

ABSTRACT

Financial distress is a condition where the company is experiencing financial pressure or difficulty. Financial distress that takes place continuously can gradually result in the company going bankrupt. The management must be able to anticipate changes in economic conditions from the micro and macro side that can affect the company's financial condition. One of the indicators of financial distress is negative net income, the number of textile and garment sub-sector companies that earn negative net profits increases every year because high imports of fabrics make the domestic industry decline.

This study aimed to examine the effect of liquidity, profitability, inflation and exchange rates on financial distress in textile and garment sub-sector companies listed on the Indonesia Stock Exchange in 2014-2018. The data used in this study were obtained from the financial report, data inflation, and the exchange rate from the official website of Bank Indonesia.

The population in this study were the textile and garment sub-sector listed on the IDX. The sampling technique used was purposive sampling and obtained 13 companies for 5 years. The data analysis method in this study was panel data regression analysis using a random effect model.

The results of this study indicated that simultaneously liquidity, profitability, inflation, and exchange rates had an effect on financial distress. Partially, profitability had a significant negative effect on financial distress, while liquidity, inflation and exchange rates had no significant effect on financial distress.

Based on the results, further researchers advised using other macroeconomic variables that may affect financial distress. Investors are advised to invest in companies that have a high profitability variable value because companies that have a high profitability variable value will avoid financial distress problems and the company should optimize the profitability ratio variable so that the company does not experience financial distress.

Keywords: *Exchange rate, Financial Distress, Inflation, Liquidity, Profitability*