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The Monetary and Fiscal Policies on International Trade in Indonesia

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ABSTRACT

This study is to analyze how monetary and fiscal policies contribute to trade performance in Indonesia. The specific target of this study is to analyze the contribution and influence of variables such as exchange rate, inflation, trade balance, government expenditure, Tax, and investment in the short, medium and long term in Indonesia. So that it can show how much the contribution and influence of monetary and fiscal variables on trade performance in Indonesia. The results of this study explain that the largest contribution to the trade balance is the government expenditure and investment in the previous period, the largest contribution to inflation is the government expenditure and investment in the previous period, the largest contribution to government expenditure is the exchange rate and government expenditure itself in the previous period, the largest contribution to investment is government expenditure and investment itself in the previous period, the largest contribution to the exchange rate is the exchange rate itself and investment in the previous period, the largest contribution to Tax is government expenditure and exchange rate in the previous period.

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1. INTRODUCTION

The implementation of monetary policy cannot be done separately from other macroeconomic policies, such as fiscal policy, sectoral policy, and other policies. All of them lead to the achievement of a final goal [1], namely social welfare. Overall, fiscal policy which is a policy related to the government budget, together with monetary policy affects the demand side of the economy, sectoral policies such as policies in the fields of trade, industry, mining, agriculture, labor, etc., affect the supply side of the economy. Policies that are implemented together may have conflicting effects that weaken each other. This is referred to as policy conflict. Therefore, to optimally achieve macroeconomic policy objectives, a policy mix is generally applied that is coordinated between one policy and another [2]. In accordance with the mandate of Law Number 17 of 2003, in order to support the reduction in the deficit level, the government always maintains a cumulative deficit. The State Budget and Regional Budget are within the predetermined limit of below 3%. Through the State Budget, the government is obliged to carry out the central

role and function of fiscal policy [3] so that the performance stability of the state revenue and expenditure budgets [4] is in good condition by optimizing state revenues with realistic tax revenue targets based on the latest database, the government will also carry out state spending efficiency and strengthen the quality of state spending to support national economic development and carry out budget financing efficiency to push the primary balance towards a positive direction [5].

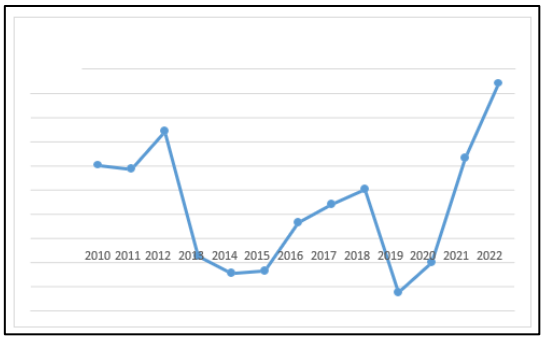

Figure 1. Indonesia's Trade Balance

Inflation in Indonesia has fluctuated, increasing and decreasing in Indonesia from 2012 to 2022 [6]. The lowest inflation was in 2020 at 1.68% while the highest inflation rate in Indonesia occurred in 2015 at 8.36% which was caused by an increase in fuel prices. But this did not last long where in 2016 to 2021 inflation in Indonesia decreased, namely by 3.35% to 3.02%. In the following years until 2022 inflation [7] in Indonesia has increased. Even though inflation in Indonesia has increased, it can still be controlled because inflation in Indonesia is categorized as low inflation, which is below 10% on average. This is because the government's monetary authority can regulate inflation so that inflation can be controlled.

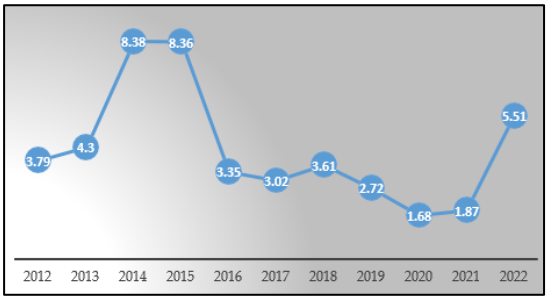

Figure 2. Indonesia's Inflation, 2012-2022

The information above shows that the rupiah exchange rate plays an important role in determining the economic conditions and macroeconomic [8] variables of a country. So that a policy is needed so that the rupiah exchange rate remains stable and does not depreciate. The right policy cannot be set without knowing what factors cause changes in the exchange rate [9]. In 2022 the Inflation rate in Indonesia was 5.51% experiencing a significant increase from previous years as well as the factor of the increase in the inflation rate in Indonesia is the increase in fuel oil, which has an impact on the increase in inflation because Indonesia is an archipelago to distribute goods in the need for land, sea and air transportation [10]. One of the fiscal policies is government spending [11], defined as the use of money and resources of a country to finance a state or government activity in order to realize its function in conducting welfare.

