

**POLICY UNDER PRESSURE: MACROPRUDENTIAL
EFFECTIVENESS UNDER UNCERTAINTY**

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*A project report submitted
in partial fulfilment of the requirement for the award of the degree of*

**MASTER OF ARTS
IN
FINANCIAL ECONOMICS**



**May 2025
MADRAS SCHOOL OF ECONOMICS
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ABSTRACT

Periods of elevated economic policy uncertainty (EPU) pose significant challenges to financial stability and raise critical questions about the efficacy of macroprudential policy tools. This study investigates whether macroprudential instruments—such as countercyclical capital buffers (CCB), reserve requirements (RR), loan-to-value (LTV) ratios, and debt service-to-income (DSTI) ratios—retain their effectiveness in managing credit dynamics during uncertain macroeconomic conditions. Using a balanced panel of 18 advanced and emerging economies from 2005 to 2022, this research employs fixed-effects regressions with Driscoll-Kraay standard errors to evaluate the interaction between EPU and macroprudential tools in influencing the credit-to-GDP gap, a key early warning indicator of financial distress.

Findings reveal that, counterintuitively, higher EPU is associated with credit expansion, suggesting precautionary borrowing, opportunistic lending, or accommodative policy responses during volatile periods. Borrower-based tools like LTV and DSTI are effective under normal conditions but weaken significantly when EPU rises, as evidenced by positive and significant interaction terms. Capital-based tools, particularly the CCB, show greater effectiveness in advanced economies, where regulatory credibility and institutional capacity are stronger. Emerging economies, by contrast, demonstrate weaker and inconsistent policy impacts, largely due to data limitations and implementation challenges.

The study highlights the conditional and context-dependent nature of macroprudential policy effectiveness. It calls for adaptive, transparent, and institutionally grounded regulatory frameworks that account for uncertainty and are tailored to country-specific financial systems. The findings underscore the need to reconceptualize macroprudential regulation as a pre-emptive resilience strategy rather than a reactive crisis management tool.

Keywords: Economic Policy Uncertainty, Macroprudential Policies, Credit-to-GDP Gap, Advanced Economies, Emerging Economies