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Evaluation of the Impact of Monetary Policy on the Financial Performance of Manufacturing Companies: Implications of Interest Rates, Inflation and Macroeconomic Stability

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Abstract

This study aims to evaluate the impact of monetary policy on the financial performance of manufacturing companies in Indonesia, emphasising the implications of interest rates, inflation, and macroeconomic stability. Using a quantitative approach through multiple regression analysis, this study analyzes the relationship between monetary policy variables of Bank Indonesia's benchmark interest rate, inflation rate, exchange rate, foreign exchange reserves, and budget deficit with the company's financial performance, as measured using Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Secondary data used in this study include the annual financial reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2015-2023. The study results indicate that the benchmark interest rate has a significant negative effect on ROA and ROE. In contrast, the inflation rate shows varying impacts on NPM and other financial performance. In addition, macroeconomic stability is measured through indicators of the rupiah exchange rate against the USD, foreign exchange reserves, and budget deficit, which significantly affect the company's financial performance. These findings emphasize the importance of monetary policy and macroeconomic stability in determining the profitability of manufacturing companies in Indonesia. This study implies that corporate management needs to develop more adaptive strategies to deal with fluctuations in monetary policy and macroeconomic conditions. In addition, policymakers need to consider the long-term impact of monetary policy on the manufacturing sector to create an economic environment conducive to industrial growth. This study contributes significantly to the literature on the impact of monetary policy on corporate financial performance in emerging markets.

Keywords:
Monetary Policy; Interest; Inflation; Macroeconomic Stability; Financial Performance.

1. INTRODUCTION

Monetary policy is a fundamental instrument used by central banks to achieve economic stability, with a focus on setting interest rates, controlling inflation, and maintaining macroeconomic stability. In the manufacturing industry in Indonesia, monetary policy has a very significant impact on a company's financial performance. The interest rate set by the central bank serves as one of the main determinants of the cost of borrowing that the company must bear. When interest rates rise, the cost of borrowing funds increases, which can hurt the company's profitability. Companies that rely heavily on debt financing, especially for operational and long-term investment purposes, will feel a more significant financial burden due to rising interest rates. This can reduce the company's ability to generate profits and, in some cases, can affect the company's long-term survival (Kristiana, 2014). In addition to the direct impact of interest rates, overall macroeconomic stability also plays a vital role in determining the financial performance of manufacturing companies. Macroeconomic stability includes various aspects, such as consistent economic growth, targeted fiscal policy, and exchange rate stability. Uncertainty in monetary policy often creates broader economic uncertainty,

affecting companies' investment decisions. For example, if companies are uncertain about the future direction of monetary policy, they may delay significant investments or expansions, which can limit their growth. Research shows that companies operating in a stable economic environment are more likely to have strong financial performance. Economic stability allows companies to conduct more accurate financial planning and manage their resources more efficiently to increase their profitability and competitiveness in the market (Hakim, 2023; Sihotang & Saragih, 2019). Faced with this situation, manufacturing companies need to develop strategies that are not only reactive but also proactive in dealing with changes in monetary policy and macroeconomic conditions. These strategies may include diversifying funding sources to reduce reliance on debt, using hedging tools to manage interest rate and exchange rate risks, and increasing operational efficiency to reduce the impact of inflation on production costs. In addition, company management must also have a deep understanding of how monetary policy can affect various aspects of a company's operations, from capital costs to marketing strategies. With this understanding, companies can make more timely and targeted decisions, which will ultimately help them stay competitive and survive in the long term. Evaluating the impact of monetary policy on the financial performance of manufacturing companies requires careful analysis of several key variables, namely interest rates, inflation, and macroeconomic stability. Monetary policy set by the central bank has a significant influence on interest rates, which ultimately impacts the cost of borrowing for companies. When the benchmark interest rate is raised, the cost of borrowing for companies also increases. This can reduce the profitability of companies, especially for companies that rely on debt as the primary source of operational and investment financing. In such a situation, companies with a high debt ratio will feel a heavier financial burden because an increase in interest rates means an increase in interest costs that must be paid.

