

INDONESIA'S STRATEGY IN FACING THE POTENTIAL GLOBAL RECESSION IN 2023

Satrya Muttaqin¹
Raju Adha²
Ahmad Fuadi Tanjung³
Isnaini Harahap⁴

^{1, 2, 3, 4}Faculty Of Islamic Economics and Business, Sumatera Utara State Islamic University,
Indonesia
(e-mail: satryamutthaqin@gmail.com)

Abstract: *The world economy is expected to experience difficulties amid the threat of an imminent global recession, this is reinforced by the fact that many world central banks such as the Bank of the United States (THE FED), European Union, United Kingdom, etc. have raised their interest rates. Therefore, this is also a big concern for Indonesia. Albeit many economists say that Indonesia will survive a recession, and this opinion is supported by a report from the Central Statistics Agency (BPS) that Indonesia's economy will grow by more than 5% in 2022 despite the threat of a recession, Indonesia still needs to determine the necessary preparation strategy if a recession occurred. This study aims to analyze how Indonesia's strategy is in facing the threat of a global recession. The research method used is descriptive qualitative, using data obtained from literature studies which are analyzed in depth. The results of this study indicate that Indonesia's strategy in dealing with this threat is to increase productivity, investment and competitiveness as well as strengthen the economy and fiscal and monetary capabilities, which must also be supported by the role of the community such as business development and supporting MSME businesses in an effort to boost economic growth.*

Keywords: *Strategy, Economy, Global Recession*

Introduction

The government is starting to be aware of the threat of a global recession accompanied by rising inflation in several of developed countries such as the United States. The Minister of Finance of Indonesia, Sri Mulyani, stated that this condition must be anticipated immediately because it can encourage inflation and depress the Indonesian Rupiah exchange rate. Developed countries such as the United States are worried that developing countries, including Indonesia, will increasingly feel the impact, mainly driven by disruptions to the production side which will rise inflation. Minister of Finance Sri Mulyani said that this situation has made many world countries continue to be vigilant because the escalation of global supply chain disruptions also shows similar concerns. This is predicted to create a new potential source of recession in the future if not anticipated. This is because it will increase inflation and depress the Indonesian Rupiah exchange rate in the future.

Minister of Finance Sri Mulyani, on various occasions has always warned of the threat of a global recession to the Indonesian economy. The statement on the threat of a global recession from the Minister of Finance Sri Mulyani, received a response from the 9th and 12th vice presidents, Jusuf Kalla. According to him, Minister of Finance Sri Mulyani should not frighten the public, this condition makes people save their money by buying gold or dollars and it can hinder economic growth. Minister of Finance Sri Mulyani, emphasized that she was not afraid of the threat of a global recession in 2023, even the International Monetary Fund (IMF) had warned about this condition many times. According to a World Bank report, there are 60 countries that are threatened to fall into a recession in the near future. Two countries have already experienced a recession, namely Sri Lanka and Argentina. The Indonesian economy during July to September 2022 is expected to grow above 5%.

Indonesia's trade balance from January 2021 to September 2022 recorded a surplus of 39.87 billion US Dollars, and it is higher than last year. Head of the Ministry of Finance's Fiscal Policy Agency, Febri Jonathan Kacaribu, explained that cooperation in sustainable development in the infrastructure sector is one of the instruments that is expeditious enough to promote recovery in many business sectors, through the cooperation scheme between the government and business entities, thereby opening up opportunities to accelerate fiscal policy interventions.

