



## Why does central bank's independence matter?

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An independent and effective central bank in a transforming economy is no longer a technocratic luxury or a symbolic nod to international best practice. It is a foundational safeguard for any country seeking macroeconomic stability, financial discipline and protection from elite capture. For Bangladesh, it reflects a hard-earned lesson from repeated cycles of banking sector distress, inflationary pressure and policy subordination to short-term political interests, alongside unchecked plundering by economic oligarchs. At its core, central bank independence exists to protect monetary policy and financial supervision from capture by governments seeking cheap financing, politically connected borrowers and powerful actors thriving in an opaque economic ecosystem.

When a central bank lacks autonomy, the costs are not abstract. They materialise through excessive credit expansion, regulatory forbearance, the accumulation of non-performing loans, erosion of depositor confidence and, ultimately, fiscal bailouts borne by ordinary citizens.

Bangladesh's recent economic history offers ample evidence of this pattern. Weak regulatory enforcement, delayed corrective action against distressed banks, and tolerance of repeated loan rescheduling have hollowed out the credibility of financial supervision. It is therefore unsurprising that non-performing loans in the banking sector have reportedly climbed as high as 36 percent, underscoring deep structural fragility. Inflationary pressures, once dismissed as transitory or imported, increasingly reflect domestic policy constraints, including fiscal dominance and the inability of monetary authorities to act decisively. These outcomes are not failures of individual policymakers. They are symptoms of institutional weakness.

This is why central bank independence must be understood as a structural reform, not a rhetorical commitment. Independence provides the guardrails that allow a central bank to say “no”. No to monetising fiscal deficits. No to regulatory indulgence for politically influential banks. No to sacrificing long-term stability for short-term convenience. Without these guardrails, monetary policy becomes reactive, supervision selective and public trust steadily erodes.

The interim government now stands at a rare historical juncture. Transitional moments, precisely because they are not driven by electoral cycles, create a narrow window to implement reforms that are politically difficult but economically essential. Strengthening the autonomy of Bangladesh Bank, clarifying its mandate, insulating appointments and decision-making from political pressure, and reinforcing its supervisory authority would signal a clear break from past practice.

Failure to act will not be neutral. It will be costly. Continued subordination of Bangladesh Bank will keep inflation expectations fragile, sustain moral hazard in the banking sector and prolong crisis management through public resources. More importantly, it will reinforce the perception that even in moments of national reset, vested interests remain untouchable.

History is rarely kind to policymakers who mistake opportunity for caution. If the Interim Government chooses to defer or dilute the agenda of central bank independence, it will be remembered not for stability but for a missed chance to establish an institutional legacy capable of reshaping financial governance for decades. Future crises, inevitable in any economy, will be judged against the knowledge that reforms were possible yet consciously postponed.

There is no illusion that Bangladesh Bank independence alone will resolve all macroeconomic or financial sector challenges. But without it, none of the other reforms, whether banking resolution, fiscal discipline, inflation control or private investment revival, can be sustained. Independence is not about removing accountability. It is about placing accountability where it

belongs, in transparent rules, professional judgement and long-term economic stewardship. The question is no longer whether independence is desirable. It is whether Bangladesh is prepared to bear the long-term cost of refusing it. History, as always, will deliver its verdict.

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