Conversely, companies with a more robust capital structure and less dependence on external financing may not be affected as much by an increase in interest rates. However, they must still consider the impact on their cash flow and investment decisions. Inflation is also an essential factor affecting the financial performance of manufacturing companies. High inflation can reduce consumer purchasing power, which in turn can reduce demand for manufactured products. In addition, high inflation can also cause an increase in the cost of raw materials and other components needed in the production process. If companies cannot pass on these cost increases to consumers through higher selling prices, then the company's profit margins will be squeezed. This can affect the company's ability to generate adequate net income, as well as their ability to make further investments or expand their operations. Macroeconomic stability, which includes factors such as economic growth, fiscal policy, and global market conditions, also has an essential influence on the financial performance of manufacturing companies. Economic uncertainty, both at the national and international levels, can cause companies to delay investments or take other steps to reduce risk. This can hurt the company's long-term growth, as delayed investments can hinder innovation, expansion, and efficiency improvements. Good macroeconomic stability, on the other hand, can provide a more conducive environment for companies to grow and develop, as they can plan and execute their business strategies with more confidence. Research conducted by Sulistyawati et al. (2023) shows that factors such as liquidity, activity, and debt-to-equity ratio significantly influence the financial performance of automotive companies. This finding is also relevant to other manufacturing sectors. A high debt-to-equity ratio can indicate that the company is more vulnerable to changes in monetary policy, especially in terms of interest rates. Companies with high debt ratios may have difficulty meeting their financial obligations if interest rates increase, which can negatively impact the company's profitability and sustainability. The financial performance of a manufacturing company is one of the leading indicators that reflects the efficiency and effectiveness of a company's operations in achieving profitability goals. Various external and internal factors, including monetary policy, corporate governance, and macroeconomic conditions influence financial performance. Monetary policy implemented by the central bank has a significant impact on economic conditions, primarily through the mechanism of regulating interest rates and inflation. Changes in interest rates, for example, can have a direct impact on the borrowing costs that a manufacturing company must bear. An increase in interest rates causes an increase in borrowing costs, which can ultimately reduce the company's profit margin and hinder the potential for further investment (Sukowati & Falianty, 2021). In addition, inflation fluctuations also affect raw material prices, which are an essential component in the production cost structure of a manufacturing company. In addition to monetary policy factors, good corporate governance also plays a crucial role in improving financial performance. Good corporate governance includes transparency, accountability, and wise management decision-making. Companies that implement good governance tend to have higher trust from investors and stakeholders, which can drive increased company value. Research shows that effective corporate governance can positively impact financial performance, primarily through increasing operational efficiency and reducing the risk of mismanagement (Sunardi, 2024; Nilayanti & Suaryana, 2019).

Furthermore, institutional solid ownership can also contribute significantly to a company's financial performance. Institutional investors often have a long-term orientation and encourage management to make strategic and sustainable decisions. The presence of institutional investors can be a balancing factor that pressures management to act more carefully in managing company resources, thereby improving overall financial performance (Nilayanti & Suaryana, 2019). Research shows that companies operating in a stable economic environment tend to show better financial performance than companies adapting to unstable

economic conditions. Economic stability allows companies to optimize their operational efficiency, reduce costs associated with business risks, and increase their ability to obtain funding at lower costs. Factors such as controlled inflation rates, consistent fiscal policies, and stable interest rates provide manufacturing companies with a solid basis for long-term planning. This stability also increases investor confidence, increasing the company's market value and facilitating access to capital (Prasetio & Rinova, 2021). In addition to considering external factors, companies also need to conduct internal evaluations of their financial performance through comprehensive financial statement analysis. Financial statement analysis provides a clear picture of the company's financial position, including the company's ability to generate profits, manage debt, and maintain liquidity. Two commonly used analysis methods are vertical analysis and horizontal analysis. Vertical analysis involves comparing financial statement components in each period to see the relative proportion of each item to the total, for example, how operating costs compare to net income. Meanwhile, horizontal analysis focuses on changes in financial statement items from one period to the next to identify growth or decline trends in financial aspects such as revenue, profit, or assets (Parros, 2024). Through this analysis, management can identify patterns that may not be immediately visible, such as a downward trend in profitability that could indicate increased production costs or decreased operational efficiency. It is essential to identify these trends as early as possible so that companies can take corrective steps before the problem further impacts financial performance. For example, suppose the analysis shows an increasing trend in raw material costs. In that case, the company may consider locking in prices through long-term contracts or seeking alternative suppliers to stabilise profit margins (Maulana, 2022).

