy uncertainty by distributing credit risk across a broader set of counterparties. Risk sharing extends across jurisdictions as well. During turnover periods, the number of distinct lender nationalities represented in a syndicate increases, indicating that banks diversify risk both across institutions and across countries. Taken together with earlier results, this evidence shows that banks respond to domestic policy uncertainty along two dimensions: by reallocating lending toward foreign markets and by structuring loans to increase risk sharing.

3.3.4 Institutional scope of central banks

The institutional responsibilities assigned to central banks determine the channels through which governor turnovers influence bank lending. When a central bank's mandate is limited to monetary policy, leadership transitions primarily create monetary policy uncertainty. However, in settings where central banks also exercise supervisory authority over banks, governor turnovers generate additional uncertainty about the future direction of prudential regulation and supervisory standards. This expanded

scope of uncertainty is expected to strengthen banks' incentives to reallocate credit internationally.

To test this mechanism, we construct a time-varying indicator for whether the central bank in the lender's home country holds formal supervisory authority in addition to monetary policy responsibilities. Table 10 presents the results from this empirical specification. The results indicate that governor turnovers in central banks without supervisory authority are associated with an 8.3 percent increase in cross-border lending. In comparison, turnovers in dual-function central banks, where the governor oversees both monetary policy and supervision, lead to a 12.5 percent increase. This differential effect suggests that the reallocation of lending is more pronounced when uncertainty encompasses both monetary and regulatory dimensions.

[Insert Table 10 Here]

These findings provide direct evidence for the underlying mechanism. When governor turnover generates uncertainty not only about future policy rates but also about supervisory standards and regulatory enforcement, banks face heightened uncertainty regarding capital requirements and liquidity support. In response, they increase cross-border lending and diversify their exposures more aggressively. The results demonstrate that the effect of governor turnover on lending is shaped by the central bank's institutional scope, underscoring the central role of monetary policy uncertainty in driving cross-border credit allocation.

3.4 Bank level exposures to turnover events

Banks with international operations are exposed to central bank governor turnovers not only in their home countries, but also in other jurisdictions where they maintain lending relationships. In particular, a bank may be affected by leadership transitions in countries where it is active, even if neither the lender nor the borrower is domiciled in those countries. We define these instances as third-party exposures. Prior work shows that global banks recalibrate their lending in response to changes in monetary

and regulatory conditions across different jurisdictions (Adrian & Shin, 2010; Avdjiev et al., 2020; Miranda-Agrippino & Rey, 2020; Correa et al., 2023). If uncertainty arising from such turnovers influences banks' portfolio allocation, it should be reflected in lending decisions across the bank's global network. To test this conjecture, we construct a bank-level measure of third-party exposure, defined as the share of countries in which a bank lends that experience a 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, consistent with the prevalence of five-year maturities in the Dealscan database. $\mathbb{N}_{\mathbb{C}_{bt}}$ 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:

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

Here, Turnover_{bt} and $\text{Irregular Turnover}_{bt}$ capture regular term-completion events and unscheduled leadership transitions, respectively. The fixed effects $\mathbf{\Psi}$ 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. One potential concern is that the exposure measure could reflect turnover events occurring in either the lender's or the borrower's home country. The fixed-effects structure addresses this issue directly. Lender country-year fixed effects absorb all variation associated with turnover in the lender's home country, and borrower industry-borrower country-year fixed effects absorb turnover events in the borrower's country. This design ensures that identification relies on variation in turnover exposure originating from third-party countries within the bank's broader lending network. 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 monetary policy uncertainty elsewhere in their lending network.

[Insert Table 11 Here]

In Table 11, we find that exposure to regular turnover events reduces lending, but this effect is confined to cross-border transactions. When a greater proportion of a bank's lending network is subject to turnover-induced monetary policy uncertainty, cross-border lending declines significantly, consistent with banks postponing international credit allocation in response to heightened uncertainty. In contrast, domestic lending remains unaffected, suggesting that third-party policy uncertainty affects markets with higher informational frictions and adjustment costs. The persistence of the negative effect in the pooled sample suggests that these responses have implications for aggregate lending patterns.

The effects of irregular turnovers, which reflect broader institutional risk, display a distinct pattern. Exposure to unscheduled leadership transitions results in a significant contraction in domestic lending, while the estimated effect on cross-border lending is negative. This contrast suggests that different types of monetary policy uncertainty propagate through banks' portfolios as regular turnovers prompt caution in foreign markets, whereas irregular turnovers are associated with a more generalized reduction in lending. These results underscore that monetary policy uncertainty originating in one segment of a bank's network can influence credit allocation decisions elsewhere, even when the turnover does not directly involve the lender's or borrower's home country.

