

## **Safe But Alert: The Impact of the 2023 Global Economic Recession on Indonesian Micro, Small and Medium Enterprises**

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**Abstract:** In the aftermath Covid19 Pandemic, people in the world are facing 2023 economic crises, including; financial, energy and food crises. It was caused by the residual covid 19 pandemic, the Rusia-Ukrein war and climate change. However, the impact of the crises in the developed and underdeveloped countries is different. Several developed countries suffered more severely than developing countries because they have higher inflation and more unemployment caused by laid-off employees. Several developing countries whose GDP relies little on export suffered less. This study seeks to understand better the impact of is the 2023 world crises on Indonesia's economy, notably Micro, Small and Medium Enterprises (MSMEs). The Indonesian economy and MSMEs are pretty strong to deal with the 2023 crises, and the impact on the Indonesian economy is negligible. SMSEs have been proven to become a saviour during repeated crises. Nevertheless, Indonesian MSMEs also posed several classic problems, including capital, licencing, technology and human resource development. The Indonesian government has addressed the problems by preparing a capital scheme, training, and creating small and medium industrial centers

**Keywords:** Safe, Alert, Global Crisis, MSMEs

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### **Introduction**

Even though the Covid 19 Pandemic has subsided, it does not mean that humanity can continue to do nothing because 2023 the world will face an economic recession. President Jokowi said, "2023 will be even more difficult for all countries, and it is estimated that they will enter a global recession,". All countries experience inflation, energy, food, and financial crises which will overtake developed and developing countries, including Indonesia, at various levels. According to IMF Predictions, 31 out of 72 countries will experience a crisis. 40-45% possibility of a recession will affect developed countries in Europe and the US. Sixty-three countries that are in debt abroad is predicted to be in trouble to continue. One of the countries that experienced bankruptcy was Sri Lanka. Several international institutions also confirmed the occurrence of an economic crisis that coincided with the financial crisis. The Crisis Group organization highlighted several global crises, such as the conflict in Afghanistan, the economic crisis, and changes. The International Rescue Committee has released a list of 10 crises that will worsen in 2023, including the conflict in Ukraine, gang violence in Haiti, and climate change in Burkina Faso. (Mardanugraha & Junaidi, 2022).

This crisis will undoubtedly affect a country's economy, both big economic players, small and medium economic actors (MSMEs). Small and medium-sector businesses have proven to be the driving force of the Indonesian economy in facing the global economic recession, while large-scale businesses have collapsed. Micro, Small and Medium Enterprises (MSMEs) in Indonesia can become a saviour if their presence can be maximized. The impact of this crisis on business actors in various parts of the world, both developed and developing countries, is different. This article will discuss how the influence of the 2023 global crisis has had on Micro, Small and Medium Enterprises (MSMEs) in Indonesia.

### **Global Economic Crisis 1930-2023**

The people in the world are not the first time experiencing an economic crisis. Since the last century, people have experienced at least three crises before the 2023 crisis. The worst economic recession in history occurred in 1930th (1929-1939) in America. A drastic decline in the stock market's value, business bankruptcy and rising unemployment marked the deteriorating economy. This decline further affects people's income and state revenue from the tax sector. A decline in public confidence in banks also marked the economic crisis. They withdrew money deposited in the bank through savings and time deposits. To overcome this depression, US president Franklin D. Roosevelt issued a new policy called the New Deal. The essence of Rosevelt's policy was to get the government involved in the economy to lower prices and tackle unemployment. The Second Crisis occurred in 1997. The crisis that started in Thailand, commonly called the "Tom Yam Crisis", hit East and Southeast Asia. A hot money bubble allegedly caused this crisis. Namely, funds managed speculatively (chance) to get big profit. This crisis also nearly bankrupted countries in Southeast Asia, such as Thailand and Indonesia and resulted in a political, social and economic crisis which replaced the ruling regimes at that time (Ningsih, 2022). In 2008 the world experienced another Monetary Crisis. This crisis was triggered by Bank BNP Paribas

France's failure to disburse securities related to subprime mortgages in August 2007. Subprime mortgages are high-risk housing loans in America. This failure was then followed by deteriorating liquidity in various countries (OCBC, 2023).