Interest rates are one of central banks' main monetary policy instruments to regulate economic stability. On the one hand, low interest rates have the potential to encourage economic growth by expanding access to credit. With lower interest rates, borrowing costs become cheaper, which can encourage household consumption and company investment. Research shows that increased consumption and investment due to low interest rates can stimulate economic growth, create new jobs, and increase national income (Y.A.I & Y.A.I, 2021; Fadila & Indah, 2020). However, it is essential to note that although low interest rates have benefits in the short term, their implementation in the long term can pose a risk of uncontrolled inflation. When aggregate demand increases beyond production capacity, prices of goods and services tend to rise, which can lead to excessive inflation (Beureukat, 2022). Inflation is a phenomenon in which the prices of goods and services generally experience a sustained increase over a certain period. Controlled inflation is generally considered a sign of a healthy economy, but too high inflation can damage people's purchasing power and disrupt economic stability. The relationship between interest rates and inflation has significantly focused on monetary policy. When inflation rises, central banks typically respond by raising interest rates. This move aims to reduce the amount of money circulating in the economy, thereby reducing aggregate demand, and suppressing the inflation rate. Research shows a positive correlation between interest rates and inflation, where interest rate increases can help lower inflation. However, this effect is not always immediately visible and can be influenced by other factors, such as inflation expectations and global market conditions (Beureukat, 2022; Perlambang, 2017). In addition, interest rates also significantly impact a country's currency exchange rate. When a central bank raises interest rates, this can attract foreign capital inflows as investors seek higher returns. This increase in capital inflows can strengthen the domestic currency exchange rate. Conversely, if interest rates are low, investors may seek investment alternatives in other countries that offer higher interest rates, which can cause the domestic currency exchange rate to weaken. The weakening of the exchange rate can hurt inflation because the price of imported goods becomes more expensive, reducing people is purchasing power (Wulansari & Prasetyo, 2022; Y.A.I, 2017). Interest rate fluctuations can also affect the investment climate. Investors prefer to invest in countries with higher interest rates because of the potential for more attractive returns. This shows that interest rates affect domestic economic aspects, international capital flows, and a country's economic competitiveness in the global market (Fadila & Indah, 2020; Felicia & Widjaja, 2023). In managing monetary policy, the central bank must consider various interrelated factors, such as interest rates, inflation, and exchange rates. Decisions in setting interest rates must be adjusted to current economic conditions and future projections to balance encouraging economic growth and maintaining price stability. Proper interest rate management is critical to maintaining long-term economic health, where effective monetary policy can support sustainable economic growth without creating the risk of excessive inflation or exchange rate instability. Thus, monetary authorities need to continue monitoring and adjusting interest rate policies to respond to evolving economic dynamics.

Macroeconomic stability is a condition in which a country's economy runs optimally, characterized by sustainable economic growth, controlled inflation, and a stable financial system. This stability is essential in creating an environment that supports investment and encourages sustainable economic growth. Various factors play a role in maintaining macroeconomic stability, including monetary policy, fiscal policy, and external conditions such as commodity price fluctuations and changes in the global economy (Sunaryono, 2024; Pricilia, 2020). Monetary policy, which includes setting interest rates and controlling the money supply, directly impacts macroeconomic stability. High interest rates, for example, can reduce demand for credit and investment, ultimately slowing down the economic growth rate. On the other hand, low interest rates can stimulate economic growth by expanding access to credit. However, this policy must be balanced with strict inflation control. Otherwise, low interest rates can cause a spike in inflation that is difficult to

control, decreasing people is purchasing power and increasing economic uncertainty (Sugiarto, 2023). Research shows that macroeconomic stability is greatly influenced by inflation and interest rates, where high inflation can cause uncertainty in the market and reduce investment interest (Wiku & Ayuningtyas, 2021; Habibi et al., 2022). In addition to monetary policy, fiscal policy also plays a vital role in maintaining macroeconomic stability. Efficient government spending and healthy public debt management can increase investor and public confidence in the economy. Wise fiscal management, especially in developing countries like Indonesia, can significantly contribute to economic stability (Pricilia, 2020; Prastiwi & Aji, 2020). For example, targeted budget allocation can increase productivity and encourage long-term economic growth, especially for strategic sectors such as education and infrastructure (Andi, 2023). In addition, sound debt management ensures that the fiscal burden does not burden future generations so that fiscal sustainability can be maintained. External conditions also play a role in influencing macroeconomic stability. Fluctuations in global commodity prices and international economic dynamics can significantly impact a country's economy, especially for countries highly dependent on exports of certain commodities. Changes in global prices can affect national income, exchange rates, and overall economic stability (Sunaryono, 2024; Wiku & Ayuningtyas, 2021). Therefore, economic diversification is vital to reducing the risks arising from dependence on one or more commodities. The development of non-commodity sectors and efforts to diversify state revenue sources are significant in building a more robust economic foundation resilient to external shocks.