3.5 Other turnover types and cross-border lending

Central bank leadership transitions differ in the type and magnitude of monetary policy uncertainty they generate. Continuity events, in which the incumbent gover-

nor is reappointed, and regular turnovers both introduce uncertainty regarding the policy stance of the incoming governor. In contrast, irregular turnovers are typically unanticipated and often coincide with institutional or macroeconomic instability. These institutional distinctions suggest that banks may adjust cross-border lending differently depending on the nature of the turnover event.

[Insert Table 12 Here]

Table 12 presents estimates of cross-border lending responses to different types of central bank governor turnovers. Regular turnovers are associated with the largest increase in cross-border lending, while continuity events generate a smaller effect. When continuity and regular events are combined, the effect is intermediate, reflecting variation in the degree of policy uncertainty. These results indicate that anticipated transitions, even when the incoming governor is known, generate some uncertainty and prompt banks to reallocate credit internationally, though the magnitude is limited when preferences are predictable. In contrast, irregular turnovers, which are unanticipated and coincide with instability, lead to a decline in cross-border lending, consistent with a retrenchment in response to heightened risk. Overall, the evidence suggests that predictable uncertainty leads to reallocation across markets, while unanticipated shocks result in a contraction of lending.

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 show that, in the period leading up to a central bank governor's turnover,

banks increase cross-border lending, and that this increase reverses once the new governor takes office. Total credit supply does not expand. Instead, banks reallocate lending from domestic to foreign borrowers, with stronger responses toward faster-growing economies and among banks with broader international footprints. This reallocation is accompanied by greater use of syndication, consistent with risk sharing under heightened uncertainty. Domestic investment lending declines prior to turnover, and this contraction predicts an increase in foreign lending, supporting a real-options mechanism. Taken together, the evidence shows that monetary policy induced by predictable central bank leadership transitions, even in the absence of realized policy changes, affects the global allocation of credit.

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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
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)	
$\widehat{\text{Ln(Domestic lending)}}$		-0.323***		
		(-4.155)		
$\widehat{\text{Ln(Number of domestic deals)}}$				-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)	
$\widehat{\text{Ln(Domestic lending)}}$		2.100		
		(0.428)		
$\widehat{\text{Ln(Number of domestic deals)}}$				-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	✓	✓	✓

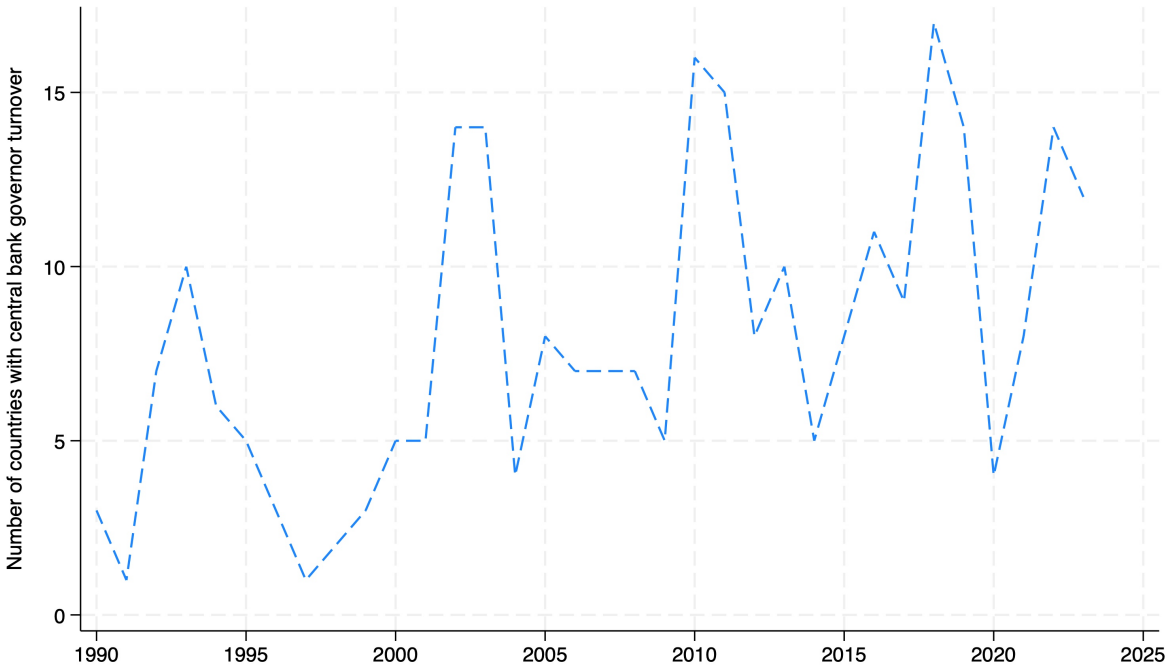

Figure 1: The figure illustrates the time series of the total number of countries in the penultimate year $t-1$ or the year t relative to a central bank governor turnover event. The sample comprises a balanced panel of 43 countries spanning 34 years (1990–2023).

