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Research Article

Prediction of The Global Recession's Effects on Indonesia's Economy in 2023

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ABSTRACT

The global economy in recent years has shown a downward trend and is predicted by the World Bank to become a recession in 2023. As a global economic phenomenon, this condition will affect every country, including Indonesia's. This study analyzed the ability of Indonesia's economic fundamentals in a qualitative descriptive and literature study based on five indicators of the economic crisis, namely: economic growth, the exchange rate of the rupiah against the US dollar; inflation; economic growth; and total foreign debt, by comparing conditions during the economic crisis in 1998 and 2008, with Indonesia's current economic situation (in 2022). The results of this study indicated that Indonesia's economic condition is considered quite ready and stable to face the threat of a global economic crisis in 2023. However, as a country that depends on global economic relations, Indonesia will indirectly or directly impact the economic fluctuations and inflation that occur in many countries during the crisis because the economic crisis will have social and political impacts. This research suggests that Indonesia should focus on maintaining economic continuity in the real sector, maintaining the supply of basic needs at the community level, building economic independence by encouraging more production, and supporting political and security stability.

Keywords*: Economic growth, Global economic, Recession*

Introduction

The world economy can be likened to a flow of blood that keeps moving to carry out the activities of the body's organs properly. Economic movement is influenced by the ongoing monetary transactions between people, groups, and countries. If a country's economy is disrupted, it will impact other countries. Likewise, if there is an economic crisis in one country, it will also indirectly affect other countries (Subiyanto & Mayatin, 2013). As a country with the fourth largest population in the world and high economic consumption, Indonesia's financial stability still depends on the international economy (Elias & Noone, 2011).

In early 2020 the world faced the Covid 19 storm, which made all countries experience difficulties controlling the spread of the many

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viruses taking lives. Previously, no country had predicted that a virus would threaten to paralyze all human activity and mobility throughout the world (Akyuwen, 2021) (Irfan, 2021). Various problems arose, such as a shortage of medicines, insufficient hospital capacity, scarcity of PPE, and the spreading of the virus so fast that each country had to restrict economic activities. The production process of goods was hampered, and a lockdown and social distancing limited human mobility by keeping a safe distance from others and working at home. Even worship activities were carried out at home (Junaedi & Salistia, 2020).However, slowly global conditions have begun to be controlled, and many countries have started to recover their economic activities (Nicola et al., 2020) (Kimura et al., 2020).

However, during the post-Covid 19 recoveries, the world is again facing a volatile geopolitical situation. The Russo-Ukrainian war made many countries experience difficulties controlling world food prices. On the other hand, Russia and Ukraine are important countries in the global oil, gas, wheat, energy, food, and fertilizer markets(Bakrie et al., 2022). This will have the impact of disrupting the flow of goods to countries that need them. As a result, several countries experienced a shortage of raw materials and disrupted production (OECD, 2022).

As a result of uncertain global market conditions, a 2023 recession is predicted to occur in several countries. This was triggered by an increase in interest rates by the central bank, which was carried out aggressively to control the inflation rate (Surya, 2022). The World Bank predicts the threat of a series of financial crises in emerging markets and emerging economies. Global growth slowed sharply, with further slowdown possible as more countries fall into recession (Tatyana & Andrey, 2019) (Paspi, 2022). Nomura Holdings Inc. predicts countries that will enter a recession in 2023 due to tightening interest rate policies and rising costs of living, including the Eurozone, Britain, Japan, South Korea, Canada, Australia, and the United States, which are member countries of the G20 and G7 (Nomura, 2022). Even though Indonesia is not included in the list of countries, it is predicted that Indonesia will be affected if its economic fundamentals are not strong.

According to Agus Martowardoyo (Bank Indonesia, 2018), several indicators serve as benchmarks for analyzing Indonesia's ability to survive if a global recession in 2023 occurs: the rupiah exchange rate against the US Dollar, inflation; economic growth; and total foreign debt. This study analyzed Indonesia's ability to face the threat of a global recession through an analysis of these factors that occurred in Indonesia by comparing conditions during the economic crisis in 1998 and 2008 with Indonesia's current economic conditions (2022). Thus, the purpose of this study was to examine in depth the scenario of a potential global economic recession which is predicted to occur in 2023, analyze the condition of Indonesia's economic fundamentals based on recession indicators, as well as observing how much influence these global economic conditions have on Indonesia.