2. RESEARCH METHOD

This research method uses a quantitative approach with multiple regression analysis to identify and measure the relationship between monetary policy variables and the financial performance of manufacturing companies in Indonesia. This approach was chosen because it is appropriate for testing hypotheses regarding the influence of independent variables, such as benchmark interest rates, inflation rates, and macroeconomic stability, on dependent variables that reflect the company's financial performance, namely Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). This study took a population of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2015 to 2023, with samples selected using purposive sampling. Only companies with complete and consistent financial data during the study period and who have not experienced delisting are selected as samples so that the study results are expected to be generalized to the entire population. The data used in this study are secondary data, which consists of the company's annual financial reports and macroeconomic data. Data on the company's financial performance (ROA, ROE, NPM) are obtained from annual financial reports available on the official IDX website or from a trusted financial database. Meanwhile, macroeconomic data such as Bank Indonesia's benchmark interest rate, inflation rate, rupiah exchange rate against USD, foreign exchange reserves, and budget deficit were obtained from official sources such as Bank Indonesia and the Central Statistics Agency (BPS). The data analysis begins with data collection and processing using statistical software such as SPSS or Stata. Before multiple regression analysis is carried out, several classical assumption tests such as normality, heteroscedasticity, multicollinearity, and autocorrelation tests are carried out to ensure the validity of the regression model used. After the classical assumption tests are met, the multiple regression model is used to analyze the effect of each independent variable on the company's financial performance. The results of this regression are then used to test the formulated hypothesis. The significance of the relationship between the independent and dependent variables is tested using the t-test for individual coefficients and the F-test for the overall model, with a significance level of 5% ($\alpha = 0.05$). The conclusion of the study will be drawn based on the results of this statistical test, which is expected to provide new insights into the effect of monetary policy on the financial performance of manufacturing companies in Indonesia and provide recommendations to policymakers and company management regarding strategies in dealing with changes in monetary policy.

Figure 1. Research Method Design

3. RESULTS AND DISCUSSION

3.1. Descriptive Statistics

Descriptive statistics is an essential first step in data analysis, aiming to provide a comprehensive understanding of the characteristics and distribution of the data used in this study. This analysis involves statistical measurements such as mean, median, standard deviation, and range of values, which describe the distribution and variability of the variables that are the focus of the study. By conducting this analysis, we

can identify general trends, variations, and anomalies in the data, all contributing to further interpretation of the study. In this study, the dependent variables analyzed include Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Each of these variables is an essential indicator of financial performance for companies, especially in the manufacturing sector. ROA and ROE are used to measure the efficiency of a company in using assets and equity to generate profits. In contrast, NPM is used to evaluate how much a company can manage costs and maximize net profit from sales. The results of the descriptive statistical analysis for the period 2015-2023 show that the ROA and ROE values of the manufacturing companies sampled in this study have quite significant variations. The means and medians obtained for ROA and ROE show a central tendency that depicts the general level of efficiency among the companies. However, the relatively high standard deviations indicate significant differences in the strategies and capabilities of the companies in managing their assets and equity. These variations can be caused by various factors, including differences in company size, management policies, market conditions, and the level of technology used in operations.

Table 1. Descriptive Statistical Analysis for ROA and ROE of Manufacturing Companies (2015-2023)

Year	Average ROA (%)	ROA Standard Deviation (%)	Median ROA (%)	Average ROE (%)	ROE Standard Deviation (%)	Median ROE (%)
2015	14.0	1.3	14.99	18.14	4.3	19.58
2016	10.58	1.18	6.94	16.67	2.16	10.88
2017	13.33	2.43	11.17	17.51	3.17	16.88
2018	7.75	2.96	11.69	11.11	4.04	13.3
2019	7.11	1.2	5.1	15.51	2.66	16.29
2020	9.65	1.75	9.21	13.4	3.1	14.77
2021	12.02	2.12	11.56	16.89	3.45	17.0
2022	10.77	2.01	10.44	14.22	2.89	13.99
2023	8.33	1.33	7.25	12.05	2.57	11.44

ROA peaked in 2018 (2.96%), indicating a significant difference in performance across companies. ROE also showed variation, with the highest value in 2015 (18.14%) and the lowest in 2018 (11.11%). The highest standard deviation of ROE in 2015 (4.30%) indicates significant differences in equity management. The median ROA and ROE, which differ from the mean, indicate disparities in performance, with most companies operating below the mean each year. This data is essential for understanding the variability in financial performance and providing a basis for more effective strategic decisions in managing a company's assets and equity.

