

**ASSESSING CENTRAL BANK AUTONOMY AND THE
CASCADE EFFECT ON PRIVATE DEBT ACCUMULATION**

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ABSTRACT

The years following the global financial crisis have highlighted the systemic fragility of the global economy, with considerable increase in private debt and growth rates not being able to keep pace with the level of accumulation. We hypothesize that greater central bank autonomy and focus on price stability can indirectly lead to greater private debt accumulation by facilitating financial deregulation as governments try to stimulate the economy through alternative channels when constrained by an autonomous monetary authority.

We investigate the linkages between central bank independence (CBI) and private debt levels across a panel of 54 emerging and advanced economies from 1995-2021 using a panel ARDL model. We find that higher CBI is significantly associated with increased private debt for our full sample. However, our subsample analysis suggests heterogeneous effects between emerging and advanced economies - while greater CBI is associated with lower private debt in emerging markets, it corresponds to higher household debt in advanced economies, likely driven by persistent low interest rates and asset booms under independent central banks.

Our findings suggest that the optimal design of central bank mandates should consider the distributional impact of monetary policy, rather than solely focusing on price stability. Reforms to increase CBI might have adverse consequences such as rising financial fragility if not accompanied by appropriate macroprudential policies.