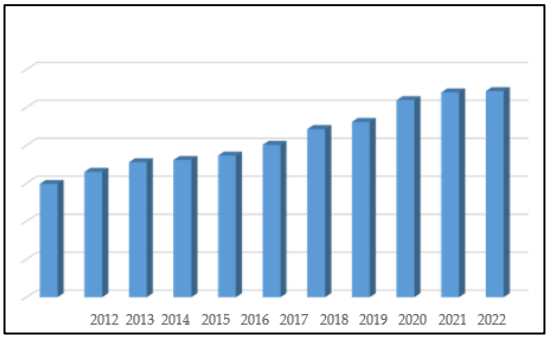

Figure 3. Indonesia's Gov. Expenditure

State expenditure in 2022 grew positively and continued to be optimized, recording a realization of 2 714 155.72 or 99.5% of the target based on Presidential Regulation Number 98 of 2022, growing 10.9%. This expenditure realization consists of the realization of central government expenditure and transfers to the regions [12]. "The increase in spending will be seen that most of it is to protect the community from health threats, threats from deteriorating social conditions through various social assistance, and also in terms of threats from weakening the economy from commodity shocks [13]. So this is the story of the state budget as a shock absorber. Central government spending reached IDR 1 944 542.25 Billion or 98.8% of PR 98/2022,

growing 13.7% from 2021 realization. This amount consists of the realization of ministries/institutions expenditure of Rp1,079.3 trillion or 114.1% of Presidential Regulation 98/2022, influenced by, among others, an increase in the ceiling of ministries/ institution's expenditure to support the Covid-19 handling program and national economic recovery in the health and social protection sectors. Additional spending in the health sector is mainly for handling Covid-19 patients, incentive payments for health workers and procurement of medicines/vaccines for handling Covid-19 [14]. Meanwhile, additional spending in the social protection sector is mainly to maintain purchasing power and ease the burden of community expenditure through direct cash assistance programs for cooking oil, cash assistance programs, fuels, and wage subsidy assistance, as well as for natural disaster management in several regions [15].

Research analyzing the effect of monetary and fiscal policy on international trade performance is important to do because of the need to analyze whether a trade balance surplus or deficit affects the performance of international trade in Indonesia. The results of this analysis are expected to be able to provide input for the government to support the development of international trade sectors as a support for increasing economic growth in Indonesia.

2. LITERATURE REVIEW

Monetary and fiscal policies are the two main tools [16] used by governments to regulate the economy and, indirectly, affect trade. Fiscal policy involves government spending and taxation policies [17]. It is run by the government and focuses on managing the country's budget. Monetary and fiscal policies often interact with each other and can either support or contradict each other [1]. For example, expansionary monetary policy may not be effective if fiscal policy is very tight, and vice versa. Good coordination between the central bank and the government is essential to achieve the desired economic balance and to maximize the benefits of international trade.

3. METHODS

By using time series data, the data analysis method used in this research is Vector Autoregressive [17] by first performing the assumption test stage. The Vector Autoregressive method is one of the methods used to project systems with time variables in order to analyze dynamic impacts [18]. The impact is a disturbance factor contained in the variable system. This model is a reliable analytical tool in describing data and forming reliable multivariate forecast equations.

The VAR model is a system of equations that shows each variable as a linear function of a constant and the lag value [19] of the variable itself as well as the lag values of other variables in the system of equations. So the explanatory variables in VAR include the lag values of all the independent variables in the system [9]. The advantage of VAR is that it is classified as a simple model. In VAR we don't have to worry about distinguishing between endogenous and exogenous variables. The estimation is simple. Easy to study the interrelationship between economic variables, by making all variables endogenous. Dynamic by [18] incorporating lag variables.

