The Effectiveness of Macroprudential Policy in Developing Countries: A Systematic Literature Review of Its Impact on the Stability and Strategic Performance of the Banking Sector

Dona Elvia Desi[1], Adler Haymans Manurung[2*], Nera Marinda Machdar[3]

[1]Doctoral Student of Management Science, Faculty of Economics and Business, Bhayangkara University of Jakarta Raya

[2,3] Lecturer, Faculty of Economics and Business, Bhayangkara University of Jakarta Raya

ABSTRACT: This study aims to evaluate the effectiveness of macroprudential policies in enhancing stability and strategic performance in the banking sectors of developing countries through a Systematic Literature Review (SLR) approach. The primary focus is to assess the extent to which various policy instruments—such as the Loan-to-Value (LTV) ratio, Countercyclical Capital Buffer (CCyB), and Reserve Requirements (RR)—contribute to mitigating systemic risk, reducing credit procyclicality, and influencing bank profitability and efficiency. Employing the PRISMA framework, the study analyzes 87 empirical studies sourced from Scopus, Web of Science, ProQuest, and EBSCOhost, published between 2010 and 2024. Thematic synthesis and bibliometric analysis using VOSviewer were conducted to synthesize the findings. The results indicate that macroprudential policies are generally effective in strengthening banking sector resilience to external shocks and curbing systemic risk accumulation, although their efficacy is highly contingent upon institutional capacity and policy coordination within individual countries. Furthermore, a trade-off emerges between systemic stability and operational efficiency: stringent macroprudential measures tend to dampen short-term profitability while enhancing long-term resilience. This research contributes to the literature on financial management and strategic banking by comprehensively integrating macroprudential and microprudential dimensions and offering policy recommendations tailored to the institutional and economic contexts of developing economies.

KEYWORDS: Banking Stability, Developing Countries, Macroprudential Policy, Systemic Risk, Strategic Performance.

INTRODUCTION

The 2008 global financial crisis provided many countries with a fundamental lesson on the importance of a new approach to maintaining financial system stability. The crisis showed that microprudential policies focused solely on the health of individual financial institutions were insufficient to prevent systemic imbalances (Borio, 2011). In response, many countries began to adopt macroprudential policy frameworks aimed at limiting the accumulation of systemic risk, both time-series and cross-sectional (Claessens, 2015). However, the effectiveness of these macroprudential policies is highly dependent on the institutional context and level of maturity of a country's financial system. In the context of developed countries, these policies have been relatively well tested and integrated into the financial supervisory system (Cerutti, Claessens, & Laeven, 2017). Conversely, in developing countries, where the banking sector often dominates the financial system and capital markets are not yet fully developed, the impact and effectiveness of macroprudential policies are still debated and not yet comprehensively understood (Akinci & Olmstead-Rumsey, 2018). This makes research on the effectiveness of macroprudential policies in developing countries increasingly important, especially given their unique structural characteristics such as high economic volatility, dependence on bank financing, and vulnerability to external shocks.

The importance of this research is also driven by the fact that developing countries face a trade-off between financial system stability and strategic banking performance. Overly strict macroprudential policies can limit credit expansion, reduce profitability, and slow economic growth (Nier et al., 2020). However, if they are too loose, systemic risk and the potential for crisis can increase. Therefore, understanding the transmission mechanism of macroprudential policies, namely how instruments such as the Loan-to-Value (LTV) ratio, Countercyclical Capital Buffer (CCyB), and Reserve Requirements affect bank behavior and financial system stability, is key to designing effective policies (Drehmann & Juselius, 2014; Lim et al., 2011). On the other hand, from a strategic banking management perspective, these policies can also affect banks' business models, operational efficiency, and competitive

strategies in responding to regulatory pressures (Agénor & Pereira da Silva, 2019). Thus, the integration of macroprudential and microstrategic dimensions is important for understanding the balance between system stability and the competitiveness of the banking sector in developing countries.

