



Preparation of Indonesian sharia banks facing the 2023 global recession

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Article Info

Article history:

Received April 19, 2023

Revised May 20, 2023

Accepted June 10, 2023

Keywords:

Indonesian Sharia Bank;

Global Receipt;

Prepare Islamic Bank.

ABSTRACT

The global recession in 2023 is predicted to occur before our eyes. If it does happen, the impact will extend to various sectors of life, one of which is the financial sector which is the heart of the economy. This research was conducted with the aim of seeing the readiness of Islamic banks in facing the 2023 recession. The method used in this research is descriptive qualitative method and library research. This method is used to explain and analyze the research object to suit the reality that is happening so that the writer can dig deeper and can review in detail how the experience of Islamic banks is in responding to the previous recession that has occurred in Indonesia. The data used in this study are secondary data in the form of journal articles, books, websites, and news that has relevance to this research. The results of the study explain that based on experience and statistical data, the Islamic banking sector is predicted to be resilient to shocks from the 2023 recession. One of the things that can hinder banking growth is the NPF, however, judging from the existing data, the NPF of Islamic banks tends to be low, so that it can be said that the financial condition Islamic banks are still healthy even though they were affected last year. by the pandemic. In facing the 2023 recession, the government has an important role to play in its policy to anticipate the impact of the recession, even though the Indonesian economy is still growing above 5% but one must be vigilant, especially against the storm of layoffs (PHK) that has recently hit a number of companies. The public is also advised to anticipate the impact of a recession

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1. INTRODUCTION

Currently the world economy is facing a lot of inflation fluctuations, this was explained by Hiroshi Watanebe as president of the Institute for International Monetary Affairs. According to him, the countries that were most affected by the inflation fluctuation were the United States and European countries. (Widianto, 2022). One of the causes of this was the war conflict between Russia and Ukraine, therefore the two countries limited their economic activities which resulted in soaring energy and food commodity prices. Russia as an oil and gas producer has been subject to an export ban. Meanwhile,

Ukraine, as the world's fourth largest wheat producer, is also experiencing difficulties with commodity shipments. As a result, energy and food commodity prices have skyrocketed.

This creates a big gap in the occurrence of an economic recession. The US dollar currency and bond yields have strengthened due to the Fed's interest hike. These events are the forerunners of the global economic recession in 2023. The International Monetary Fund (IMF) warns that there will be tough challenges for the global economy, inflation is expected to be higher than in previous decades. As a result, many countries are tightening their finances. The report on the World Economic Outlook for 2022 and 2023 issued by the IMF states that the Indonesian economy will grow by 5.3% in 2022 and then decrease to 5% in 2023.

This condition is a separate warning for the Indonesian economy so as not to let the recession that occurs later in the decline in economic conditions in Indonesia. Historical experience shows that when there was a recession or crisis in the United States or in Europe, Indonesia was the country that was most affected, especially in terms of banking.

Research conducted by Rois and Sugianto (2021) states that the global crisis that occurred three times in 1998, 2008 and 2019, Islamic banking was able to survive the downturn. The reason is because of the implementation of a profit sharing system and not using an interest system that can be affected by currency fluctuations. Meanwhile, Wicaksono and Maunah (2021) explained that during the Covid period in 2019, Indonesia's economy slumped so that economic growth experienced minus 3.49% in the third quarter of 2020.

This has the effect of slowing down the banking industry, especially in disbursed costs. However, there was an interesting thing when the growth in assets of Islamic banks was 9.22% higher compared to conventional banks which only reached 5% of their asset growth. The financial crisis has had a significant impact on conventional banks but has not directly affected Islamic banks.

This is because the profit sharing and nominal value of Islamic banks are not affected by the increase in BI and the contract agreed between the bank and the customer will not change while the contract period has not been completed. Therefore, issues regarding the potential for a recession that will occur in 2023 also raise questions, whether Islamic banks are ready and can survive like the previous crisis or recession period.

2. RESEARCH METHOD

The research method used is a qualitative analysis of the phenomena that occur in the banking world. Especially those related to the 2023 recession. Data obtained from journals and information from online media.

3. RESULTS AND DISCUSSIONS

Research result

"Recession" is a word that worries all countries in the world. The Minister of Finance, Sri Mulyani Indrawati predicted that the world economy would experience a recession in 2023 as many central banks raised interest rates simultaneously in response to inflation. Inflation is a process of rising prices in general that takes place continuously which can be caused by several things, for example the Covid-19 pandemic that occurred in the last 2 years and the Russia-Ukraine conflict that occurred some time ago.