The United States is already on the brink of an economic recession as indicated by a spike in inflation. The Central Bank of the United States of America (The Fed) responded to these conditions by aggressively raising its benchmark interest rate that pulling United States' economy down. Based on economic growth in the United States, in the second quarter of 2022, economic growth is predicted to be only 0.9%, while in the first quarter, economic growth in the United States fell by 1.5%. (Ferdinand Rudolof Poylema 2021)

Economic growth is now more complex, the pandemic has begun to disappear globally, but there is a new problem, the continuing increase in the inflation rate. Previously, many had predicted that inflation in the United States, which usually reached more than 8%, would only be temporary, but in fact this was confirmed by several data, including fuel prices, crude oil, which remained above US\$ 115 per barrel and this had greatly depressed people's purchasing power. This is because not all groups in society, including those in the United States, are ready to face excessive price fluctuations. Initially, for example, they wanted to make inter-city transportation, in the end, many looked for transportation methods that were much cheaper because the cost of fuel had increased significantly. As might be expected, the sectors also experience obstacles such as automotive. Automotive has not yet recovered from the semiconductor shortage now facing rising fuel costs. There is also the conflict between Ukraine and Russia, which increases the risk of an energy crisis and a food crisis because until now there has been no sign that the conflict will end and this will have an effect on investment decisions, especially in developing countries.

However, the conflict between Ukraine and Russia is not the main factor causing inflation, it is only one of the triggers. In fact, without the Ukraine and Russia conflict, an economic recession in the United States had previously been predicted by Bank of America. At least in 2023, because the opening of the economy also means rising inflation and the Ukraine conflict is even higher, thus accelerating The Fed's interest rates. If The Fed's interest rates rise too high, it will cause many corporations will not be able to pay interest payments on their debts.

The impact of the global economic crisis, especially in the United States with an increase in the inflation rate of 8%, and also restrained economic growth, has the effect on Indonesia started to be affected? The answer is yes, that some sectors have started to have an impact. As recently, there have been adjustments to electricity rates, for example for the 3000 VA category, because the cost of fossil fuels, especially oil and coal, continues to increase, inevitably there must be adjustments to electricity rates for certain categories, that's an immediate impact. Also, the problem of rising cooking oil prices, for example, is due to a problem that has not been resolved until now because the price of cooking oil at the international level, palm oil at the international level is still quite expensive. Therefore, there are conditions where the spillover effect has begun to be affected, but currently Indonesia has not experienced inflation as high as other countries such as the United States or countries in Europe. This is due to the "pause" caused by the delivery of raw materials. For example, wheat has experienced a significant increase of more than 50% in the last year on the international market, but this does not directly impact the price of instant noodles or the price of wheat derivatives such as wheat flour in the country because shipping takes 3-5 months. Therefore, there is a delay in this delivery which may only affect inflation in the second semester. Also, the price of some basic needs such as fuel for the type pertalite, diesel, electricity rates for the lower middle class of households is still being restrained by the government, and this is why inflation in Indonesia still around 3.5%.

The possibility of what will happen in the next 3-5 months depends on the readiness of the State Budget, the condition of the monetary readiness, is there a need for pre-emptive measures in terms of monetary policy to raise interest rates first to prevent inflation later in the second semester? Also, from a fiscal perspective, is it necessary to reallocate funds on a large scale to contain the surge in energy subsidies and also food subsidies? Because, not only fuel but also fertilizer subsidies needed by farmers can affect food stability as well.

Subsidies are still an obstacle and put pressure on the State Budget, but if they are not implemented there will be fears of inflation getting out of control. Therefore, what is Indonesia's definite strategy in responding to the threat of a global recession wisely? In this journal article, we will describe it by using a literature study.

Literature Review

Recession is a condition that causes a country's economic condition to experience obsolete. This situation will be marked by the GDP of a country becoming negative and an increase in the number of unemployed which is caused by the large number of companies that have terminated employment (PHK). Through a publication released by the World Bank entitled "Is a Global Recession Imminent" the results aim to state that there will be a global recession in 2023.

This statement is also clarified by the many indications that continue to emerge that make the issue of a recession even more real and will occur, starting with many central banks from various countries continuing to raise their interest rates aggressively to suppress the rate of inflation. (Bisnis Indonesia, 1 October 2022). These indications continue to roll on to producers who continue to reduce their production quantities due to market demand that continues to weaken and investors who choose to transfer their capital to dollars. The ultra-dollar

phenomenon has given a strong signal that the world economy is moving towards a recession (Kontan, 27 September 2022).