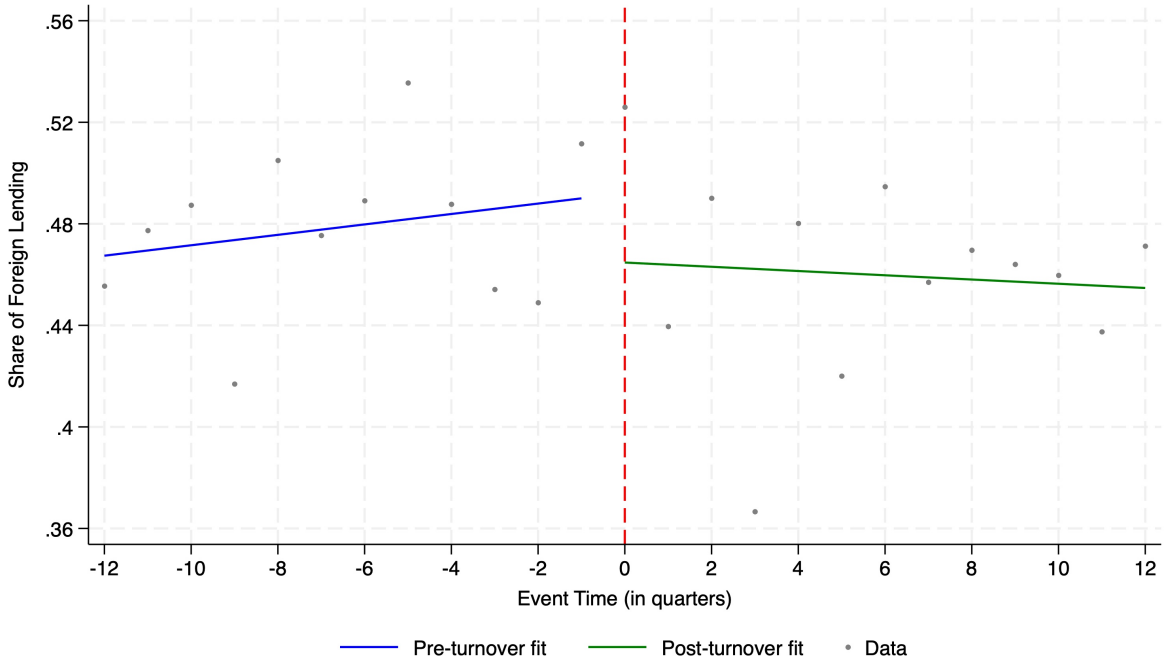

Figure 2: This figure plots the average share of foreign lending extended by banks headquartered in countries undergoing a central bank governor turnover. For each identified turnover event in a bank's home country, we construct an event window spanning twelve quarters before and after the turnover quarter. 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.