Recession itself can be interpreted as a condition where the country's economy has decreased based on the GDP (Gross Domestic Product), the number of unemployed, as well as the country's economic growth which has been negative for two consecutive quarters. The recession had a direct impact on society, for example rising prices of basic commodities, layoffs (termination of employment), rising prices for energy supplies, and rising unemployment and poverty rates. BSI President Director Henry Gunardi stated that in 2023 when all countries are overshadowed by a recession, Indonesia is still lucky because it has strong domestic demand. The potential of the sharia economy in Indonesia can continue to be optimized and may later play a role as a spearhead to face

the threat of a 2023 recession, seeing the increase in assets owned by BUS and UUS which reached IDR 680,

1. Causes of Recession

A recession is a phenomenon in which the real GDP (Gross Domestic Product) becomes negative for two consecutive quarters, in other words, this recession causes all economic activities such as production, distribution, consumption, investment and other economic activities to experience a contraction. of course it has a bad impact on various parties, one of which is by layoffs (termination of employment).

So what causes a recession? There are several things that cause a recession, including: high inflation, a sudden economic shock, an increase in benchmark interest rates, a war between Russia and Ukraine, and a decline in global demand. Then all of this is the cause of the recession. The occurrence of high inflation, this can not be considered trivial either in the country or in the world.

Because, if this happens it can cause the economy to be even more depressed and can threaten a recession. Like the recession that occurred in 1998 in our country (Indonesia), at the end of the New Order period which triggered inflation of 77.63%. So to deal with the ever-increasing inflation rate, several countries began to withdraw monetary and fiscal incentives. (International Monetary Fund (IMF) in the World Economic Outlook Update July 2022). Sudden economic shocks can also trigger recessions and severe economic problems.

One example is what happened during the Covid-19 pandemic, this was marked by a decrease in people's purchasing power due to financial difficulties. Due to inflationary pressures that occurred in Western countries and the United States forced the Central Bank to raise interest rates as an effort to keep inflation under control. G20 member countries, such as Brazil, India, including Indonesia, did the same thing. The increase in benchmark interest rates by central banks simultaneously throughout the world will have an impact on the occurrence of an economic recession.

The war between Russia and Ukraine is the main cause of the global recession that is expected to occur in 2023. This war between Russia and Ukraine has disrupted global supply chains, causing crises and accelerating inflation, especially in the food and energy sectors. Global demand has decreased causing companies in various countries to start reducing their production, this indicates the occurrence of an economic downturn that causes global economic growth to contract.

2. Impact of Recession for Indonesia

When a recession threatens a country, many impacts will occur both in terms of the economy and social society. If a recession occurs in Indonesia, then what impact will this recession have for Indonesia? The impact if there is a recession in Indonesia, namely: the weakening of the rupiah exchange rate, the increase in the number of unemployed, the demand for Indonesian exports will decrease, the weakening of people's purchasing power, and rising interest rates.

From the description of the explanation for the causes of the recession above, it is clear that with high inflation, it will affect the weakening of the rupiah exchange rate, as happened in 1998 when the end of the New Order era was followed by a weakening of the rupiah exchange rate reaching 16,000/US dollar. The results generated during the Covid-19 pandemic caused a sudden economic shock that made the Indonesian and even the world's economy worse, which could threaten workers from Termination of Employment (PHK).

Until the increasing unemployment in Indonesia. In addition, workers are also likely to receive deductions from wages and benefits. If an economic recession occurs, countries that import goods from Indonesia, such as the United States, will put pressure on the demand side. If the demand rate falls, it will affect the trade balance which can result in a deficit and a decrease in state revenue.

An increasingly difficult economy will definitely result in a weakening of people's purchasing power because they will be even more selective when using their money by placing more importance on meeting their daily needs. The impact of an economic recession is a sharp increase in interest rates. Bank Indonesia will adjust the benchmark interest rate. The general public and business actors when making loans will increase and can become an obstacle to business expansion. This will cause a decline in economic growth in 2022 and 2023.

3. Islamic banking financial system

The Islamic financial system, known as sharia principles, uses the principle of profit sharing (mudharabah investment), the principle of equity participation (musyarakah), the principle of buying and selling (murbahah), and the principle of leasing (ijarah). The principle of profit sharing (mudharabah investment) in the book "Financial System & Investment Sharia" by Muhammad Firdaus et al (2005): The principle of profit sharing for this mudharabah investment is that customers must be honest, trustworthy and transparent from the business they manage, because the bank only allowed to conduct business supervision and not allowed to interfere in the management of funds.

The first party (shahibul maal) provides all (100%) of the capital, while the other party becomes the manager. Business profits will be shared based on the agreement according to the contract, whereas if the loss is borne by the owner of the capital as long as the loss is not due to the manager's negligence. If the loss is caused by fraud or negligence of the manager, the manager must be responsible for the loss.

Mudharabah is the uniqueness of Islamic banks, therefore Islamic banks or other Islamic financial institutions do not carry out many transactions of this type, so losing the uniqueness of Islamic banks means losing the added value of Islamic banks themselves. The principle of equity participation (musyarakah) In the book "Sharia Bank: from theory to practice" by Muhammad Syafi'i Antonio (2001): The principle of equity participation (musyarakah) is a contract of cooperation between two or more parties for a particular business in which each each party contributes funds with an agreement that profits and risks will be shared according to the agreement.