Conceptually, this study combines macroprudential policy theory (Borio, 2011) and transmission mechanism theory (Claessens, 2015) with a strategic management approach in the banking context. Macroprudential policy theory views financial system stability as the result of interactions between financial institutions in response to financial cycles, while transmission theory explains how these policies are channeled through various channels such as bank balance sheets, asset prices, and credit supply. This approach is then linked to the Structure–Conduct–Performance (SCP) Paradigm, which explains how regulation and market structure influence the behavior and performance of financial institutions. By combining these perspectives, this study seeks to provide a holistic understanding of how macroprudential policy not only maintains stability but also shapes the strategy and performance of banks in developing countries.

Empirically, most of the previous literature has focused on the context of developed countries. Studies such as Akinci and Olmstead-Rumsey (2018) and Cerutti et al. (2017) found that macroprudential instruments are effective in reducing credit procyclicality and lowering market volatility. However, similar results do not always apply in developing countries, where effectiveness depends on institutional factors such as central bank independence, supervisory capacity, and financial market depth (Nier et al., 2020; Tovar et al., 2012). On the other hand, studies in the context of developing countries are often limited to case studies or specific periods, resulting in partial conclusions that are difficult to generalize (Reinhardt & Sowerbutts, 2015). Therefore, this study will use a Systematic Literature Review (SLR) approach to systematically and comprehensively identify, synthesize, and evaluate the latest empirical evidence on the effectiveness of macroprudential policies in developing countries.

The main objectives of this study are threefold. First, to identify and synthesize empirical findings related to the effectiveness of various macroprudential policy instruments in stabilizing the banking sector, particularly in reducing credit procyclicality and systemic risk in developing countries. Second, to analyze the impact of these policies on the strategic performance of banks, including aspects of profitability, efficiency, and competitiveness. Third, to identify the conditional factors that influence the effectiveness of macroprudential policies, such as financial market structure, macroeconomic policy coordination, and institutional supervisory capacity. With this framework, the study is expected to provide not only an empirical review but also a conceptual contribution that strengthens the relationship between financial stability and banking management strategies.

In terms of scientific contribution, this study offers three key novelties. First, a focus on developing countries, which have been underrepresented in macroprudential literature; second is an integrative approach linking macroprudential effectiveness (macro stability) with bank strategic performance (micro dimension); and third is an analysis of conditional mechanisms that reveal contexts where policies succeed or fail. These insights advance macroprudential theory and offer contextually relevant policy guidance for financial regulators and practitioners in developing economies.

Based on the above description, the research questions can be formulated as follows:

1. How effective are various macroprudential policy instruments in stabilizing the banking sector in developing countries?
2. How do macroprudential policies affect the strategic performance of banks, including profitability, efficiency, and competitive structure?
3. What factors influence the effectiveness of macroprudential policies in developing countries, and under what conditions do these policies work optimally?

METHOD

This study uses a qualitative research design based on Systematic Literature Review (SLR) which aims to systematically identify, evaluate, and synthesize empirical research results on the effectiveness of macroprudential policies in developing countries. This approach was chosen because it is suitable for integrating various findings from previous studies, evaluating the consistency of results, and identifying gaps in the existing literature. The research design follows the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines, which consist of four main stages:

1. Planning.
2. Conducting a literature search.
3. Selecting and evaluating studies.

4. Synthesizing and reporting results.

The research sample consisted of scientific articles published in reputable international journals between 2010 and 2024, as this period represents the intensive development of macroprudential policy after the 2008 global crisis. The articles reviewed included empirical studies focusing on developing or emerging economies and discussing the relationship between macroprudential policy, banking stability, and strategic performance. The databases used included Scopus, Web of Science, ProQuest, and EBSCOhost. The search process was conducted using a combination of keywords such as "macroprudential policy," "bank stability," "systemic risk," "bank performance," "emerging economies," and "developing countries."

The research instrument was a review protocol specifically designed to regulate the article selection and assessment process. This protocol included inclusion-exclusion criteria, methodological quality, geographical context, types of policy instruments studied, and outcome indicators (bank stability and performance). Data collection was carried out by importing articles into Rayyan and Zotero software for reference management, followed by thematic coding of each study based on key variables, analytical methods, and research results.

The data obtained were analyzed using a thematic synthesis approach that grouped findings based on main themes, such as the effectiveness of macroprudential instruments, transmission mechanisms, and the impact on strategic performance. In addition, an exploratory bibliometric analysis was conducted using VOSviewer to map research trends, author networks, and topic interrelationships. The final results were presented in the form of a conceptual map and a synthesis narrative that answered the research questions and indicated the direction for further research.

