

## ***Abstract***

Profitability is a ratio to measure management effectiveness as a whole which is aimed at the size of the level of profits obtained in relation to sales and investment. Because the higher the profitability will reflect the better the performance of the company so that profitability becomes a measure of the health or failure of a company.

This study aims to determine the effect of Exchange Rate and Inflation on Profitability (NPM) in retail trade sub-sector service companies listed on the Indonesia Stock Exchange in 2013-2017. The data used in this study was obtained from financial report data. Financial reports are taken from the official website of the Indonesia Stock Exchange.

The population in this study is the retail trade sub-sector service company listed on the Indonesia Stock Exchange in 2013-2017. The sampling technique used was purposive sampling and obtained 12 companies with a research period of 5 years, so that 60 sample data were obtained. The method of data analysis in this study is multiple linear regression using SPSS 24 software.

The results showed that simultaneously the exchange rate and inflation had an effect on profitability (NPM). Partially the exchange rate has a significant effect on the negative direction of profitability. Inflation does not have a significant effect on the negative direction of profitability. Based on the results of this study, it is expected to provide information to company management to pay attention to exchange rates in order to maintain a balance of profitability (NPM).

**Keyword:** *Exchange Rate, Inflation, Profitability*