This musyarakah contract is a cooperation agreement made between two parties for a particular business, where each party contributes funds provided that profits are shared based on an agreed ratio, while losses are borne by the parties in the amount of capital participation included in the business.

The principle of buying and selling (murabaha) The principle of buying and selling with a murabaha contract is one of the transactions that are mostly carried out by Islamic banks today. One of the reasons is that in this murabaha the risk for Islamic banks is small. For example transactions in the purchase of motorized vehicles. Banks as sellers must provide motorized vehicles for buying and selling with customers, so what customers receive are motor vehicles from buying and selling.

The principle of leasing (ijarah) Basically the principle of ijarah is the same as the principle of buying and selling, but the difference lies in the object of the transaction, if in buying and selling the object of the transaction is goods, then in ijarah the object of the transaction is services. According to Muhammad Rawas Qal'aji (1987): Al-ijarah is a contract of transferring usufructuary rights over goods or services, through payment of rental wages, without being followed by a transfer of ownership (ownership/milkiyyah) of the goods themselves.

4. Efforts of Islamic Banks in Facing Recession

The role of Islamic banking is very important for today's economy. In general, the function of Islamic banking is the same as conventional banking, namely as an intermediary financial sector and the real sector. The banking sector plays a role in the stability and growth rate of the money supply in

the economy. Banking capabilities in managing public funds and creating a healthy business cycle will promote financial system stability.

The Islamic banking business has experienced growth as seen from the increasing number of Islamic banks and banks. The ability of Islamic banks to manage public funds and create a healthy business cycle will promote financial system stability. A stable rupiah, both in terms of inflation, is very important to support sustainable economic development and improve people's welfare. BI has and will continue to play an active role in achieving the goal and maintaining the stability of the Rupiah through its three authorities, namely firstly, to set and implement monetary policy, secondly to regulate and maintain the smooth operation of the payment system, and thirdly to regulate and supervise banks. J

If you look at the growth and development of the shari'ah banking industry as well as economic development that is still growing above 5% in the second quarter of 2022, shari'ah banks have the potential to avoid the threat of a global recession in 2023. Even if it is hit, it will only result in a shock at the beginning, after that it will return to normal. Reflecting on the conditions during the Covid 19 pandemic, the OJK at that time issued policy no. 11/POJK.03/2020 which aims to reduce the number of NPF that occurred in the banking sector during the Covid-19 pandemic (Dipoyati et al., 2020).

This policy is a policy in the midst of an emergency condition to save two parties, namely the banking sector and the community, which is then taken a middle way to find solutions to the problems that occur. The impact was that during the pandemic, the performance of the Islamic banking sector was still quite good. Based on data from OJK, Islamic bank financing increased by 8.08% in 2020 compared to the previous year, while the NPF (Non-Performing Financing Ratio) of Islamic banks decreased in 2020 to 3.08% which was better than 2019 with 3.11% (Solomon, 2021).

Then the decline in NPF (non-performing financing) of Islamic banks was due to government regulations in the form of easing by the OJK and exposure of Islamic banks to the industrial sector (Andika & Aldi, 2020). Causing the NPF level of Islamic banks to be lower than conventional banks so that they have a corporate segment in minimizing the risk of problem financing. In addition, the majority of financing in shari'ah banking is in the non-productive sector, especially consumers, so that the level of risk of non-performing financing is lower. Experiences like these are certainly important in facing a potential recession in 2023, the involvement of the OJK as a regulator of Islamic banking is one of the central points in presenting regulatory policies that can save Islamic banking from sinking during a recession.

And once again the policy that will be given must be able to present a middle way for the banking sector and the community. So that it does not only save Islamic banking from the high problem financing that occurs but also brings justice to the people who use Islamic banking services. Based on data from the OJK, the growth of third-party funds for Islamic banks has increased every year, this is because the community is satisfied with keeping their funds in Islamic banks by continuing to strive to improve services to the community.

4. CONCLUSION

A recession is an event that needs serious attention for a country. Especially in the banking sector as a place for the development of the financial industry. The presence of shari'ah banks is expected to be a solution in dealing with the global recession, but of course, shari'ah banks need to prepare an accurate strategy to be able to face a recession. Based on the results of this study regarding the preparation of Islamic banks in facing the 2023 recession, it can be concluded that if you look at the development and growth of the industry and the economy in Indonesia, which is still growing above 5% in the second quarter of 2022, Islamic banks have the potential to avoid the upheaval of the 2023 recession. OJK's

involvement as a regulator of sharia banking is one of the central points in presenting regulatory policies that can save sharia banking from sinking during a recession. And once again the policy that will be given must be able to present a middle way for the banking sector and the community. So that it does not only save Islamic banking from the high problem financing that occurs but also brings justice to the people who use Islamic banking services.

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