ABSTRACT

Financial stability is one of the main factors for country's economy sustainability nowadays. Financial instability has adverse effects on economy which can lead into financial crisis and can give the domino effect to other countries. By employing econometric models of error correction on quarter data, this study examines the influence of monetary policy through money supply, interest rate, and exchange rate on financial stability in Indonesia. The finding of this study showed that the increase in interest rate began to be able to improve Indonesia's financial stability responsively in 4 periods, namely an increase of 1 percent in interest rate could increase 0.4161 percent of financial stability in Indonesia.

Keywords: Financial stability, money supply, interest rate, exchange rate, error correction model.

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