One important feature of VARs is the compactness with which we can write the notation. Where k = 1. Write this as:

$$Y_{1t} = \beta_{10} + \beta_{11}Y_{1t-1} + \alpha_{11}Y_{2t-1} + e_{1t}$$
$$Y_{2t} = \beta_{20} + \beta_{21}Y_{2t-1} + \alpha_{21}Y_{1t-1} + e_{2t}$$

or:

$$\left(\frac{y_{1t}}{y2t}\right) = \left(\frac{\beta_{10}}{\beta_{20}}\right) + \left(\frac{\beta_{11}\alpha_{11}}{\alpha_{21}\beta_{21}}\right)\left(\frac{y_{1t-1}}{y_{2t-1}}\right) + \left(\frac{\mu_{1t}}{\mu_{2t}}\right)$$

or even more compactly as:

$$\underset{g\text{x}1}{y_t} = \underset{g\text{x}1}{\beta_0} + \underset{g\text{x}g}{\beta_1}\underset{g\text{x}1}{Y_{t-1}} + \underset{g\text{x}1}{\mu_t}$$

where:

Y_1, Y_2: the variable of exogen endogen; β, α: the coefficient; e,μ: error term; t-1: lag length.

4. RESULTS AND DISCUSSION

4.1 Results

a) Augmented Dickey Fuller test

The initial stage of the assumption test is the Augmented Dickey Fuller test approach data stationarity test [20]. The results of the ADF-test show that the six variables tested with the first difference unit root test are stationary, because they already have an ADF value that is greater than the Mc Kinon value at the 10% significance level, so the analysis can be continued [21]. To determine whether there is a long-term relationship between the variables studied by looking at the cointegrated equation, the Johansen cointegration test is conducted.

b) Johansen Cointegration test

From the Johansen cointegration test [17], it is known that there are 4 cointegrated equations at the 10% level, which means that there is a long-term relationship between variables.

c) Granger Causality test

Based on the results of the granger causality test [22], it can be seen that the Exchange Rate has a significant relationship with the Trade Balance, it is known that the probability value is 0.0080 <0.05. Tax has a relationship and is significant to the Trade Balance, known probability value of 0.0453 < from 0.05. Trade Balance has a relationship and significant to Tax, known probability value of 0.0486 < from 0.05. Inflation has a relationship and is significant to Government Spending, known probability value of 0.0318 < from 0.05. Government Spending has a relationship and is significant to the Exchange Rate, known probability value of 0.0045 < from 0.05. Tax has a Relationship and Significant to Tax, known probability value of 0.0227 < from 0.05. Investment has a Relationship and Significant to the Exchange Rate, known probability value of 0.0008 < from 0.05. Tax has a Relationship and Significant to the Exchange Rate known probability value of 0.0064 < from 0.05. So it can be concluded that there is a relationship or influence of several variables studied with other variables in the short term. Because most variables have a relationship in the long term.

d) Lag Structure stability test

Lag structure stability test results show that the model specifications formed using Inverse Roots of AR Characteristic Polynomial obtained stable results, this can be shown that all unit roots are in the Inverse Roots of AR Characteristic Polynomial image circle. Lag stability has been met so the VAR analysis can continue.

e) Lag Length test

This lag length test is conducted to see how much lag length is more optimal to use in the analysis [23]. Determination of the optimal lag length can be done by looking at the Akaike Information Criterion (AIC) criteria. A more optimal lag length is one that has a smaller Akaike Information Criterion (AIC) value. Based on the results of determining lag 1 and 2 above, it shows that on lag 1 the AIC value is 0.578134, greater than the AIC value on lag 2, which is - 5.106843. so the conclusion is that the use of VAR on lag 2 is more optimal than on lag 1. So this study uses lag 2 to analyze it.