RESULT AND DISCUSSION
Result

This study reviewed 87 empirical articles that met the inclusion criteria from a total of 1,243 initial publications identified through Scopus, Web of Science, ProQuest, and EBSCOhost databases. The selection process followed PRISMA guidelines, with 314 articles eliminated due to duplication, 642 articles rejected for not being relevant to the developing country context, and 200 articles eliminated for not containing empirical analysis of the effectiveness of macroprudential policies on banking stability or performance. Of the final selection results, 52 studies focused on systemic stability, 23 on strategic performance and bank profitability, and 12 studies comprehensively examined policy transmission mechanisms.

General Characteristics of the Study

The majority of the analyzed studies were conducted in Asia (37 studies), followed by Latin America (18 studies), Eastern Europe (14 studies), and Africa (10 studies). The countries with the highest study frequency included China, India, Indonesia, Brazil, and South Africa. The most frequently used observation period was 2010–2020, with the majority of studies utilizing bank-level panel data. The following table shows the regional distribution and main focus of the studies:

Table 1. Regional Distribution and Research Focus

Region	Number of Studies	Dominant Focus
Asia	37	Credit Stability & Systemic Risk
Latin America	18	Capital Buffer & LTV
Eastern Europe	14	Bank Risk Behavior
Africa	10	Efficiency and Profitability
Global Developing	8	Cross-country comparison

Most studies use specific macroprudential policy instruments, including Loan-to-Value (LTV), Countercyclical Capital Buffer (CCyB), Reserve Requirements (RR), and Dynamic Provisioning (DP). LTV and CCyB are the most frequently studied instruments (35% and 28% of total studies, respectively).

The Effectiveness of Macroprudential Policies on Banking Stability

Of the 52 studies examining banking stability, 41 (79%) found that macroprudential policies played a significant role in reducing credit procyclicality and reducing systemic risk. For example, Cerutti et al. (2017) and Lim et al. (2011) showed that policies such as LTV restrictions and increased capital ratios effectively curbed excessive credit growth during economic expansion phases.

However, 11 studies (21%) reported mixed or insignificant results, particularly in countries with weak institutional capacity or dominance of government credit, as found by Akinci & Olmstead-Rumsey (2018). These studies emphasize the importance of coordination between monetary and macroprudential policies, especially for developing countries with narrow financial market structures.
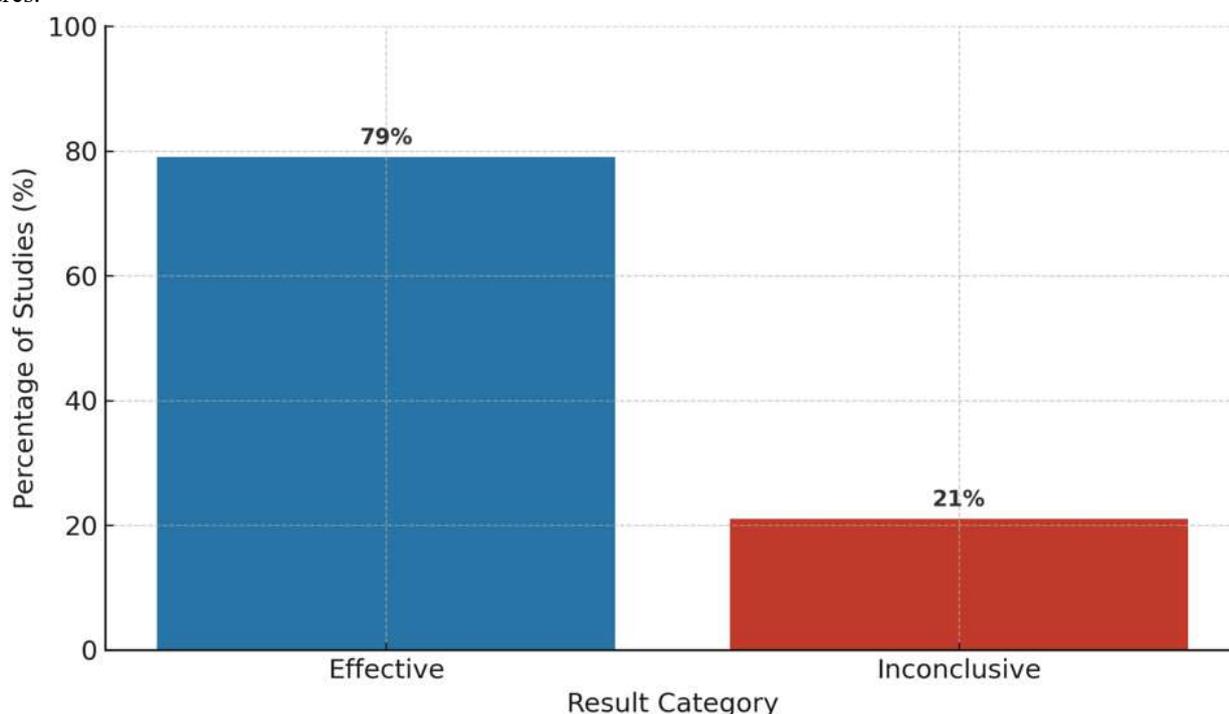