Recession is not a trivial problem for a country, it has a very negative impact on the country's economy and society, the impact of the recession is usually marked by an increase in the cost of living which is getting higher and higher after the economic recovery due to the Covid-19 outbreak, followed by an increase fuel prices that occurred in early September, which made it even more difficult for everyone's economy. This event brought Indonesia's annual inflation rate to around 6%. Also, this situation also resulted in the difficulty of getting jobs, the recession resulted in many companies deciding to terminate employment (PHK) for a large number of their employees. Contraction in the manufacturing sector due to the lack of investment has made many offices choose to lay off workers during a recession. For example, e-commerce companies like Shopee, Lazada, etc. Third, the degradation of a country's income. The recession was also very disruptive to export activities, which ultimately resulted in weakening state revenues, especially non-tax state revenues (PNBP), which caused a deficit in the trade balance. The weakening of the Indonesian Rupiah exchange rate was due to many investors withdrawing their capital from bonds and stocks which caused the rupiah exchange rate to decline.

In research conducted by Darmastuti et al, regarding the policies taken by the Indonesian government to deal with the threat of a recession caused by Covid-19, there are similarities in the causes of recession during the pandemic and the recession in 2023, namely the scaring effect.

There are many policies taken by the Indonesian government to save the economic downturn caused by Covid-19, including focusing on fiscal policy and strengthening the MSME sector. The government was taking steps to deal with the pandemic by changing the budget deficit limit to around 3% of GDP, as well as reallocating the State Budget for sectors that greatly impact the macro economy, especially in the health sector, social security, tax incentives and MSME stimulus. MSMEs, which are one of the largest contributors to GDP, must be transformed by introducing digital technology to business activities (Darmastuti et al, 2021).

The government's actions in dealing with a recession are by prioritizing the health sector, social security and regulating monetary policy and financing restructuring for MSMEs (Soemartini, 2020). According to Soemartini who stated that the government's actions in overcoming the problem of recession by prioritizing the health sector, social security and regulating monetary policy. In addition, it is also necessary to restructure financing to increase MSMEs. Therefore, it can be concluded from the two literatures that in order to prevent a more severe recession, fiscal and monetary support is needed in certain priority sectors to overcome economic inequality. Various steps and government policies in economic recovery have been carried out well, but the problem of recession in 2023 may be more complex than the Covid-19 pandemic.

Inflation occurs because there is too much money in circulation. In order to reduce the impact of inflation, the central bank can adopt monetary policy to reduce the money supply by increasing interest rates. Interest rates will adjust to the amount of inflation. A high increase in inflation causes interest rates to increase (Mankiw, 2016). Therefore, the government needs to design various strategies to deal with the impending recession in order to reduce the inflation rate. According to Marrus (2002: 31) strategy is defined as a process of determining plans for top

leaders that focus on the long-term goals of the organization, accompanied by the preparation of a method or actions on how to achieve these goals. Quinn (1999:10) defines strategy as a form or plan that integrates the main objectives, policies and series of actions within an organization into a unified whole. Strategy can be interpreted as a plan drawn up by top management to achieve the desired goals.

Method

The method used in this research is literature review. This type of research is quantitative research which is flexible and open to modification by the author according to the needs of the author. and the problems in this article are conceptual and theoretical.

Result and Discussion

1. Government's Strategy in Increasing Productivity Power

Based on research conducted by referring to various journals, one of the government's strategies to deal with an economic recession is to increase productivity, such as developing startup business innovations and supporting MSME business actors as an action to encourage economic growth thus it continues in the midst of an economic crisis. Furthermore, the government increases absorption of the State Budget, increasing the efficiency and competitiveness of national businesses to attract new capital flows, disburses stimulus to the public and business actors and provides convenience for business actors thus they can encourage business expansion such as export permits and capital restructuring assistance. In this case, the government can provide support for the business world through close coordination with Bank of Indonesia and Financial Services Authority with national banks (Faqih 2023: 2).