f) Estimate of VAR

Choosing the VAR method on the grounds that it is easy to answer and prove empirically and more complex reciprocal relationships in the long term economic variables are used as endogenous variables, with formulas as follows:

$$ER_t = \beta_{10}INF_{t-1} + \beta_{11}TB_{t-1} + \beta_{12}GOV_{t-1} + \beta_{13}TAX_{t-1} + \beta_{14}INV_{t-1} + et1$$

$$INF_t = \beta_{20}TB_{t-1} + \beta_{22}GOV_{t-1} + \beta_{23}TAX_{t-1} + \beta_{24}INV_{t-1} + \beta_{25}ER_{t-1} + et2$$

$$TB_t = \beta_{30}GOV_{t-1} + \beta_{31}TAX_{t-1} + \beta_{32}INV_{t-1} + \beta_{33}ER_{t-1} + \beta_{34}INF_{t-1} + et3$$

$$GOV_t = \beta_{40}TAX_{t-1} + \beta_{41}INV_{t-1} + \beta_{42}ER_{t-1} + \beta_{43}INF_{t-1} + \beta_{44}TB_{t-1} + et4$$

$$TAX_t = \beta_{50}INV_{t-1} + \beta_{51}ER_{t-1} + \beta_{52}INF_{t-1} + \beta_{53}TB_{t-1} + \beta_{54}GOV_{t-1} + et5$$

$$INV_t = \beta_{60}ER_{t-1} + \beta_{61}INF_{-1} + \beta_{62}TB_{t-1} + \beta_{63}GOV_{t-1} + TAX_{t-1} + et6$$

where:
ER: exchange rate (US$); INF: inflation (%); TB: trade balance (rupiahs); GOV: gov. expenditure (rupiahs); TAX: tax (rupiahs); INV: investment (rupiahs); e: error term; t-1: lag length.

The largest contribution to the Trade Balance is Government Expenditure in the previous period and the second largest contribution is Investment in the previous period. The return on investment will support the deficit of a country's trade balance. Allocation of government expenditure [24] is an investment in human resources that increases investment power.

The largest contribution to Inflation is Government Expenditure [25] in the previous period and the second largest contribution is Investment in the previous period. Unstable government expenditure in each region in Indonesia will create inequality against other regions in Indonesia, causing unstable and uneven prices, when the allocation of government spending is evenly distributed, it is necessary to invest so that there is no imbalance that drives inflation.

The largest contribution to Government Expenditure [15] is the previous exchange rate and the second largest contribution is Government Expenditure itself in the previous period. The economy must involve government intervention [17], with government intervention the economy will be evenly distributed. The purpose of allocating government funds both at the central and regional levels is to be able to maintain price stability which has an impact on the value of the currency.

The largest contribution to Investment is Government Expenditure [26] itself and the second largest contribution is Investment in the previous period. Apart from Government spending [27], the result of Investment is a long-term asset for a country, Investment carried out by the government aims to obtain economic, social, and other benefits in addition to aiming to increase economic growth in order to advance public welfare.

The largest contribution to the exchange rate is the exchange rate [28] itself in the previous period and the second largest contribution is the investment in the previous period. The exchange rate [29] will affect investment activities because of exchange rate fluctuations that make investors tend to be cautious in making their investments in other countries.

Government the largest contribution to Government Revenue is Government Expenditure in the previous period and the second largest contribution is the Exchange Rate in the previous period. Government spending [11] cannot be separated from government revenue, government spending is When government spending and government revenue are not in line, it will have an impact on the value of a country's currency as a result of rising prices [30] in a country.

g) Impulse Response Function

The impulse response function results for each variable can be explained as follows:

Table 1. IRF Trade Balance

	Short	Middle	Long
TB	+	-	-
INF	+	+	+
GOV	+	+	-
INV	+	-	-
ER	+	+	+
TAX	+	-	-

Source: data processed; Eviews v.11; 2023

The short term TB is (4.046262), then not responded by all other variables in the study. In the medium term where one standard deviation of TB is (-0.285798), it is responded positively by INF by (0.294655), GOV by (0.248525) and ER by (0.001340). It is negatively responded by INV by (-0.540712) and TAX by (-0.291319). In the long run, one standard deviation of ER by (-0.097933) is responded positively by INF by (0.164490), ER by (0.032442). Then negatively responded by GOV by (-

0.107131), INV by (-0.052941) and TAX by (-0.141321).

Table 2. IRF Inflation

	Short	Middle	Long
TB	+	-	-
INF	+	+	+
GOV	+	+	-
INV	+	-	-
ER	+	-	+
TAX	+	-	-

Source: data processed; Eviews v.11; 2023

In the short term, INF of (1.942847) is responded positively by TB of (1.840096) then not responded by all other variables in the study. In the medium term where one standard deviation of INF is (0.039524), it is responded positively by GOV (0.046141). Then negatively responded by TB (-0.113474), INV (-0.192504), ER (-0.029643), and TAX (-0.045886). In the long run, one standard deviation of INF (0.050658) is responded positively by ER (0.012022). Then negatively responded by TB by (-0.025649), GOV by (-0.029050) INV by (- 0.012518) and TAX by (-0.044022).