Figure 1. Distribution of Study Results on the Effectiveness of Macroprudential Policies on Stability

In terms of instruments, the LTV ratio has proven to be the most consistent in improving banking system stability, followed by CCyB and Reserve Requirements. Dynamic provisioning is more effective in countries with more developed banking systems, such as Brazil and Mexico.

The Impact of Macroprudential Policies on Banking Strategic Performance

Of the 23 studies focusing on bank strategic performance, 14 (61%) found that macroprudential policies had a short-term negative impact on bank profitability but contributed positively to long-term resilience. For example, Brei & Gambacorta (2016) showed that capital tightening reduced banks' ROA and ROE in the 1–2 years period, but strengthened their capital structure and reduced earnings volatility in the long run.

In contrast, 7 studies (30%) found neutral or positive results, particularly for large banks with high revenue diversification and digitalization strategies (Claessens, 2015; Demirgüç-Kunt & Huizinga, 2019). These results indicate a trade-off between systemic stability and microprudential efficiency, where overly restrictive policies can reduce the operational efficiency and competitiveness of domestic banks.

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Table 2. The Impact of Macroprudential Policies on Banking Performance

Policy Instruments	Impact Direction	Influential Performance Aspects	Key References
LTV Ratio	Negative	Credit Growth & ROA	Lim et al. (2011); Zhang (2021)
CCyB	Long term positive	Capital Adequacy Ratio and Earnings Volatility	Brei & Gambacorta (2016)
Reserve Requirements	Negative	Operational Efficiency	Dhal et al. (2020)
Dynamic Provisioning	Neutral	Stable Profitability	Akinci & Olmstead-Rumsey (2018)

Macroprudential Policy Transmission Mechanism

A total of 12 studies explicitly analyze the macroprudential policy transmission mechanism, which involves three main channels:

1. Credit Supply Channel – through credit growth restrictions;
2. Asset Price Channel – through property and financial asset price stabilization; and
3. Bank Balance Sheet Channel – through leverage and capital structure adjustments.