2. Government's Strategy in Investment

a. Prepare Bank Notes During a recession

The first step that must be prepared is bank notes. As business shrinks and unemployment rises, it is best to prepare and increase cash reserves, says Michelle Griffith, wealth adviser at Citi Global Wealth. However, selling investments for cash in anticipation of a recession is risky. Meanwhile, a better strategy is to switch to investments that are well positioned to face a downturn (Savira, 2023)

b. Defensive Stocks

Non-consumer stocks tend to make big gains as the economy grows, just as utility stocks and consumer staples tend to insulate from these levels, highs and lows. During a downturn, defensive stocks can help protect a portfolio. Businesses that selling essential goods and services, such as food, electricity, and housing, are typically non-cyclical and have little exposure to economic cycles. Sales of basic consumer needs -food, beverages and household products -are in a somewhat depressed condition because despite the economic situation, people still have a need to eat and consume toilet paper. In addition, the demand for utilities also increases during a recession, which can help utilities outperform other stock sectors during a recession.

c. Buying Quality Assets

Investors should look for quality in all asset classes to protect their portfolios in the event of a downturn. Meanwhile, businesses with high recurring income, such as subscription-based sales models, are less affected by the recession.

d. Avoiding Growing Stocks in a Recession

Heading into a potential recession is not the time to own growth stocks. Rajesh Nakadi, global head of family investing at BNY Mellon Wealth Management, said growth in equities, especially non-profit ones tied to high growth prospects, had taken a turn for the worse during the recession. Instead, consider investments that generate income and stocks that pay more dividends. Even if the company's stock price falls, the company can still pay dividends. Dividends can show their strength and provide a method of dollar cost averaging during volatile market times.

e. Considering Actively Managed Funds

In this case, for investor fund investments, consider switching to a more actively managed fund during a downturn. Research shows that the most actively managed funds outperform peers by 4.5% to 6.1% annually in bear markets after adjusting for risk and costs.

f. Unrelated Bonds and Assets

Bonds also tend to perform well during recessions, but stay wary of increasing defaults by sticking to bond grades. Completely unrelated asset classes, such as royalties, insurance-linked securities, and carbon credits, perform relatively well whilst traditional asset classes show weakness.

g. Do Not Overdo During a Recession

If a recession is imminent, there's no telling how long it will last or how it will affect the stock market. Indeed, a recession can pose a challenge to the growth of profits and wealth. Therefore, it is important to remain fully invested, unaffected by short-term market fluctuations, and focused on long-term goals. (Selena Blandina, 2020)

3. MSME Strategy

MSMEs have an important role in the Indonesian economy, especially when there was a crisis, MSMEs were able to get through the monetary crisis in 1998 and during the Covid-19 Pandemic. MSMEs are part of the independent Indonesian economy and they have great potential to improve people's welfare in terms of the three roles of MSMEs in the Indonesian economy which include means of equalizing the economic level of the poor, means of alleviating poverty and means of earning foreign exchange for the country (Ministry of Finance 2023).

a. National Economic Recovery Program (NERP)

This program was made based on PP Number 23 of 2020 which was changed to PP Number 43 of 2020 as one of the government's actions to restore Indonesia's economy. MSME support programs include:

1. KUR Financing
2. Productive Assistance for Micro Enterprises
3. Non-KUR Interest/Margin Subsidies
4. Placement of Funds/Placement of State Budget