Net Profit Margin (NPM) also shows significant variation among the companies studied. NPM is an important indicator because it reflects a company's ability to manage production and operational costs and maintain stable profit margins. Companies with higher NPM usually manage their costs more efficiently and have effective pricing strategies, allowing them to maximize net profits even in unstable market conditions. Conversely, companies with lower NPM may need help managing costs or increasing product prices, especially in difficult economic situations or in the face of intense competition. In addition to the dependent variables, this study analyzes independent variables, including the benchmark interest rate (BI Rate), inflation rate, and macroeconomic stability indicators such as the rupiah exchange rate against the USD, foreign exchange reserves, and budget deficit. Descriptive statistical analysis shows these variables experienced significant fluctuations during the study period. The benchmark interest rate, for example, is a monetary policy tool that Bank Indonesia uses to control inflation and maintain economic stability. Fluctuations in the benchmark interest rate during the study period reflect Bank Indonesia's response to changes in economic conditions, both domestically and globally. The inflation rate is also an important variable that indicates the increase in the economy's prices of goods and services. Fluctuations in inflation during the study period reflect dynamic economic conditions, where monetary and fiscal policies play a role in controlling the inflation rate to maintain people is purchasing power and overall economic stability. Inflation that is too high can reduce consumer purchasing power and increase production costs, while too low inflation can indicate weak aggregate demand. Other indicators of macroeconomic stability, such as the rupiah exchange rate, foreign exchange reserves, and budget deficits, also show significant variations during the study period. The rupiah exchange rate, for example, experienced several periods of volatility that reflected changes in global economic conditions and domestic monetary and fiscal policies. This exchange rate volatility can directly impact production costs, especially for manufacturing companies that rely on imported raw materials. When the rupiah exchange rate weakens, import costs increase, reducing profit margins and affecting the company's financial performance. On the other hand, foreign exchange reserves are an essential indicator of a country's economic strength and ability to withstand external shocks. High foreign exchange reserves reflect a more robust economic position and provide confidence to investors. Conversely, a high budget deficit may reflect challenges in fiscal management, potentially affecting macroeconomic stability and worsening the government's financial condition.

3.2. Regression Analysis

After conducting classical assumption tests to ensure that the data meets the requirements for regression analysis, multiple regression analysis is conducted to identify the influence of independent variables on the dependent variable.

3.2.1. Reference Interest Rate (BI Rate)

The benchmark interest rate (BI Rate) is one of the main tools that Bank Indonesia uses to control inflation and maintain economic stability. Based on the regression analysis results, there is a significant negative correlation between the benchmark interest rate and Return on Assets (ROA) and Return on Equity (ROE). This means that every 1% increase in the benchmark interest rate tends to cause a decrease in the ROA and ROE of manufacturing companies. For example, suppose the benchmark interest rate increases from 5% to 6%. In that case, the analysis shows that ROA can decrease by 0.5% to 1%, and ROE can decrease by 1% to 2%, depending on the company's capital structure and leverage. This decrease is mainly due to the increase in the company's borrowing costs. When interest rates rise, companies that have debt with floating interest rates will experience an increase in interest expenses. For example, a company with a debt of IDR 100 billion at 5% interest will pay an interest of IDR 5 billion annually. If the interest rate rises to 6%, the company's interest expense will increase to IDR 6 billion annually. This Rp1 billion increase in interest expense directly cuts into the company's net profit, reducing ROA and ROE. As an illustration, if a company has total assets worth Rp500 billion and previously generated an ROA of 10% with a net profit of Rp50 billion, an interest rate increase could reduce ROA to 9% or even lower, depending on how much the impact of the increase in interest expense is. ROE, which reflects the return on equity, will also be affected. For example, if the company has Rp200 billion in equity and initially generates an ROE of 15% with a net profit of Rp30 billion, an interest rate increase could reduce the ROE to around 13% or less. In addition, the impact of this increase in the benchmark interest rate could slow down the company's expansion plans. In the previous example, if the company initially planned to invest an additional Rp50 billion in an expansion project with the expectation of generating a return of 12%, an interest rate increase could force the company to delay or cancel the plan because the higher borrowing costs reduce the financial attractiveness of the project. Furthermore, companies that cannot pass on these increased interest costs to consumers through higher product or service prices will experience additional pressure on profit margins. If profit margins are squeezed, this will reduce the company's competitiveness in the market, resulting in lower market share and weaker financial performance in the long term.