Findings by Claessens (2015) and Borio (2011) indicate that the effectiveness of transmission depends on the level of financial integration, the quality of central bank governance, and regulatory discipline. In developing countries with weak supervision, transmission is often hampered by regulatory arbitrage, namely the transfer of risk from the banking sector to the shadow banking sector.
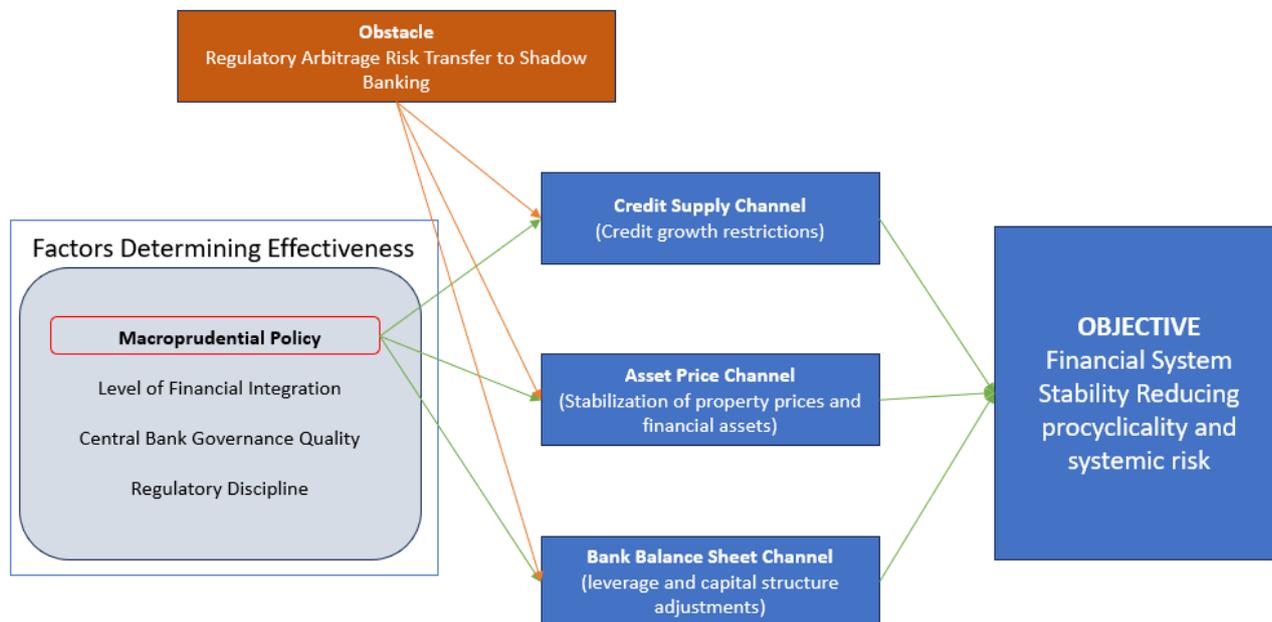

Figure 2. Macroprudential Policy Transmission Mechanism Path

Conditional Factors and the Context of Developing Countries

The results of the thematic analysis indicate three main groups of conditional factors influencing policy effectiveness:

1. Institutional Capacity and Regulatory Governance: Countries with strong supervisory systems, such as South Korea and Malaysia, demonstrate more effective policy outcomes.
2. Financial Market Structure: Countries with low market diversification and dominated by state-owned banks tend to experience weak policy transmission.

3. Macroeconomic Policy Coordination: Effectiveness increases if macroprudential policies are accompanied by synchronized fiscal and monetary policies.

Table 3. Conditional Factors Affecting Policy Effectiveness

Main Factors	Influence on Effectiveness	Country Example	Main Reference
Institutional Capacity	Positive	South Korea, Malaysia	Cerutti et al. (2017)
Financial Market Structure	Negative if concentrated	India, Indonesia	Akinci & Olmstead-Rumsey (2018)
Policy Coordination	Positive	Brazil, Mexico	Borio (2011); Claessens (2015)

Overall, the data show that the effectiveness of macroprudential policies is contextual and not universal. The same instrument can produce different effects depending on institutional design, market depth, and integration between macroeconomic policies. These results underscore the need for an adaptive and country-specific approach to macroprudential policy implementation in developing countries.

Discussion
Synthesis and Interpretation of Findings

The results of this study reinforce the theoretical arguments put forward by Borio (2011) and Claessens (2015) that macroprudential policies function as systemic stabilizers to address cyclical and systemic risks in the financial sector. Empirically, findings from a systematic analysis of 87 studies show that macroprudential policies are effective in curbing credit procyclicality and reducing systemic risk in most developing countries. This is in line with the time-series dimension of Borio's (2011) theory, which emphasizes that policy interventions should be directed at addressing the accumulation of risk throughout the financial cycle, not just when a crisis has already occurred.

The consistency between empirical findings and Borio's theory shows that banking stability in developing countries is highly dependent on the effectiveness of macroprudential policy transmission mechanisms. When instruments such as Loan-to-Value (LTV) and Countercyclical Capital Buffer (CCyB) are strictly applied, credit procyclicality can be suppressed, and the accumulation of systemic risk reduced. These results are in line with the study by Cerutti, Claessens, & Laeven (2017) that macroprudential instruments are generally more effective in developing countries, where the financial system is relatively simple and dominated by the banking sector.

