Answer on Question #40699 – Economics - Macroeconomics

Some degree of central bank independence is critical. Why is this so? Basically the greater the independence the central bank has, the less subject it is likely to be to short-term political pressures. Central banks under the direct day-to-day control of governments seem inevitably to be tempted to promote easy credit policies, particularly when elections are in view, or, even worse, to finance government budget deficits directly. While these policies may relieve certain short-term problems, such as high unemployment or difficulties in financing fiscal deficits, they ultimately result in higher inflation and the need for severe credit tightening in the future. Independence is also helpful to central banks in carrying out their supervisory responsibilities, by enabling them to resist pressures to relax or strengthen regulatory standards depending on political winds.

There is growing concern about the risks of loosening lending standards among Australian banks. A survey by the Swiss investment bank UBS has found increased competition is forcing local lenders to take on riskier loans. The trend is seen as a threat not only to the stability of Australia's property market, but also to the broader economy as well.