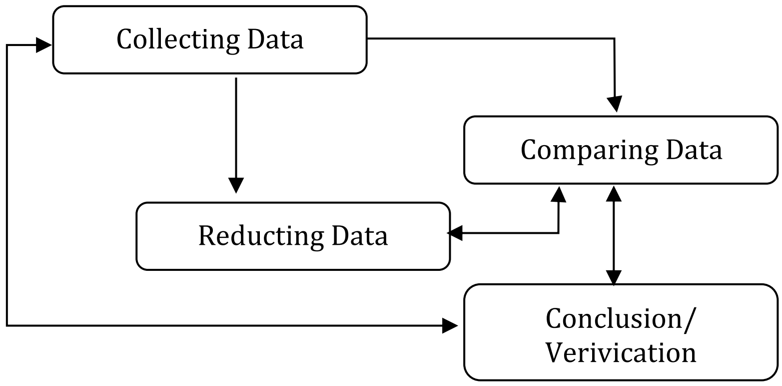
This research can be one illustration of Indonesia's economic condition later if the global economic crisis occurs. The results of this study can be used as a reference for stakeholders to formulate appropriate policies in accordance with Indonesia's national interests. In addition, business people, investors, entrepreneurs, traders and other economic elements can use this research as a reference for doing business in Indonesia if the global economic crisis occurs in 2023.

There have been several previous studies that have analyzed predicting the economic impact during a crisis, including those carried out by the (Kannan et al., 2009)(An et al., 2018) which concluded that a country's readiness to anticipate an economic crisis largely determines how big the economic impact is during a crisis. Another, more detailed study, was conducted by the (Iswahyudi, 2021) which analyzed the extent of the impact of the Covid-19 pandemic on Indonesia's economy and fiscal, resulting that the pandemic had a sustained impact on Indonesia's economic and fiscal output. In addition, research conducted by (Umbara & Nursantika, 2015) analyzed predictions of short-term economic crises based on the value of GDP and foreign debt, concluding that these two indicators greatly affect the ability to deal with crises.

Methods

This qualitative descriptive study described global economic conditions, compared and evaluated the Indonesian economy, and then analyzed independent assessments. This research also used a literature review from reading books and scientific articles relevant to the research topic.

The qualitative method used in this study is the reduction of historical data on economic conditions in the years when the economic crisis occurred, in 1998 and 2008, then comparing this data with data on pre-crisis economic conditions in 2022, with the assumption that there will be an economic crisis in 2023. Then, assess and compare economic indicators between the years: economic growth, inflation, unemployment, the rupiah exchange rate against the US dollar, and foreign debt. Referring to this, it will be concluded how the potential impact of the global economic crisis has on the condition of Indonesia's economic fundamentals.



Picture 1. Qualitative Research Method
Source : (Raco, 2008)

Results and Discussion

Global Economic Scenario for 2022-2023

Based on historical studies, five global recession conditions were recorded worldwide, namely in 1975, 1982, 1991, 2009, and 2020 (Guénette et al., 2022). The reasons were different, such as in 1975 and 1982 due to movements in world oil values and 1991 and 2009 due to the financial crisis and the 2020 pandemic. Apart from the recession, during this period, the global economy recorded a decline that avoided recession. Still, relatively low economic growth occurred in 1998, 2001, and 2012 due to financial pressures that impacted certain countries. The following is global economic data:

Table 1. Global Economy 2019-2023

Indicators	For				
	2019	**2020**	**2021**	**2022**	**2023**
Economic Growth	2.9%	-4.5%	6.0%	3.2%	2.7%
Inflation	3.51%	3.23%	4.7%	8.8%	6.5%
Unemployment	5.36%	6.75 %	6.18%	7.11%	7.43%

Source: IMF, 2022

The global economy is predicted to experience a recession in 2023 due to a continuous decline in economic growth. In 2022, the IMF reports that global economic growth was 3.2 percent, while in 2023, it is predicted only to grow at 2.7 percent (Fund, 2022). The downward trend in the global economy has occurred since 2020 and 2021; in 2019, the global economy only grew 2.9 percent (Prospects, 2021), while in 2020, the economy only grew -4.5 percent. This condition was affected by the Covid-19 pandemic, which paralyzed the world economy. Many countries implemented lockdowns, so economic activity, especially international trade, was disrupted. The continuous decline in economic growth indicates a global recession (Vanani, 2021).