### **2023 Economic Crisis**

As President Jokowi has stated, in 2023 there will be a global economic crisis. In this crisis, there was a significant economic downturn throughout the world. This crisis mainly occurred in the financial crisis, which was then followed by the energy and food crisis. Several financial crisis indicators have emerged, such as the aggressive increase in benchmark interest rates by central banks in various countries to reduce inflation. Bank Central Europe raised the benchmark interest rate by 0.75%; the FED raised the interest rate by 0.25%. The increase in interest rates was to overcome the soaring inflation in these countries. In Europe, inflation rose to 9%; in America, it reached 6-7%. Experts identify at least four causes of the global financial crisis. First, the residue of the COVID-19 pandemic, which has not yet been resolved, has swept the world since 2020 and has gradually improved, and the economy has also recovered. However, the improvement in the economic situation has yet to reach 100%. The market mechanism has not fully recovered, and the business world is sluggish. Meanwhile, in several countries, unemployment is still haunting. Global economic growth has also experienced a contraction. Food producing Countries are doing protection in anticipation of a prolonged pandemic. As a result, a food crisis occurred due to food supply shortage in the market which caused prices to soar.

Second, geopolitical problems, namely the Russia-Ukrainian War, are believed to be the main factors causing the crisis. The war between the two countries has disrupted the distribution of supplies of goods, especially food and energy. This food and energy scarcity then accelerates inflation. Russia is one of the world's primary energy producers, especially oil and natural gas. The conflict between Russia and Ukraine has led to tensions in energy supply or export restrictions, impacting global energy prices. A surge in energy prices can increase production costs for businesses in various sectors and affect household finances, which can slow down global economic growth (Cahyakemala & Putri, 2022). Ukraine is essential in trade and transport relations between Russia and Europe. The war by the two countries caused disruptions in the transportation or delivery of goods through the region, causing delivery delays, increased logistics costs, and uncertainty in international business. This conflict also created global economic uncertainty. Investors and financial markets often respond with fear and anxiety, resulting in volatility in financial markets and hindering investment and economic activity (Syahbuddin & Haryati, 2022).

Third, high inflation in the US prompted the government to raise interest rates. The increase in interest rates is aimed at reducing the money circulating in society. This strategy will affect the flow of capital to developing countries, resulting in a significant economic downturn in many countries worldwide. High inflation can decrease people's purchasing power, decreasing demand for goods and services. Fourth, the food crisis is also triggered by climate change or what is also known as the climate crisis. The main impact of the climate crisis happens to agriculture because this sector is very dependent on temperature, and water, including rainfall, or hydro meteorological disasters such as extreme rainfall, strong winds, floods, and landslides. However the climate crisis also negatively affected sectors other than agriculture. Disruption to the agricultural sector will reduce crop yields and affect food supply (Retnosuryandari, 2022).

In this crisis, many companies have the potential to experience losses and even bankruptcy due to reduced domestic purchasing power and decreased export demand. The company's deteriorating performance has also led to mass layoffs at several large companies. In March 2023, Amazon laid off 9,000 people; previously, in January, 18,000 (in total of 27,000). GAP has laid off 500 employees as of September 2022, and Disney has laid off 4,000 employees over a year. Declining company performance and unemployment will decrease state tax revenue from Income Tax and value added tax (VAT). VAT has a solid reciprocal relationship with economic conditions. To overcome the crisis, the United Nations Organization formed the Global Crisis Response Group on Food, Energy, and Finance to provide policy recommendations regarding this crisis. All countries will be affected by this crisis, but developing countries which are already affected by the COVID-19 pandemic, the increasing debts, and climate change and developed countries will have a more significant impact (Santoso, 2018)