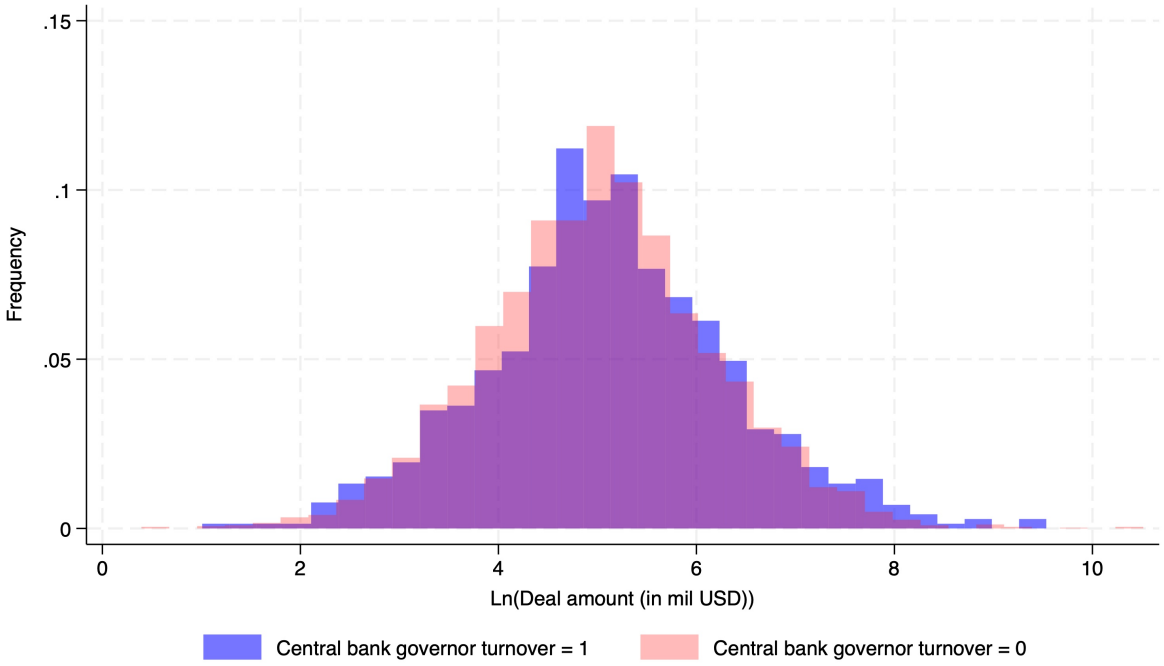

Figure 3: This figure shows the distribution of the logarithm of deal size (in mil USD) for turnover and non-turnover years. The average log deal size is 5.11 in turnover years and 5.02 in non-turnover years. The sample covers 34 years, from 1990 to 2023.

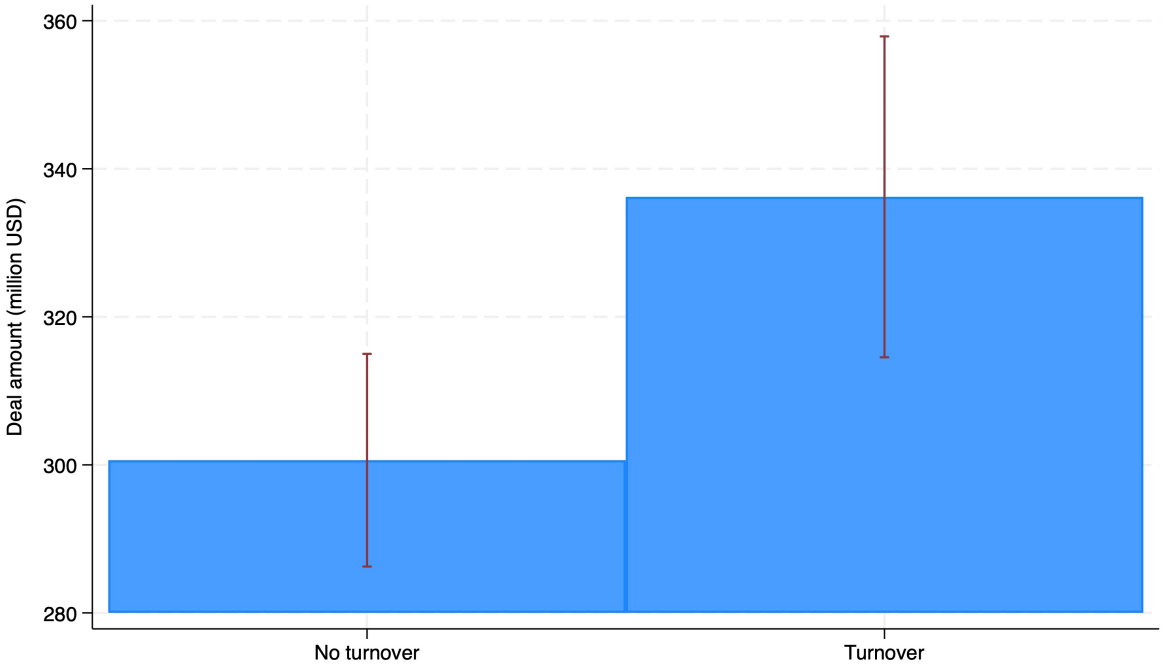

Figure 4: The figure shows the predicted deal amount implied by the regression specification column (4) of Table 4 for cases with and without an upcoming governor turnover. Predictions are obtained by exponentiating the fitted log model. The difference reflects the estimated 11.8 percent increase in 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.