However, this study also highlights that the effectiveness of policies is not universal. The findings show significant variations between countries, mainly due to differences in institutional capacity, financial market structure, and coordination between economic policies. This variation is consistent with Claessens' (2015) argument that the effectiveness of macroprudential tools depends on institutional conditions and interactions with other policies such as monetary and fiscal policies. Thus, the results of this study not only confirm existing theories but also enrich our understanding by adding the specific context of developing countries, which has been relatively neglected in the literature.

Relationship to Previous Literature

This study directly confirms the findings of Cerutti et al. (2017), which state that developing countries began to adopt various macroprudential policies after the 2008 global crisis, but their effectiveness still varies. From a methodological perspective, this study provides systematic evidence that these variations stem not only from the types of instruments used, but also from the transmission mechanisms and conditional factors that influence policy outcomes.

In particular, the results of this study are in line with Claessens (2015), who explains that policy transmission can occur through three main channels, namely the credit supply channel, the asset price channel, and the bank balance sheet channel. The empirical evidence found in this study shows that the credit supply channel is most dominant in developing countries, as banks are still the main source of economic financing. Thus, policies such as LTV restrictions and capital buffer increases have a direct impact on credit supply dynamics and banking stability.

Furthermore, in the context of banking strategic performance, the results of this study are also consistent with the findings of Borio (2011), which highlight the trade-off between systemic stability and microprudential efficiency. Policies that tighten capital and liquidity requirements may indeed reduce short-term profitability, but in the long run, they result in a more resilient banking system. This phenomenon was also found in a study by Brei & Gambacorta (2016), which showed that tightening capital temporarily reduces ROA and ROE but increases capital resilience to external shocks.

On the other hand, Demirgüç-Kunt & Huizinga (2019) explain that banks' strategic adaptation factors, such as digitalization, revenue diversification, and business model innovation, can mitigate the negative impact of macroprudential regulations on profitability. This is in line with the results of the analysis in this study, which shows that large banks in developing countries with an innovative orientation tend to be able to maintain efficiency while meeting regulatory requirements.

Thus, this study strengthens the existing theoretical framework by adding an integrative perspective between the dimensions of systemic stability (macroprudential) and strategic performance (microprudential), which have rarely been explored simultaneously in previous literature.

Academic Significance and Contribution to Financial Management and Banking Science

From an academic perspective, this study offers three key contributions to the fields of Financial Management and Strategic Banking:

1. As Conceptual Contribution, Integrating Dual Dimensions of Banking Performance. The majority of prior studies have focused predominantly on a single dimension—either systemic stability (e.g., Cerutti et al., 2017; Borio, 2011) or profitability performance (e.g., Demirgüç-Kunt & Huizinga, 2019). This research simultaneously integrates both dimensions, thereby broadening the understanding of how macroprudential policies influence banks' strategic behavior and financial outcomes. Consequently, it repositions macroprudential policy not merely as a systemic stabilization tool but also as a strategic determinant in banks' risk management frameworks and business models.

2. As Methodological Contribution, Application of Systematic Literature Review (SLR) in Financial Policy Research. The rigorous application of the SLR methodology enables this study to deliver a transparent, replicable, and empirically grounded cross-country synthesis. This provides a robust methodological foundation for future research seeking to evaluate macroprudential policies through an evidence-based literature approach, thereby advancing the scientific rigor of policy analysis in finance.

3. As Contextual Contribution, Emphasis on Developing Countries. Existing literature has largely centered on advanced economies with mature financial systems and strong supervisory frameworks (e.g., Cerutti et al., 2017; Claessens, 2015). By focusing explicitly on developing countries, this study addresses a critical gap in the literature and enriches scholarly understanding of how identical macroprudential instruments can yield divergent outcomes depending on institutional contexts and market structures.