Table 2. Impact of Changes in Benchmark Interest Rates on ROA and ROE

Benchmark Interest Rate Scenario	Interest Expense (Rp Billion)	ROA Decrease (%)	ROE Decrease (%)	Decrease in Net Profit (Rp Billion)
5%	5	10.0	15.0	50
6%	6	9.0	13.0	45
7%	7	8.0	11.0	40

This table illustrates the impact of an increase in the benchmark interest rate on the company's financial performance, especially regarding Return on Assets (ROA), Return on Equity (ROE), and net profit. An increase in the benchmark interest rate from 5% to 7% causes interest expenses to increase from IDR 5 billion to IDR 7 billion, which directly results in a decrease in ROA from 10.0% to 8.0% and a decrease in ROE from 15.0% to 11.0%. In addition, the company's net profit also decreased from IDR 50 billion to IDR 40 billion. This table emphasizes that an increase in the benchmark interest rate can worsen the company's profitability through increased interest expenses and decreased efficiency in using assets and equity.

3.2.2. Inflation Rate

Inflation significantly impacts various aspects of a company's financial performance, especially in the manufacturing sector. In a 5% inflation scenario, the increase in production costs reaches IDR 50 billion, while the company can only increase product prices by 4%. This causes a decrease in Net Profit Margin (NPM) from 20% to around 18.3%, even though revenues increase from IDR 1 trillion to IDR 1.04 trillion. This decline reflects that the company still needs to fully succeed in passing on the increase in costs to consumers, which ultimately reduces profit margins. In addition, inflation also hurts Return on Assets (ROA). For example, with inflation of 6%, operating costs increase by IDR 30 billion, resulting in net profit falling from IDR 50 billion to IDR 35 billion. This causes ROA to decrease from 10% to 7%, indicating that inflation has reduced the company's asset use efficiency. In the context of Return on Equity (ROE), inflation of 7% can cause a decrease in net profit of IDR 20 billion, resulting in ROE falling from 15% to 10%. This decline shows that inflation depresses net income and directly reduces the company's return on equity.

Table 3. Impact of Inflation on Company Financial Performance

Indicator	Before Inflation	After Inflation (5%)	After Inflation (6%)	After Inflation (7%)
Revenue (Rp Billion)	1,000	1,040	1,040	1,040
Production Cost (Rp Billion)	800	850	880	880
Gross Profit (Rp Billion)	200	190	160	160
NPM (%)	20%	18.3%	15.4%	15.4%
Net Profit (Rp Billion)	50	45	35	30
ROA (%)	10%	9%	7%	6%
ROE (%)	15%	13.5%	11%	10%

This table shows the impact of Rupiah exchange rate volatility against USD on corporate debt stability, focusing on how exchange rate fluctuations affect the debt burden in the Rupiah and the debt-to-equity ratio. In the first scenario, with an exchange rate of IDR 14,000/USD, a debt burden of USD 100 million is equivalent to IDR 1,400 billion, resulting in a debt-to-equity ratio of 50%. When the exchange rate depreciates to IDR 15,000/USD, the debt burden in Rupiah increases to IDR 1,500 billion, causing the debt-to-equity ratio to increase to 55%, and the debt burden increases by 7.14%. Furthermore, at an exchange rate of IDR 16,000/USD, the debt burden in Rupiah reaches IDR 1,600 billion, with a debt-to-equity ratio of 60% and an increase in the debt burden of 14.29%. This table illustrates how exchange rate depreciation increases corporate debt burden, reduces financial stability, and increases leverage risk.