Indications of a recession have occurred since the second quarter of 2022. China's economic growth was only 0.4% in the second quarter of 2022 (*year on year/*). The European Union only grew 4.1% in the second quarter of 2022, the lowest compared to the previous three quarters. Meanwhile, the UK economy grew 4.4% in April-June this year, the lowest since the first quarter of 2021. These large countries' economic conditions will significantly influence the potential for a recession in 2023.

In addition to the downward trend in economic growth, several other external factors are expected to increase the potential for a global economic crisis in 2023, including; First, the disruption of supply logistics due to the Ukraine-Russia crisis. Even though there has been an Istanbul wheat agreement that guarantees the smooth distribution of wheat from conflict countries Ukraine and Russia, this agreement can change at any time according to security tensions between the two countries (Kovacevic, 2009). Several poor countries in Africa and Asia have been affected and are experiencing a food crisis. Some people in poor countries with staple foods made from wheat are threatened with starvation due to this condition. Second, the protectionist economic trend is carried out by many countries. Several countries have implemented protectionist policies inconsistent with free-market liberalism (Viju & Kerr, 2012). Many countries have stopped the export of certain goods, which incidentally are essential commodities for other countries. For example, Indonesia has officially banned nickel exports and has decided to manage nickel domestically. On the other hand, these products are the primary raw materials for the electronic goods industry in developed countries. Indonesia also temporarily banned coal and palm oil exports before returning to normalization. This condition is expected to trigger a trade war, so international trade flows do not work as well as expected, and global economic growth will contract. Third, the increasing trend of infectious diseases (Smith et al., 2011). In the last 30 years, more than 30 Emerging (EIDs) have been caused by the appearance of new organisms. Scientific research on 335 new diseases discovered between 1940 and 2004 indicated that countries associated with the Indo-Gangetic Plain and Mekong Basin are hotspots for EID occurrence (Santoso, 2005). With the high threat of infectious diseases, the risk of a global pandemic could continue to occur for the next few years. Now, the Covid-19 pandemic is still ongoing. Stem viruses keep mutating all the time. On the other hand, new infectious diseases, such as monkeypox, affect many people in several countries. This condition is estimated to affect the global economy due to limited human movement and fears of contracting the disease.

If the global economic downturn continues, several scenarios will occur. The unemployment rate is expected to increase because the industrial and manufacturing sectors are experiencing a slowdown (International Labour Office, 2022). In addition, international export-import trade will experience a decline. Countries that depend on the foreign exchange will find it difficult to survive (Eaton et al., 2016). Demand for imported products from developed countries will decrease. As a result, the poverty rate will increase, and public spending will decrease (Wan & Francisco, 2009). The above conditions apply globally, and each country will feel a significant or small impact depending on its economic fundamentals. Some countries can survive and recover faster, and some others have the potential to collapse depending on their respective financial strengths and how these countries respond to these conditions (Kannan et al., 2009)

Indonesia's Readiness in Facing the Global Recession in 2023

To measure Indonesia's readiness to face the global recession, a comparison can be made of Indonesia's economic conditions in the years of the financial crisis in 1998, 2008, and currently through several factors that were used as a reference by Agus Martowardoyo (Bank Indonesia, 2018) as follows:

Table 2. Comparison of the Conditions of Indonesian Economic Indicators in the Era of the Global Economic Crisis in 1998, 2008 and 2022

No	Indicators	1998	2008	2022
1	Economic Growth	-13.16%	6.1%	5.7%
2	Inflation	82.40%	12.14%	5.71%
3	Unemployment	5.46%	7.21%	5.83%
4	Rupiah exchange rate against US Dollar	15,387	12,650	16,650
5	Total foreign debt (USD billion)	150.8	155.08	400.4