Table 3. IRF Gov. Expenditure

	Short	Middle	Long
TB	+	+	+
INF	-	-	-
GOV	+	+	+
INV	+	+	+
ER	+	-	-
TAX	+	+	+

Source: data processed; Eviews v.11; 2023

In the short term, GOV (0.064777) is responded positively by TB (0.051351) and negatively by INF (-0.017466). Then it does not respond to all other variables in the study. In the medium term where one standard deviation of GOV is (0.007984), it is responded positively by TB by (0.012967) INV by (0.010933) and TAX by (0.013134). It is negatively responded by INF by (-0.016855), and ER by (-0.002504). In the long run (period 10) one standard deviation of GOV by (0.004546) is responded positively by TB by (0.005777), INV by (0.004244) and TAX by (0.007271). Then negatively responded by INF by (-0.008749), and ER by (-0.001537).

Table 4. IRF Investment

	Short	Middle	Long
TB	+	+	+
INF	+	-	-
GOV	-	+	+
INV	+	-	+
ER	+	-	-
TAX	+	+	+

Source: data processed; Eviews v.11; 2023

In the short term, INV (0.079717) is responded positively by TB (0.131842) INF (0.042847) and negatively by GOV (-0.039542). Then it does not respond to all other variables in the study. In the medium term where one standard deviation of INV is (-0.010702), it is responded positively by TB by (0.001111), GOV by (0.016483) and TAX by (0.017595). It is negatively responded by INF by (-0.019271), and ER by (-0.008197). In the long run, one standard deviation of INV by (0.004835) is responded positively by TB by (0.005297), GOV by (0.002800) and TAX by (0.005047). It is negatively responded by INF by (-0.006440), and ER by (-0.000727).

Table 5. IRF Exchange rate

	Short	Middle	Long
TB	+	+	+
INF	+	-	-
GOV	+	-	+
INV	+	+	+
ER	+	-	-
TAX	+	+	+

Source: data processed; Eviews v.11; 2023

In the short term ER which is (0.036030) is responded positively by TB by (0.050504), INF by (0.032705), GOV by (0.039173), INVES by (0.042711) and responded negatively by GOV by (-0.039542) and not responded by TAX variable. In the medium term where one standard deviation of ER is (-0.005393), it is responded positively by BOT by (0.003497), INVES by (0.005699) and TAX by (0.011450). Then negatively responded

by INF by (-0.014259), and GOV by (-0.004476). In the long term (period 10), one standard deviation of the CURSE (-0.000505) is responded positively by BOT (0.003488), GOV (0.003179), INVES (0.002397), and TAX (0.003667). Then negatively responded by INF by (-0.004437).

Table 6. IRF Tax

	Short	Middle	Long
TB	+	+	+
INF	-	-	-
GOV	-	+	+
INV	+	+	+
ER	+	-	-
TAX	+	+	+

Source: data processed; Eviews v.11; 2023

In the short term TAX of (0.073446) is responded positively by TB of (0.081122), INV of (0.028020), ER of (0.004757), and responded negatively by INF of (-0.029416) and GOV of (-0.001611). In the medium term where one standard deviation of TAX is (0.013667), it is responded positively by TB by (0.008688), GOV by (0.010632) and INV by (0.002832). It is negatively responded by INF by (-0.018096), and ER by (-0.004695). In the long run, one standard deviation of TAX (0.006147) is positively responded by TB (0.005400), GOV (0.003823), INV (0.004280), and negatively responded by INF (-0.007518), and ER (-0.001144).

h) Forecast Error Variance Decomposition

TB in the short term, the estimated error variance of 100.0% is explained by TB itself. While other variables, namely INF, GOV, INV, ER and TAX do not respond at all and do not affect TB in the short term. In the medium term, the estimated error variance is 63.55% which is explained by TB itself. Other variables that influence TB the most are TAX by 18.07%, INV by 7.67%, GOV by 4.99%, ER by 2.86% and INF by 2.82%. In the long run, the estimated error variance of 61.05% is explained by TB itself. Other variables that most influence TB are TAX by 18.39%, INV by 7.72%, GOV by 4.96%, INF by 3.97% and ER by 2.89%.