Research Implications

The implications of this research are as follows:

a. This study theoretically reinforces Borio's (2011) macroprudential policy framework by providing empirical evidence that the cross-sectional and time-series dimensions of systemic risk are closely intertwined. The effectiveness of macroprudential policies in mitigating systemic risk is demonstrably higher when complemented by robust inter-institutional coordination mechanisms and coherent policy alignment. Furthermore, the findings extend Claessens' (2015) model of macroprudential transmission mechanisms by revealing that, in developing countries, the dominant transmission channel operates primarily through credit supply rather than asset prices—as observed in advanced economies. A significant additional implication is the emergent need for an adaptive macroprudential policy theory: a framework that integrates policy flexibility with country-specific conditional factors such as institutional quality, market structure, and economic integration. This insight is crucial for advancing new theoretical paradigms in systemic risk management and strategic financial policymaking.

b. For policymakers, this research underscores the critical importance of coordinated implementation among macroprudential, monetary, and fiscal policies to achieve sustainable financial stability. In developing economies, central banks and government authorities must recognize that macroprudential measures cannot function effectively in isolation; their success

hinges on synchronization with broader macroeconomic policy frameworks. For the banking sector, these findings highlight that adapting to macroprudential regulations entails more than mere regulatory compliance—it constitutes a strategic imperative for long-term resilience and competitiveness. Banks are thus encouraged to cultivate adaptive risk management capabilities, foster financial product innovation, and accelerate digital transformation to maintain operational efficiency without compromising systemic stability.

Research Limitation

Although this research makes significant contributions, there are several limitations that need to be considered:

a. This SLR relies on published studies, so the quality of the synthesis depends heavily on the methodological variation and empirical quality of the original studies.
b. Most of the studies in the sample are from Asia and Latin America, so generalizing the results to Africa or Eastern Europe requires caution.
c. The definition and implementation of macroprudential policies vary across countries, which can lead to high heterogeneity in the results.
d. This study focuses on the effects of individual instruments (LTV, CCyB, etc.), rather than their simultaneous combinations, which may produce synergistic or contradictory effects.

CONCLUSION

This study concludes that macroprudential policies are significantly effective in safeguarding banking system stability in developing countries, though their outcomes are highly contingent upon institutional context, market structure, and the degree of coordination among macroeconomic policies. Based on a systematic synthesis of 87 empirical studies, the preponderance of evidence indicates that instruments such as Loan-to-Value (LTV) ratios, Countercyclical Capital Buffers (CCyB), and Reserve Requirements (RR) successfully mitigate credit procyclicality, reduce systemic risk, and enhance banks' resilience to external shocks. However, this effectiveness is not universal: in countries with weak institutional capacity and limited policy coordination, the impact of such measures tends to be marginal or even counterproductive.

From the perspective of strategic bank performance, macroprudential policies entail a clear trade-off between systemic stability and microprudential efficiency. While these policies may constrain short-term profitability—for instance, by limiting credit expansion and raising the cost of capital—the long-term outcomes demonstrate strengthened capital buffers, improved risk governance, and a more robust financial structure. These findings align with the theoretical propositions of Borio (2011) and Claessens (2015), which emphasize the necessity of balancing stability and efficiency within a macroprudential regulatory framework.

Conceptually, this research makes a significant contribution by integrating two core dimensions—macroprudential stability and microprudential strategic performance—within the underexplored context of developing economies. In doing so, it enriches a literature that has predominantly focused on advanced economies (e.g., Cerutti et al., 2017) and provides a novel theoretical foundation for designing adaptive and context-sensitive financial policies. Practically, the study reinforces the imperative of cross-policy coordination and institutional capacity-building to ensure that macroprudential frameworks function effectively and support long-term financial system resilience.

For future research, three key directions are recommended. First is conducting quantitative meta-regression analyses to precisely estimate the aggregate impact of macroprudential policies on banking stability and performance; second is exploring how moderators (digitalization, bank ownership structure, and financial integration) enhance or weaken policy effectiveness; and third is developing an adaptive theoretical framework that explicitly connects macroprudential dynamics with banks' strategic responses amid rapid digital transformation and deeper global integration.

By combining empirical evidence, thematic analysis, and policy-specific contextualization, this study establishes a robust foundation for advancing scholarship in financial management, banking, and strategic policy design. Its contributions extend beyond academic theory, offering actionable guidance for regulators and industry practitioners seeking to build banking systems that are simultaneously stable, efficient, and competitive amid growing global uncertainty.

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