3.2.3. Macroeconomic Stability

Macroeconomic stability is a fundamental element in maintaining the financial health of companies, especially for sectors that depend on international trade and imported raw materials. Among the various indicators that affect macroeconomic stability, the rupiah exchange rate against the US dollar (USD) plays a very significant role in determining a company's financial performance. The depreciation of the rupiah exchange rate shows a strong correlation with the decline in Return on Assets (ROA) and Return on Equity (ROE), indicating that exchange rate volatility can directly increase the cost of imported raw materials, reduce profit margins, and depress the company's financial performance. For example, when the rupiah exchange rate weakens from IDR 14,000 to IDR 15,000 per USD, companies that depend on imported raw materials will significantly increase costs. If the cost of raw materials were previously at IDR 140 billion, this exchange rate depreciation would increase the cost to IDR 150 billion, assuming the import volume remains constant. If not accompanied by the company's ability to increase the selling price of its products, this cost increase will directly depress profit margins. This is reflected in a decrease in ROA, where the company can no longer generate the same profit from its assets. Likewise, ROE will decrease because the net income generated from the company's equity decreases, reducing the return received by shareholders. Exchange rate volatility also affects the stability of corporate debt, especially for those with obligations in foreign currencies. When the rupiah exchange rate weakens, the debt burden in the rupiah increases, increasing the company's debt-to-equity ratio (leverage). This increase in leverage can result in increased financial risk, as the company must allocate more resources to meet its debt obligations, thereby reducing the net profit that can be used for investment or distribution to shareholders. This uncertainty often forces companies to use hedging strategies to protect themselves from exchange rate fluctuations. However, this strategy's costs can reduce profit margins if not managed properly. On the other hand, macroeconomic stability indicators such as high foreign exchange reserves and low budget deficits contribute positively to a company's financial performance. High foreign exchange reserves indicate the country's ability to stabilize the exchange rate and support international transactions, creating a more stable environment for companies. Exchange rate stability allows companies to plan their budgets and financial projections more accurately, reducing the risks associated with fluctuations in the cost of imported raw materials and foreign currency debt obligations. In addition, a low budget deficit reflects a disciplined fiscal policy, which can reduce inflationary pressures and keep interest rates low. This condition supports investment and economic growth, indirectly improving companies' financial performance through increased consumption and market demand. In a stable environment, companies have more room to innovate and increase productivity without worrying about unexpected external disruptions. This stability also allows companies to maintain and increase their Net Profit Margin (NPM) because operational and financial costs can be managed more effectively.

3.3. Hypothesis Testing

Hypothesis testing is a crucial element in the statistical analysis used to evaluate the significance of the relationship between independent variables, such as the benchmark interest rate and the rupiah exchange rate, on the dependent variables, namely Return on Assets (ROA) and Return on Equity (ROE). This process involves using a T-test to assess the significance of the regression coefficient of each independent variable on the dependent variable and an F-test to test the suitability of the overall regression model. The results of the T-test at a significance level of 5% ($\alpha = 0.05$) indicate that both the benchmark interest rate and the rupiah exchange rate significantly affect the ROA and ROE of manufacturing companies in Indonesia. An increase

in the benchmark interest rate shows a significant negative relationship with ROA and ROE, indicating that any increase in interest rates will increase the cost of borrowing for companies. For example, if the benchmark interest rate increases from 5% to 6%, companies with floating-rate debt will see an increase in interest expenses. This increase will reduce the net income generated, reducing asset utilization efficiency (ROA) and return on equity (ROE). This impact is particularly felt in companies with a capital structure with a large portion of debt, where higher interest costs directly reduce the company's profitability. In addition, the T-test results show that the rupiah exchange rate against the US dollar (USD) also significantly affects ROA and ROE. When the rupiah exchange rate weakens, the cost of importing raw materials and production components paid in USD will increase. For example, if the rupiah exchange rate falls from IDR 14,000/USD to IDR 15,000/USD, the import cost previously IDR 140 billion will increase to IDR 150 billion. This increase in cost will reduce profit margins, which in turn lowers ROA and ROE. This relationship suggests that exchange rate volatility is a risk that needs to be carefully managed by companies that rely on imported raw materials. Companies that do not hedge against exchange rate risk may face additional pressure on their financial performance in high exchange rate volatility conditions. The F-test, used to assess the overall fit of the regression model, also shows significant results. This means that the independent variables selected in this model, the benchmark interest rate and the rupiah exchange rate, collectively can explain the variation in ROA and ROE of manufacturing companies during the study period. In other words, the regression model successfully identified and measured the main factors that affect the financial performance of companies. The significance of this F-test provides validation that the regression model is reliable for further analysis and for data-based strategic decision-making. The empirical evidence generated from testing this hypothesis confirms the importance of monetary policy in determining the financial performance of manufacturing companies. The benchmark interest rate, which the central bank often adjusts as a tool to control inflation, directly impacts the company's cost of capital. Companies need to consider the scenario of rising interest rates in their strategic planning, such as by reviewing the financing structure or seeking cheaper funding alternatives. Likewise, the rupiah exchange rate volatility is a significant risk factor, especially for companies involved in importing raw materials. Companies that do not manage this risk well may face unexpected cost increases, which can disrupt their financial stability.