### **Discussion**

#### **Effects of the 2023 Economic Crisis on the Indonesian Economy; Safe, but Alert**

This economic recession will have an unequal impact on countries in the world. Developed countries and countries with a significant export contribution to GDP will feel a more severe impact. Coordinating Minister Airlangga Hartarto said that even though in July 2022, the International Monetary Fund (IMF) revised its global economic projection from 3.6% to 3.2%, Indonesia's economic growth projection is still relatively high at 5.3%. Bloomberg noted that the probability of a crisis occurring in several countries in Southeast Asia is also tiny. For example, Indonesia is only 3%, the Philippines is 8%, Thailand is 10%, Vietnam is 10%, and Malaysia is 13%.

Indonesia's economic growth in 2023 is still quite good, slightly decreasing from 5.3% in 2022. Minister of Finance Sri Mulyani supports Hartarto's statement by saying that Indonesia's potential for an economic recession in 2023 is negligible. The favourable economic condition is due to the surplus in Indonesia's trade balance in August 2022 and the continued increase in manufacturing activity. In addition, the Indonesian government has also made various efforts to encourage economic growth, such as the national economic recovery program and the infrastructure development program. According to Piter Abdullah, Indonesia will only fall into a recession this year if domestic demand declines again, such as during the COVID-19 pandemic. At least five strengths of the Indonesian economy in facing the economic crisis;

1. Domestic demand in Indonesia is still high.
2. Public consumption is still high, supported by household consumption of 2.2% and economic growth of 5%
3. Unemployment reached 5.3%; this condition was indeed worse than in Thailand, which was only 1%, but much better, for example, in South Africa, which reached 35.6% (NA. 2023)
4. The export rate also shows an increase of 29% in March 2023.
5. JCI performance was also recorded quite well amidst global pressures and the weakening of global stock indices. On October 10, 2022, the JCI recorded a return of 6% (YTD) at 6,982.5. Even though there were shocks, Indonesia's external indicators were relatively strong. Indonesia's Volatility Index is valued at 30.49 or within the indicative value limit of 30

However, this conducive situation still needs to be treated with high vigilance. Because this situation might suddenly get worse, as happened during the Covid 19, if the following conditions happen

1. The demand for countries that are Indonesia's export destinations has decreased, as happened during the Covid-19 period. The decline in export demand will affect foreign currency circulation, especially the US dollar in Indonesia, further reducing the rupiah exchange rate. This condition was proven by fluctuations in the rupiah exchange rate from 14,700 and then weakened to 15,500. Even then, there were rumours that it would weaken to 17,000 per 1 US Dollar.
2. The possibility of layoffs also overshadows the potential for this condition to occur, significantly if demand in the US and China, Europe and Japan decreases as the countries are the main destinations of Indonesian exports. APINDO has projected that 1 million people will be laid off. In Tangerang, there have been layoffs of 1,163 people. Korindo: Plywood companies reduced production from 76,000 to 3,000-4,000 m<sup>2</sup> due to decreased exports and layoffs of up to 1,100 employees. This crisis also disrupted trade, namely the occurrence of a widening deficit. Oil and gas prices increased significantly. Indonesia adjusted its interest rate by 50 % in September 2022 to 4.25.

### **The Effect of the 2023 Economic Crisis on MSMEs in Indonesia**

MSMEs are part of Indonesia's economic actors and play a significant role. MSMEs can be a savior if their presence can be maximized. From the available data, Indonesia has the potential for a strong national economic base because the number of MSMEs, especially micro businesses, is huge, and the absorption capacity of the workforce is enormous. Every year this sector contributes to reducing the number of unemployed people in Indonesia (Mardanugraha & Junaidi, 2022). The number of MSMEs in Indonesia grows every year, slowly but surely, as shown in the following graph (in Million).



