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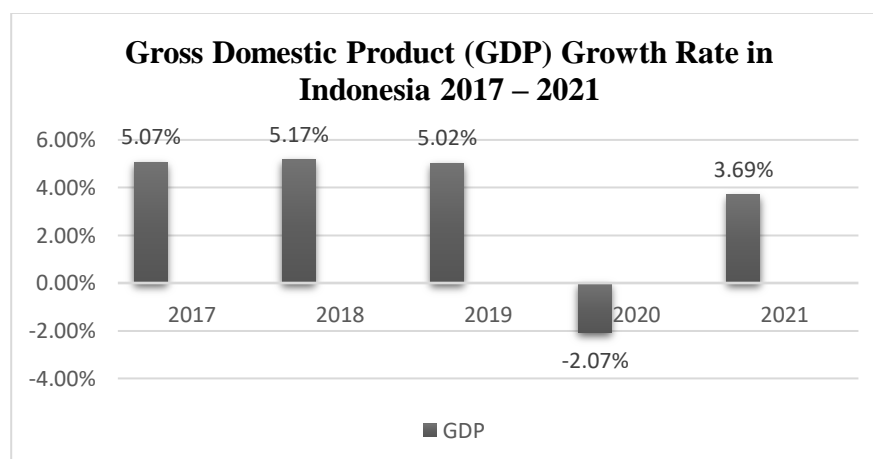
CHAPTER I

INTRODUCTION

1.1. Background

One of the goals of a company is to generate maximum profit, but the company does not always make good profits (Putri & Kristanti, 2020). Financial risks faced by companies can trigger failure or the emergence of unexpected results, one of which is the emergence of financial distress (Dewi et al., 2019). Financial distress is a situation where the company's operating cash flow is inadequate to pay off current liabilities (such as trade payables or interest expense) (Dewi et al., 2019). Dewi et al. (2019) also explains that financial distress is a condition where the company's finances are in an unhealthy state or crisis. The company certainly does not want financial distress to occur. If financial distress occurs, investors and creditors tend to be more careful in investing or providing loans to the company (Murni, 2018). According to Wulandari & Jaeni (2021) the state's economic situation can also affect the condition of a company in experiencing financial distress.

According to the Ministry of State Finance of the Republic of Indonesia, the Badan Pusat Statistik published Indonesia's economic growth figures from 2017-2021 which experienced a decline in 2020.



Source: Badan Pusat Statistik Indonesia

Figure 1.1 Gross Domestic Product (GDP) Growth Rate in Indonesia