Table 7. The recommendation for TB

	Cont. 1	Cont. 2
Short	TB (100%)	-
Middle	TB (63.55%)	TAX (18.07%)
Long	TB (62.05%)	TAX (18.39%)

Source: data processed; Eviews v.11; 2023

INF in the short run, the estimated error variance is 52.71% which is explained by INF itself, TB is 47.28%. While the other variables namely GOV, INV, ER and TAX do not respond at all and do not affect INF in the short term. In the medium term, the estimated error variance is 50.46% which is explained by INF itself. Other variables that influence INF the most are TB by 39.55%, TAX by 4.46%, INV by 2.44% GOV by 2.28%, ER by 0.78%. In the long run, the estimated error variance of 50.36% is explained by INF itself. Other variables that most influence INF are TB by 39.31%, TAX by 4.63%, INV by 2.58%, GOV by 2.29% and ER by 0.80%.

Table 8. The recommendation for INF

	Cont. 1	Cont. 2
Short	INF (52.71%)	TB (47.28%)
Middle	INF (50.46%)	TB (39.55%)
Long	INF (50.36%)	TB (39.31%)

Source: data processed; Eviews v.11; 2023

GOV in the short term, the estimated error variance is 58.78% which is explained by GOV itself, TB by 36.94%, INF by 4.27%, while other variables namely INV, ER and TAX do not respond at all and do not affect GOV in the short term. In the medium term, the estimated error variance is 41.97% which is explained by GOV itself. Other variables that affect GOV the most are TB by 31.15%, INF by 13.70%, TAX by 6.82% INV by 6.26%, ER by 0.07%. In the long run, the estimated error variance of 37.37% is explained by GOV itself. Other variables that most influence GOV are TB by 29.07%, INF by 17.07%, TAX by 9.50%, INV by 6.71% and ER by 0.25%.

Table 9. The recommendation for GOV

	Cont. 1	Cont. 2
Short	GOV (58.78%)	TB (36.94%)
Middle	GOV (41.97%)	TB (31.15%)
Long	GOV (37.37%)	TB (29.07%)

Source: data processed; Eviews v.11; 2023

In the short term, the estimated error variance is 23.41% which is explained by INV itself, TB by 64.05%, INF by 6.76%, GOV by 5.76%, while the other variables, ER and TAX do not respond at all and do not affect INV in the short term. In the medium term, the estimated error variance is 17.73% which is explained by INV itself. Other variables that influence INV the most are TB by 39.24%, INF by 21.88%, GOV by 9.54% TAX by 7.40%, CURS by 4.18%. In the long run, the estimated error variance of 17.47% is explained by INV itself. Other variables that influence INV the most are TB by 38.68%, INF by 21.92%, GOV by 10.18%, TAX by 7.70% and ER by 4.07%.

Table 10. The recommendation for INV

	Cont. 1	Cont. 2
Short	TB (64.05%)	INV (23.41%)
Middle	TB (39.24%)	INF (21.88%)
Long	TB (38.63%)	INF (21.92%)

Source: data processed; Eviews v.11; 2023

ER in the short term, the estimated error variance is 15.68% which is explained by ER itself, TB by 30.81%, INV 22.03%, GOV 18.53%, INF 12.92% While the TAX variable does not respond at all and does not affect ER in the short term. In the medium term, the estimated error variance is 11.41% which is explained by ER itself. Other variables that most affect ER are INV by 34.00%, TB by 30.92%, GOV 11.55% INF by 8.27%, ER by 3.83%. In the long run, the estimated error variance of 11.16% is explained by ER itself. Other variables that most influence ER are INVES by 32.71%, TB by 29.93%, GOV by 11.41%, INF by 9.70% and TAX by 5.06%.