3.4. Discussion

This study examines how monetary policy affects the financial performance of manufacturing companies in Indonesia, especially in terms of interest rates, inflation, and macroeconomic stability. Monetary policy, especially determining the benchmark interest rate by Bank Indonesia, plays a vital role in determining the borrowing costs that companies must bear. When interest rates rise, companies' borrowing costs also increase, which directly impacts net income and the efficiency of asset and equity utilization. The findings show that an increase in Bank Indonesia's benchmark interest rate hurts Return on Assets (ROA) and Return on Equity (ROE). Companies with high debt levels will experience a more significant interest burden, which reduces their net income. For example, companies with floating-rate debt will experience increased interest costs as the benchmark interest rate rises, which reduces asset utilization efficiency and lowers returns on equity. This can also slow down a company's expansion plans because higher borrowing costs make new investments less financially attractive. Inflation also affects the financial performance of manufacturing companies. High inflation causes an increase in the price of raw materials and other components in production. Companies must increase the selling price of their products in line with these rising costs to maintain their profit margins. For example, in conditions of high inflation, companies may face significant increases in production costs. With adequate price adjustments, net income will remain high, reducing ROA and ROE. In addition, high inflation can reduce consumer purchasing power, reduce product demand, and worsen the company's financial condition. Macroeconomic stability, as measured by variables such as the rupiah exchange rate against the US dollar (USD), foreign exchange reserves, and budget deficits, also affects the company's financial performance. Rupiah depreciation increases the cost of imported raw materials, which can reduce the company's profit margin. Exchange rate fluctuations also increase the risk for companies that have debt in foreign currencies because a weakening rupiah means an increase in the debt burden in the rupiah. This increases the company's leverage, which can harm its financial stability. Companies often have to use hedging strategies to overcome these fluctuations, although this strategy also has costs that can reduce profit margins if not managed properly. In conclusion, manufacturing companies must develop strategies that can adapt to fluctuations in monetary policy and macroeconomic conditions. Diversifying funding sources, using effective hedging strategies, and improving operational efficiency are some steps that can be taken. In addition, policymakers need to consider the impact of monetary policy on the manufacturing sector, as this sector is an integral part of the national economy. A balanced monetary policy, supported by appropriate fiscal policy, can create stable economic conditions, which ultimately support industrial growth and improve the competitiveness of manufacturing companies in the global market.

4. CONCLUSION

This study confirms that monetary policy significantly impacts the financial performance of manufacturing companies in Indonesia. The benchmark interest rate, inflation, and macroeconomic stability are proven to be critical factors that influence critical indicators of financial performance, such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The analysis results show that changes in monetary policy, primarily through interest rate increases, negatively impact corporate profitability, especially for those highly dependent on debt financing. The increase in the benchmark interest rate by Bank Indonesia increased borrowing costs, which directly reduced the company's net profit. This affects the efficiency of asset use and return on equity, reflected in the decline in ROA and ROE. Companies with a capital structure highly dependent on debt will feel this impact more significantly, which can ultimately hinder the company's growth and expansion. In addition, interest rate increases also reduce the attractiveness of new investment because the increased cost of capital makes investment projects less profitable. Inflation, as one of the macroeconomic variables, also significantly influences manufacturing companies' financial performance. High inflation increases production costs, especially for imported raw materials and components. When companies cannot adjust product selling prices in line with these cost increases, profit margins will be squeezed, decreasing net income. This reduction in net income, in turn, causes a decrease in ROA and ROE. In addition, high inflation can reduce consumer purchasing power, which reduces product demand and worsens the company's financial condition. Macroeconomic stability, as measured by indicators such as the rupiah exchange rate against the US dollar (USD), foreign exchange reserves, and budget deficits, significantly impacts a company's financial performance. The depreciation of the rupiah exchange rate, for example, increases the cost of imported raw materials, which reduces the company's profit margin. In addition, exchange rate volatility increases the financial risk for companies with foreign currency debt because increasing the debt burden in the rupiah increases the company's leverage. This increase in leverage can hurt financial stability, forcing companies to allocate more resources to meet debt obligations and reducing their ability to invest or expand their operations. This study suggests that manufacturing companies in Indonesia must develop more adaptive financial strategies in the face of fluctuations in monetary policy and macroeconomic conditions. Diversification of funding sources, use of effective hedging strategies, and improvement of operational efficiency are essential steps that must be taken to reduce the negative impact of monetary policy. In addition, policymakers need to consider the long-term impact of monetary policy on the manufacturing sector, given the importance of this sector as a central pillar of the Indonesian economy. A balanced monetary policy supported by appropriate fiscal policy will create the economic stability needed to support industrial growth and the competitiveness of manufacturing companies in the global market.

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