

## MACROPRUDENTIAL POLICY: A TOOL FOR ENHANCING FINANCIAL STABILITY AND RESILIENCE IN DEVELOPING ECONOMY

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### ABSTRACT

The strength of the financial system as a whole depends crucially on the developing connection between the financial system and the existent economy, and in addition on the system of interconnections between monetary organizations and the strategic interactions and externalities that these linkages create. There is now an extensive harmony in the policy makers that intensification of the macro prudential orientation of regulatory and supervisory frameworks is indispensable for the support of fiscal solidity. But understanding is still inadequate on these tools. This paper reviews the effectiveness of macro prudential tools in controlling systemic risk over time and across institutions and markets. The study exhibits that many of the most commonly used instruments are effective in tumbling pro-cyclicality and the usefulness is responsive to the type of shock facing the monetary sector. They can also interrelate with various other policies, such as monetary and micro prudential, raising coordination issues. According to the findings, the paper pointed out circumstances under which macro prudential policy is most likely to be effective, as well as circumstances under which it may have modest impact.

**Keywords:** Macroprudential; Microprudential; Systematic Risk; Financial Stability; Monetary Policy; Liquidity.