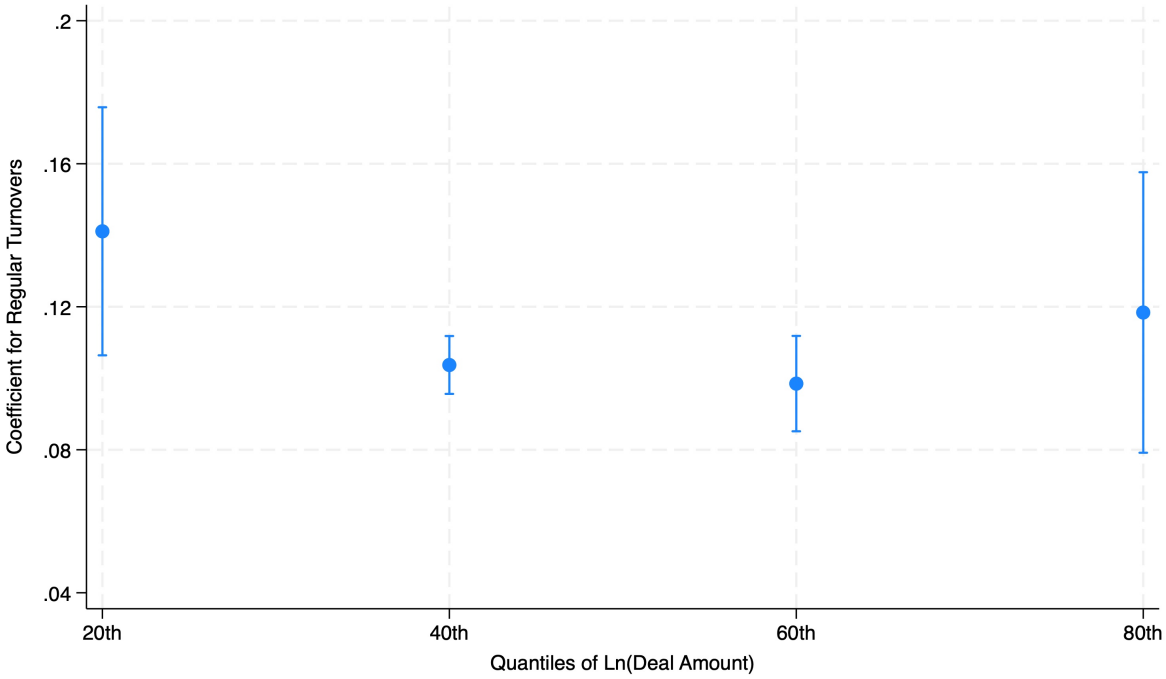

Figure 5: This figure reports quantile regression estimates where the dependent variable is the logarithm of deal amount. Coefficients are estimated at the 20th, 40th, 60th, and 80th percentiles of the deal size distribution. Points denote coefficient estimates and vertical bars represent 95% confidence intervals.

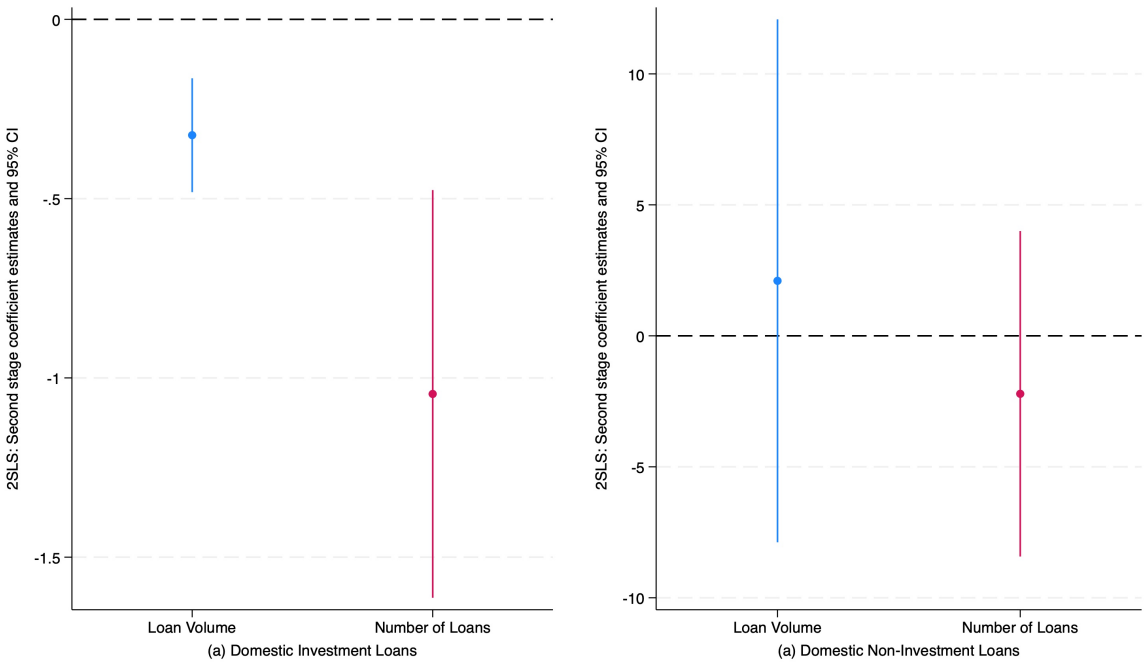

Figure 6: This figure presents coefficient estimates for the second stage of the 2-stage least squares regressions testing domestic decline in investment as conduits through which banks shift lending cross-border in the lead up to a central bank governor turnover at home.