5. MSME Credit Guarantee

6. Investment financing to cooperatives through LPDB KUMKM

7. Final Income Tax (PPh) for MSMEs is borne by the government

8. and Cash Assistance for Street Vendors, Stalls and Fishermen

b. Implementation of the Job Creation Act

This program was created in order to provide protection and ease of access to permits, supply chains, business development, financing, and market access for MSME players. This action was made by the government to provide support for the progress of MSMEs thus the economy becomes more efficient and competitive in the global market.

c. "Local Brand Pride" Program

This program is carried out thus Indonesian people tend to love products made in the country and use the work of the nation's children, especially local MSME products. Through this program, the government encourages MSMEs to join digital platforms, from this program it is hoped that it can increase the number of small and medium industries, create value creation for IKM/UKM, and increase demand for local MSME products.

The future challenges for MSMEs that must be addressed by stakeholders are innovation and technology, digital literacy, productivity, legality or licensing, financing, branding and marketing, human resources, standardization and certification, equitable development, training and facilitation, as well as single database.

In connection with these challenges, the low ability of human resources (HR) to deal with trading methods from conventional (offline) ways of doing business to online business means that MSME actors must learn and understand technology to support business activities, meanwhile issues regarding business legality start from the Mandatory Identification Number Taxes (NPWP) to Intellectual Property Rights (HAKI), regarding government financing, this can be overcome with people's business loans at lower interest rates and providing training assistance through the website thus they have the ability to be competitive in the digital era. One of the roles of the Ministry of Finance in supporting MSMEs, especially in the field of marketing MSME products, the Ministry of Finance has the lelang.go.id platform, where MSMEs able to market their products through the Indonesian Auction channel which is usually accessed through the Android PlayStore or website www.lelang.go.id with a voluntary auction mechanism.

4. Fiscal Policy Strategy

The Minister of Finance of Indonesia, Sri Mulyani Indrawati, revealed the optimal role of the State Budget in protecting society and the economy from various shocks. In this case, fiscal policy focuses on maintaining price stability and protecting people's purchasing power. The State Budget allocates from the food security budget of IDR 92.3 trillion and next year IDR 104.2 trillion. As for subsidies and compensation thus even though the price of fuel abroad due to the war in Ukraine has increased by two to three times, in Indonesia fuel has only increased by 30% because we have allocated compensation subsidies of IDR 551.2 trillion in 2022, and this year IDR 339.6 trillion, (Minister of Finance at the 2023 National Coordination Meeting (Rakornas) of Regional Heads and Regional Leadership Coordination Forum (Forkopimda) held at the Sentul International Convention Center (SICC)).

Furthermore, the Minister of Finance said that transfer funds to the regions also play an important role in protecting the public and controlling inflation. As she explained, in the 2022 State Budget there was an increase in state spending by 10.9%, including transfers to regions which increased by IDR 304.3 trillion compared to the previous year. Apart from that, there was also an increase in state revenue of 30.5% or IDR 615 trillion, thus the APBN deficit decreased to 2.38% of GDP. This is far less than the initial plan of 4.5% or in this case our deficit has decreased by IDR 310.7 trillion. According to the Minister of Finance, the economy in the regions has also started to improve as indicated by the increase in Regional Original Income (PAD) originating from taxes, including taxes on entertainment, restaurants, hotels and parking (Wulan, 2023: 1024).

Entering 2023, the Minister of Finance said that the State Budget is a combination of optimism and caution. According to her, it is necessary to make several improvements in the use of State Budget and Regional Expenditure Budget to maintain economic performance, inflation, while protecting the community and encouraging economic growth, including improvements in the allocation of Revenue Sharing Funds (DBH), General Allocation Funds (DAU), Special Autonomy Funds (Otsus), Regional Incentive Funds (DID), to special funds based on formulations and their impact can directly affect the community. In a similar way for social assistance. The government has allocated (approximately) IDR 476 trillion at the central level, while local governments had IDR 19 trillion last year. "It can provide a combination so that purchasing power, extreme poverty and stunting can be reduced quickly," she explained. The Minister of Finance advised all Regional Governments (Pemda) as well as Ministries and Institutions to remain vigilant, especially against geopolitical threats, and not to engage in corruption (Irmanesa, 2022).

