## *ABSTRACT*

*The payment system plays a critical role in an economy concerning financial system stability goals. Given the continuing advancement of technology, payment instruments keep evolving from cash-based payment systems to cashless payment instruments. The rapid progression of information technology provides convenience, speed, and smoothness to the payment system in all its forms. Nevertheless, rapid technological advancements also generate potential disruptions to the payment system, destabilizing the financial system. Given rapid changes in the payment system, this study aims to analyze the stability of the financial system in Indonesia due to the development of non-cash payment instruments.*

*This study aims to analyze Indonesia's financial system stability as an impact on the development of non-cash payment instruments in Indonesia with observations from 2009 to 2019. Non-cash payment innovations are expected to affect inflation through propagation speed on M1 and the velocity of money simultaneously*

*Using the Structural Vector Auto Regression (SVAR) method, the estimation results show a change in M1 response, where payment system innovation further reduces M1. At the same time, payment system innovations encourage the velocity of money circulation that tends to be inflationary. However, the inflationary impact of non-cash payment-based transactions tends to decrease.*



*Keywords: Financial system stability, Non-cash payment instruments, SVAR.*