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. Standard errors are two-way clustered by lender and borrower's country, and t-statistics are presented in parentheses. 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)
Central bank 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 held during the year	-0.019	-0.022
	(-1.065)	(-1.281)
Central bank governor turnover × Election held during the 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)
Election held during the year	-0.023	-0.023
	(-1.301)	(-1.301)
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)
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.

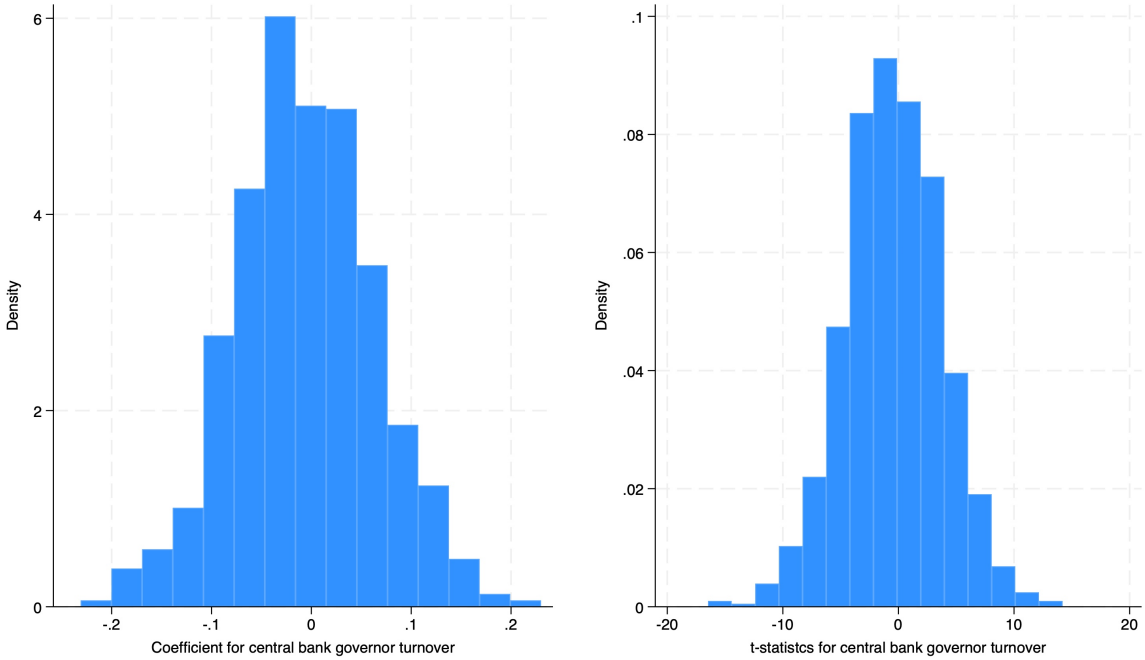

Figure A.1: The figure presents the results of placebo tests assessing the association between central bank governor turnovers and economic policy uncertainty. The figure shows the distribution of coefficients and $t-$statistics from 1,000 placebo regressions, where we simulate the timing of regular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