Graph 1 Number of MSMEs in Indonesia (in Million)

The table shows that from 2015 to 2019, the number of MSMEs continued to grow. In 2020, when the Covid 19 pandemic occurred, the number of MSMEs decreased slightly but began to improve in 2021. The contribution of MSMEs to the Indonesian economy is also very significant:

1. Contributing 99% of business actors in Indonesia
2. Providing 60.2% GDP
3. Providing 96.9% employment
4. Contributing income through taxes
5. Developing the economy in villages and remote areas
6. Creating new markets and innovations

MSMEs also have advantages compared to large businesses

1. Creating new entrepreneurs, even though they are still amateurs.'
2. MSME management is simple, flexible, and easy to adapt
3. Less dependence on raw materials and foreign markets
4. utilizing raw materials obtained around the place of business

The effect of the 2023 Economic Crisis on MSMEs is in line with its impact on the Indonesian economy, meaning that currently, the influence is not significant, but we must remain vigilant. In various economic crises in Indonesia, MSMEs have proven to be heroes amid the collapse of prominent economic actors. In the 1998 economic crisis, MSMEs survived, and their number increased to 64 million. MSMEs absorb 116.7 million workers, or 98% of the workforce in the economic sector. According to the Minister of Tourism and Creative Economy, Sandiaga Uno, MSMEs will absorb 4.4 million workers in the informal sector in the 2023 economic crisis. Meanwhile, economist Aviliani noted that the MSME and tourism sectors absorb 9-10% of credit in the banking sector. The decisive role of MSMEs in the economy continues to be supported by digitalization programs which continue to increase from 20 million in 2022 to 22 million in 2023.

Technology and digitization also accelerate MSMEs growth in Indonesia in difficult times. Indonesia is the most prominent digital economy market in Southeast Asia. In 2019, Indonesia was named the country with the highest e-commerce adoption rate in the world. It shows that MSMEs in Indonesia have great opportunities to take advantage of technology and digitalization in developing their businesses (Mardanugraha & Junaidi, 2022). Indonesia, with a developing country economy, clearly did not escape the recession situation. However, in this situation, the micro, small and medium enterprise (MSMEs) sector has proven to be the main driving force in strengthening the Indonesian economy amidst the global economic recession and uncertainty that put pressure on the world economic recovery. Indonesia's economic fundamentals were able to show impressive performance (Aditya, Sinaga, & Maulana, 2018).

However, this favourable condition must also be treated by high vigilance. Because at this time, MSMEs have not fully recovered from the impact of the Covid 19 pandemic, which has caused several problems. A

survey by UNDP LPEM UI with a total of 1,180 respondents found that the Covid 19 Pandemic had caused at least four impacts on MSMEs:

1. 48% of MSMEs have experienced problems related to the export of raw materials caused by climate change.
2. 88% experienced a decline in product demand
3. 77% suffer from declining income
4. 97% of MSMEs experience impaired asset value

This problem adds to several classic problems faced by Indonesian MSME.

1. **Capital.** 74% of MSMEs still need access to capital. As a traditional business entity, MSMEs must improve themselves to become professional companies that attract investors and the banking sector. The government can create special financing programs to help MSMEs, such as microcredit, working capital loans, or fair financing schemes. In addition, cooperation with microfinance institutions can be increased to provide affordable and easily accessible funding sources for MSMEs (Sarfiyah, Atmaja, & Verawati, 2019)
2. **Licensing.** MSMEs are an economic sector that grows naturally, so they need to pay more attention to licensing. It makes sense that most MSMEs need help with licensing even though permits are needed if MSMEs are to access capital, investment and cooperation.
3. **Managerial and Marketing Capacity Building.** The government, universities and non-governmental organizations can play a role in implementing these programs and provide mentorship to MSMEs, by training and mentoring programs, to improve MSME managerial skills, market knowledge, and marketing strategies. (Mardanugraha & Junaidi, 2022)
4. **Infrastructure.** The government needs to strengthen investment in infrastructure development that supports MSME growth, including improving transportation accessibility, developing industrial areas, and adequate logistics infrastructure. With good Infrastructure, MSMEs can reduce production costs and expand their market reach (Hanim, Soponyono, & Maryanto, 2022).
5. **Digitalization and Technology Utilization.** MSMEs must be encouraged to adopt information and communication technology (ICT) and use digital platforms. Governments can provide training and support in e-commerce, online marketing, business applications, and integration with digital supply chains. MSMEs can achieve a more comprehensive market share and improve operational efficiency in the digital era.
6. **Tax.** Even though the potential of MSMEs to contribute to GDP is high. MSMEs are entities that need more awareness in paying taxes. Only 2.5% of the 64 million MSMEs report their taxes. ( Nugoho, nd)
7. **Innovation and creativity.** As a traditional business entity, MSMEs need more innovation and creativity. So, the type of business carried out has no significant breakthrough.
8. **Technology.** Most MSMEs still need to be more technologically literate. As stated by the Ministry of SMEs, out of 64 million MSMEs, in 2023, only 22 million are familiar with technology.

