ABSTRACT

This study aims to analyzing the linkages of monetary policy instruments, budget deficit and balance of payments with VECM analyzing method. Data used in this study are secondary data, it used from 2002 quarter I until 2017 quarter IV.

The result found that there is one-way interaction between open market operation with Indonesian balance of payments. Money supply also has two-way causality relationship with budget deficits and minimum reserve requirement. The study also found that exogenous variable which are BI rate and open market operation affected Indonesian's balance of payments with a positive correlation, while the minimum reserve requierment significantly affect Indonesian's balance of payments with negative correlation. In variance decomposition found that fluctuation of balance of payment are influenced by the shock of balance of payments itself and followed by the money supply by 0,6 percent. The shock of these money supply respond to balance of payments with negative reaction in the third period and change to positive in the fourth period.

Thus the results of the study can be concluded that monetary policy instruments that are the BI rate, minimum reserve requirement and open market operation are instruments that can be used to maintain the stability of Indonesia's balance of payment

Keywords: Instrument of Monetary Policy, Budget Deficit, Balance of Payment, Vector Error Correction Model (VECM)