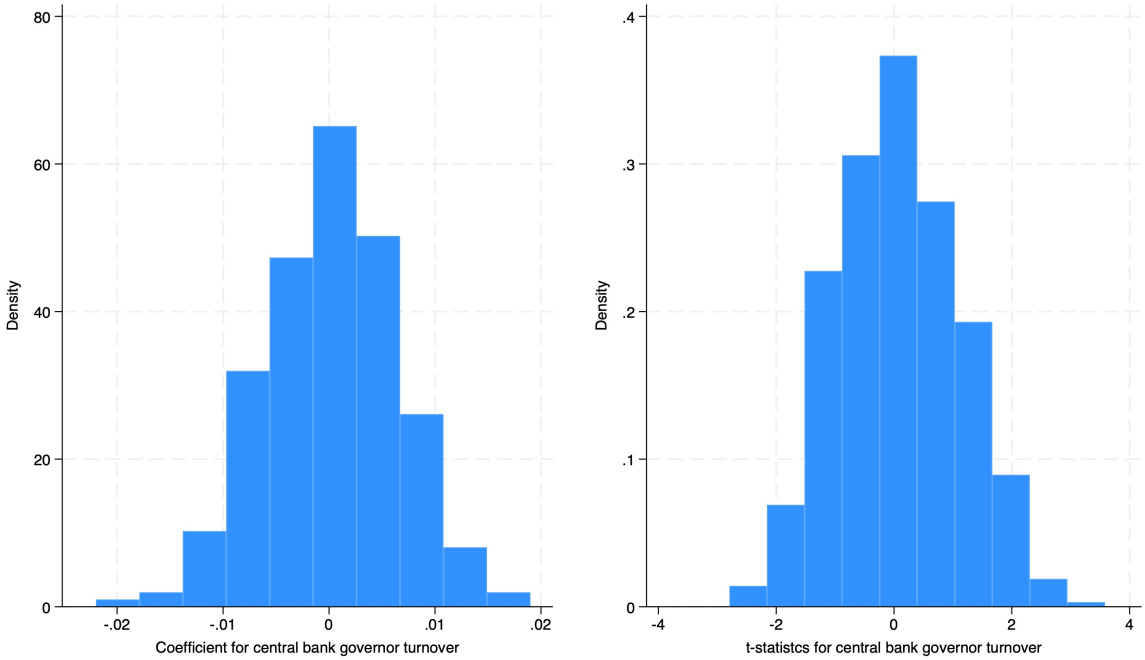

Figure A.2: The figure presents the results of a placebo test assessing the association between central bank governor turnovers and the standard deviation of short-term interest rates. The figure shows the distribution of coefficients and $t-$statistics from 1,000 placebo regressions, where we simulate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

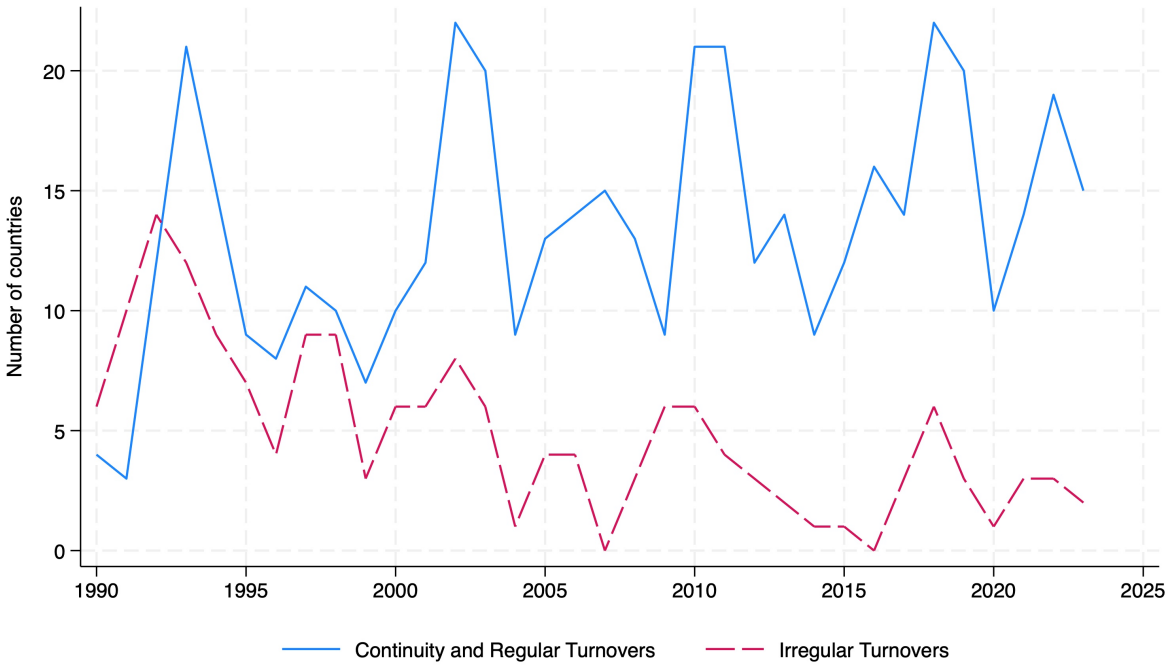

Figure A.3: The figure illustrates the time series of the total number of countries in the penultimate year $t-1$ or the year t relative to a central bank governor turnover event in the year t. In this figure, we consider two other types of turnovers. *Continuity or regular turnovers* are those where 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).