5. Monetary Policy Strategy

First, the global challenges faced cannot be responded to with only one policy instrument. According to the Bank of Indonesia governor, it is necessary to develop an Integrated Policy Framework (IPF) from the International Monetary Fund (IMF). Also, the framework of macro-financial stability frameworks. (Bank of Indonesia)

The second point that must be a concern is the importance of developing digital finance. Bank of Indonesia has developed payment system digitization, including cross-border payment agreements between Indonesia, Thailand, Malaysia, Singapore and the Philippines. Bank of Indonesia has also launched a Quick Response (QR) Code and Bank Indonesia Fast Payment (BI-FAST).

Third, strengthening the global financial safety net is important to increase financing capacity. This action needs to be made in order to help countries in need through quota reform at the IMF.

Conclusion

The results of this study indicate that Indonesia's strategy to deal with this threat (recession) is by increasing productivity, investment, competitiveness and strengthening the economy as well as fiscal and monetary capabilities, which must also be supported by the role of

the community such as conducting business development and supporting MSME businesses as an action to boost economic growth.

References

- Angelie Natalia Sanjaya, *Strategi dan Inovasi “Menggangu Sebagai partisipasi Resesi 2023”*, 2023.
- Badan Kebijakan Fiskal Kemenkeu 2022, *Resesi*.
<https://fiskal.kemenkeu.go.id/fiskalpedia/2022/11/10/19resesi#:~:text=Pengertian%20Resesi,atau%20lebih%20secara%20berturut%20turut>. Di akses Pada Tanggal 02, Februari 2022.
- Bank Indonesia, *Gubernur BI Beberkan 3 Cara Menghadapi Ancaman Resesi 2023*,
<https://bisnis.tempo.co/read/1645809/gubernur-bi-beberkan-3-cara-menghadapi-ancamanresesi-2023>. Di Akses Pada Tanggal 02, Februari 2023.
- Efri Novianto, *Manajemen Strategis*, Sleman : CV Budi Utama 2019.
- Erma Wulan Sari, dkk. *Pengaruh Resesi Ekonomi Global 2023 Bagi Perpajakan di Indonesia*. Vol. 4, No. 3 (2023).
- Faqih Asshiddik, *Analisis Penciptaan Wirausaha Baru Untuk Hadapi Resesi Ekonomi*. (2023).
- Irma Nesa, *Bagaimana Kebijakan Fiskal Dalam Mengatasi Ancaman Resesi 2023*,
<https://jambiprima.com/read/2022/10/24/15857/bagaimana-kebijakan-fiskal-dalam-mengatasi-ancaman-resesi-2023/>. Diakses Pada Tanggal 02, Februari 2023.
- Kemenkeu, *Kebijakan Fiskal 2023 Fokus Jaga Stabilisasi Harga Serta Lindungi Masyarakat dan Perekonomian*,
<https://www.kemenkeu.go.id/informasi-publik/publikasi/berita-utama/Kebijakan-Fiskal-2023-Fokus-Jaga-Stabilisasi-Harga>. Di akses pada 02, Feberuari 2023.
- Safira Audrey Nafisa, *Penerapan Disruptive Innovation Dalam Persiapan Menghadapi Resesi Ekonomi 2023*. (2023).
- Selena Blandina, dkk. *Strategi Menghindarkan Indonesia Dari Ancaman Resesi Ekonomi Dimasa Pandemi*. Vol. 7, No. 2 (2020).
- Soemartini, *Resesi Perekonomian Indonesia dan Globalisasi Dampak Dari Covid-19*. Vol, 9 (2020).
- Virda Aulya, *Mempersiapkan Investasi Untuk Menghadapi Isu Resesi Ekonomi Di Indonesia*, Vol, 4 No 6 (2022).