Recognizing the important role of MSMEs in the national economy and at critical times as well as classic and new problems faced by MSMEs, the government has made a series of policies and strategies to develop MSMEs.

#### **1. Capital**

- a. Encouraging banking credit and financing in the MSME sector and priority sectors
- b. Providing assistance amounted to 45.8 trillion to develop Small and Medium Industry (SMI) centers as part of SMEs.
- c. Revitalizing 60 SMI centers
- d. Strengthening of SMI Center Institutional Capacity Funds in 68 regions
- e. Building Capacity for Cooperatives and Micro Small Enterprises for 46.9 thousand participants

#### **2. Licensing, Human Resource and Technology Improvement.**

- a. Providing business and management capacity building training
- b. Providing MSME digitalization training.

#### **3. Empowerment through Partnerships.** The government can facilitate partnerships between MSMEs and large companies through partnership programs or outsourcing. This will help MSMEs improve product quality, access to markets, and increasing production capacity. By building mutually beneficial partnerships, MSMEs can grow and develop in a sustainable manner (Hanim et al., 2022).

4. The government needs to design policies that strengthen the MSME ecosystem, such as reducing bureaucracy, simplifying regulations, and providing fiscal incentives. This policy can encourage the growth and innovation of MSMEs, as well as create a conducive business environment for MSMEs to compete in the global market (Mardanugraha & Junaidi, 2022)

### Conclusion

After the Covid-19 pandemic, people worldwide entered the 2023 economic recession. It is the fourth recession in the last century after the 1930, 1997 and 2008 recession. It has negatively impacted the world's economic development, including Indonesia. The crisis level between developed and developing countries is different. While its negative impact on developed countries is severe, its impact on developing countries is not profound. The possibility for Indonesia to run into a crisis which affects Micro, Small, and Medium Enterprises is negligible unless the domestic demand decrease. Currently, Indonesia's economy is quiet strong. Its growth is still favourable, the inflation rate and unemployment are controlled, the Indonesian trade balance is still in surplus, and public consumption is still high. Likewise, in the previous crises, the Indonesian Micro, Small Medium Enterprises (MSMEs) became the saviours of the crises, while big economic players collapsed. During the last seven years, the number of MSMEs increased, and their contribution to the Indonesian economy was continuously significant as they are flexible and adjust to the crisis. During the 1998 and 2023 crises, MSMEs also absorbed over a hundred million workforce.

Nevertheless, the Indonesian government and people need to be alert as the economic situation in the Indonesian export destiny country could be unstable, negatively influencing the Indonesian economy. Likewise, despite the strong saviours during economic crises, the Indonesian MSMEs players and the government need to tackle MSMEs problems affected by the Covid-19 pandemic in terms of raw materials, revenue, profit, and asset downturn. The problems added to classic problem in terms of capital, licensing, managerial and marketing capacity building, infrastructure and digital technology, tax, innovation and creativity. The Indonesian government has been aware of the challenges and formulated measures to tackle the challenges in terms of capital, technology partnerships and eco-system, which contribute to the development of MSMEs

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