Source: BPS, 2022

First, from the aspect of economic growth, it can be seen that Indonesia's economic growth is in conditions that are far different from the financial crisis in 1998 and tends to be similar to conditions in 2008. However, in contrast to conditions in 2008, Indonesia's economic growth in 2022 is far better than many other large countries, such as China at 3.9 percent, the US at 1.8 percent, the European Union at 2.1 percent, Germany at 1.2 percent, and South Korea at 3.1 percent. Economic growth is above the target of 5.2% in 2022, and in 2023 it is projected to grow by 5.3%, as reported by the World Bank (Asia & Federation, 2022). Indonesia's economic activity is estimated to remain stable despite global threats. This is because Indonesia can still maintain the inflation rate and monetary tightening policies implemented.

Second, price movements (inflation) in Indonesia are still relatively safe at 5% compared to 1998, which reached 82.4%, and 2008 reached 12.14%. This condition is expected because the welfare of society has increased, and the unemployment rate has decreased. In addition, compared to 2008, the percentage of poor Indonesians has fallen significantly. Based on data from the Central Statistics Agency (BPS), the number of poor people in Indonesia in 2008 amounted to 37.17 million or 16.58%, while currently, the number of poor people has reached 26.16 million people or 9.54% of the total population of Indonesia (Mustika, 2011). With the increase in the percentage of middle-class people, even though the prices of people's necessities increased, such as fuel and conditions, the purchasing power of the Indonesian people remains high. This aspect is a good support for Indonesia in facing the threat of a global recession.

Third, the percentage of Indonesia's unemployment rate is still quite high and relatively the same as in the previous crisis years. However, since 2009 and 2010, as communication and information technology have improved, Indonesia has experienced a shift in the model of work activity, with many new types of informal work growing, such as online taxi bike drivers, freelancers, influencers, YouTubers, content creators, stock affiliates, cryptocurrency miners, and many other types of work that are not formally recorded. Many young people choose this job because it is more flexible, has unlimited (borderless) time, and provides a good income. Therefore, even though the unemployment rate is still high, on the other hand, many alternative jobs are expected to be undertaken by the community to earn income in this information-technology era. Based on the 2021 Digital Literacy Status report, Indonesia's digital literacy index in 2021 was at the level of 3.49 out of a maximum value of 5 (Kominfo, 2021). This figure has increased from 2020, which was 3.46. This means that Indonesia's human resources (HR) are considered ready to face the challenge of filling informal jobs in the technology sector when the global recession occurs and threatens their careers and reduces unemployment.

Fourth, the upward trend of the rupiah exchange rate against the US dollar in 2008-2009 ranged from IDR 9,000 to IDR 12,000, and the rupiah depreciated by 33.3%. This condition occurred because of the high bad credit at that time. Whereas in 2021-2022, the range was Rp.

14,300 rose to Rp. 15,378, and the rupiah depreciated by 7.54%. The cause of the current increase in the exchange rate is the concern of market players due to the threat of a recession in 2023 due to a global slowdown in economic activity, and investors tend to make safe investments by saving dollars. However, even though the US Dollar exchange rate rose, Indonesia's trade balance still showed a surplus position with a value of 4.99 billion US Dollars. This means that the national financial cash structure is still strong enough to carry out import-export transactions with other countries. The increase in the exchange rate has created benefits for Indonesia, which has a high percentage of exports, with a trade balance of a surplus of USD 4.99 billion (Kementerian Perdagangan, 2022).

Conclusion

With good economic fundamentals, Indonesia is considered not to be significantly affected by the threat of the coming global recession. However, as a country dependent on global economic relations, Indonesia will be indirectly or directly impacted by economic fluctuations and inflation that occurred in many countries during the crisis. The declining economic conditions will have social and political impacts. The crime rate is estimated to increase, especially transnational crime. The smuggling of critical commodities to avoid import duties and other taxes will increase. Political turmoil in the South China Sea Region (LCS) and Ukraine will create uncertainty, so investment will decrease. Therefore, it is suggested that Indonesia focus on maintaining economic stability in the real sector, maintaining the supply of basic needs at the community level, and building financial independence by encouraging more production.

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