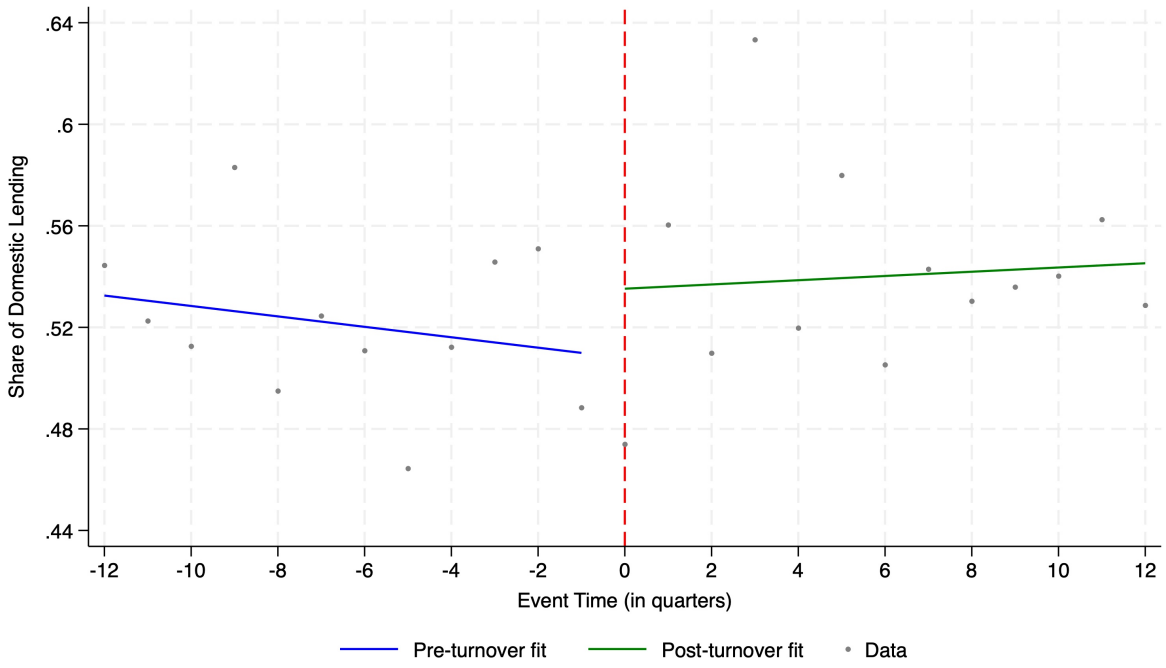

Figure A.4: This figure plots the average share of domestic lending extended by banks headquartered in countries undergoing a central bank governor turnover. For each identified turnover event in a bank's home country, we construct an event window spanning eight quarters before and after the turnover 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.

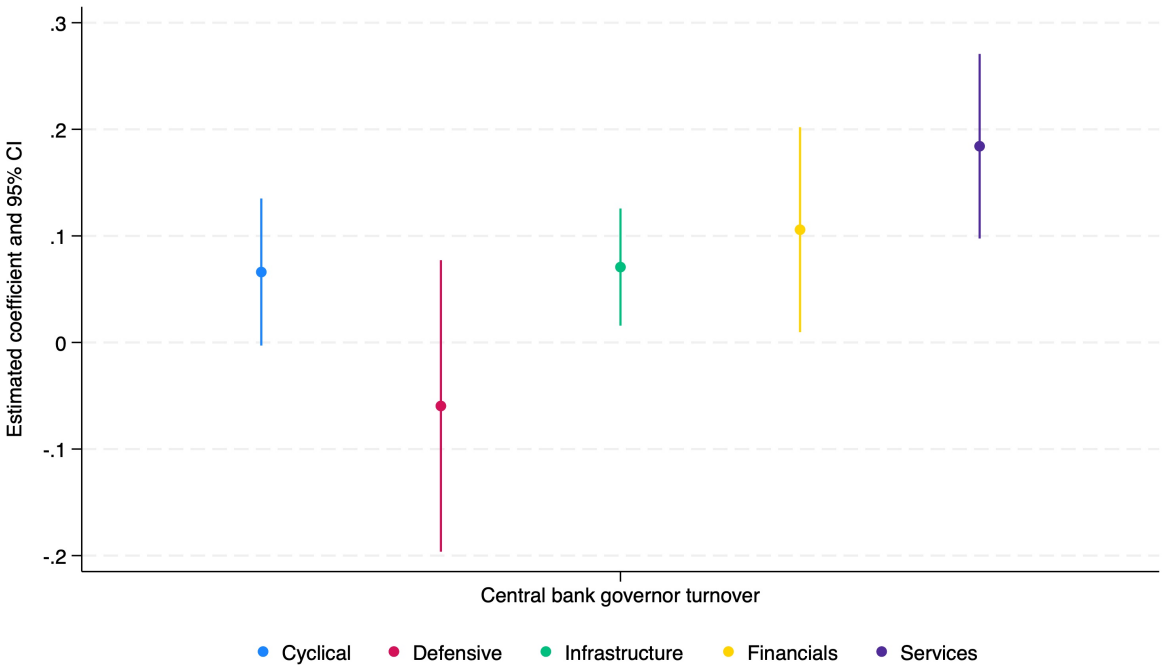

Figure A.5: This figure presents coefficient estimates and 95 percent confidence intervals from regressions of log deal amount on central-bank governor turnover, estimated separately for five borrower-industry groups. Industries are classified into five groups based on the 17 Fama-French industry categories: 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.