Table 11. The recommendation for ER

	Cont. 1	Cont. 2
Short	TB (30.81%)	INV (22.03%)
Middle	INV (34.00%)	TB (30.92%)
Long	INV (32.71%)	TB (29.93%)

Source: data processed; Eviews v.11; 2023

TAX in the short term, the estimated error variance of 39.51% is explained by TAX itself, TB by 48.20%, INF 6.33%, INV 5.75%, ER 0.16%, GOV 0.01%. In the medium term, the estimated error variance of 33.26% is explained by TAX itself. Other variables that most influence TAX are TB by 36.11%, INF by 17.80%, INV by 7.37% 11.55% GOV by 4.26%, ER by 1.17%. In the long run, the estimated error variance of 32.77% is explained by TAX itself. Other variables that most influence TAX are TB by 34.88%, INF by 18.90%, INV by 7.39%, GOV by 4.88% and ER by 1.17%.

Table 12. The recommendation for TAX

	Cont. 1	Cont. 2
Short	TB (48.20%)	TAX (39.51%)
Middle	TB (36.11%)	TAX (33.26%)
Long	TB (34.88%)	TAX (32.72%)

Source: data processed; Eviews v.11; 2023

4.2 Discussion

Interaction of Monetary and Fiscal Policy on International Trade in Indonesia as follows:

Table 13. The Interaction of Policy

Monetary policy	Trade balance		
	Short	**Middle**	**Long**
Inflation	47.28%	39.55%	39.31%
Exchange rate	30.81%	30.92%	29.93%
Fiscal Policy	Trade balance		
	Short	**Middle**	**Long**
Tax	48.20%	36.11%	34.88%
Gov. expend	36.94%	31.15%	29.07%
Invest.	64.05%	39.24%	38.63%

The effectiveness of the interaction of monetary and physical policies that most affect international trade in Indonesia in the short term is carried out with Physical policies through Investment

variables [8], short-term investments are investments with management procedures in a short time, usually around one year, to obtain profits. The profits from this type of investment [1] can be disbursed or obtained in a faster time. Short-term investments can be used as a means of storing or saving emergency funds that are profitable because they can benefit from the increase in investment made [31].

Effective coordination between monetary and fiscal policy [32] is crucial for managing trade outcomes. Policymakers [33] need to consider the interplay between interest rates, government spending, and taxation to balance domestic economic [34] objectives with international trade goals. By aligning these policies, governments can enhance economic stability [35], competitiveness, and overall trade performance.

Meanwhile, in the medium and long term, the most influential policy effectiveness in international trade in Indonesia is carried out by monetary policy, namely through the variable Inflation. Inflation is a phenomenon [36] of a continuous increase in the price of a good, an increase in the price of a good will have an impact on international trade [37]. The impact of inflation in a country affects income and exports. In inflationary conditions, the competitiveness of export goods can decrease because the price of export goods becomes expensive. This of course makes it difficult for the state and exporters [29]. If a country experiences inflation, then the goods produced by that country will not be able to compete in the international market. This is because the price of domestic goods [22] has increased so that producers are unable to produce optimally.

5. CONCLUSION

The largest contribution to the Trade Balance is Government Expenditure and Investment in the previous period, the largest contribution to Inflation is Government Expenditure and Investment in the previous period, the largest contribution to Government Expenditure is the Exchange Rate and Government Expenditure itself in the previous period, the largest contribution to Investment is Government Expenditure and Investment itself in the previous period, the largest contribution to the Exchange Rate is the Exchange Rate itself and Investment in the previous period, the largest contribution to Government Revenue is Government Expenditure and Exchange Rate in the previous period.

There is a change in the effect of each standard deviation of each variable from positive to negative and vice versa from negative to positive in the medium term and in the long term. These results explain that there are different responses from monetary and fiscal policy variables, both positive responses and negative responses. This condition shows that all variables studied are correlated in the medium and long term.

For the short, medium and long term, the control of the Trade Balance is carried out by the Trade Balance itself and Government Revenue, for the short, medium and long term, the control of Inflation is only carried out by Inflation itself and the Trade Balance, for the short, medium and long term, the control of Government Expenditure is only carried out by Government Expenditure itself and the Trade Balance, for the period of Investment control is only carried out by the Trade Balance and Investment itself, for the medium and long term it is only done by the Trade Balance and Inflation, for the short term, the control of the Exchange Rate is only carried out by the Trade Balance and Investment. Then in the medium and long term it is done by Investment and Trade Balance, for the short and medium and long term the control of Tax Revenue is only done by the Trade Balance and Tax Revenue itself.

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