

INDONESIA'S STRATEGY IN DEALING WITH THE THREAT OF A GLOBAL RECESSION ON FOREIGN EXCHANGE RESERVES IN TERM OF MACRO ECONOMIC ACTIVITY

Muchammad Arif Deddy Yuanda^{1*}, Yudi Sutrasna², Djoko Andreas Navalino³

Faculty of Defense Management, The Republic of Indonesia Defense University,
Bogor, Indonesia^{1,2,3}

m.yuanda@mp.idu.ac.id¹, yudis88a@gmail.com², djoandre.navals@gmail.com³

ABSTRACT

IMF Managing Director Kristalina Georgieva said that Indonesia is a bright spot amidst the gloomy world economy. Previously, Indonesia had experienced considerable economic shocks, namely the Asian financial crisis which began in mid-1997 and peaked in 1998, as well as the global economic crisis in 2008 and 2009. Meanwhile, Indonesia is currently at an inflation rate of 5.59% (mom) based on data obtained from BI in the third quarter of 2022 recorded at 130,782 billion USD with an exchange rate of rupiah against the dollar of IDR 15,650. compared to foreign exchange reserves in 2021 of 144.9 billion USD with an exchange rate of rupiah against the dollar of IDR 14,350 with an inflation rate of 1.87% (YoY). To support the increase in foreign exchange reserves from the macroeconomic side is sourced from large export capabilities, in addition to manufacturing investment, and also on foreign exchange circulation through foreign tourists who come to Indonesia by enriching the tourist sector is able to add to the amount of foreign exchange reserves of the Indonesian state in line with research conducted by rizieq (2006). through manufacturing investment and also the presence of foreign tourists who come are able to create jobs indirectly absorb existing unemployment. so that the wave of recession can still be controlled and foreign exchange reserves increase. it is hoped that the research conducted will be able to provide input to the government in making a policy in facing the wave of recession in Indonesia.

Keywords: World Recession; Foreign Exchange Reserves; Inflation; Exports; Imports; Foreign Tourists; Stagflation

INTRODUCTION

Departing from a phenomenon of economic problems that are currently sweeping around the world, IMF Managing Director Kristalina Georgieva said that Indonesia is a bright spot in the midst of the gloom of the world economy. These are some of the impacts felt previously when Covid-19 hit around the world, followed by the Russia-Ukraine war and the US-China trade war (BPMI Sekretariat Presiden, 2022).

Indonesia is one of the countries that feels the symptoms that a wave of recession will hit. Previously, Indonesia had experienced major economic shocks, namely the Asian financial crisis that began in the middle of the year. 1997 and reached its peak in 1998, and the global economic crisis in 2008 and 2009. Meanwhile, Indonesia is currently at an inflation rate of 5.59% (mom) based on data obtained from BI in the TW-III of 2022, the remaining foreign exchange reserves are 130.782 billion USD with the rupiah exchange rate against the dollar of IDR 15,650. compared to 2021, foreign exchange reserves amounted to USD 144.9 billion with the rupiah exchange rate against the dollar of IDR 14,350 with an inflation rate of 1.87% (yoy). Foreign exchange reserves are measured every 1 year, but in September it has shown a decline in foreign exchange reserves. Can be seen in the table below (Ravn & Sterk, 2017).

Table 1
Real data on foreign exchange reserves for the previous 3 years

Foreign Exchange Reserves	Foreign Exchange Reserve Position (Million US\$)		
	2019	2020	2021
Monetary Gold	3843.88	4758.00	4595.16
Special Drawing	1541.95	1605.00	7795.37
Reserve Posotion in the	1090.05	1135.00	1109.75
Foreign Exchange Reserves	122707.40	128398.00	131405.10

Foreign banknotes	10326.10	10385.00	12391.55
Securities	111748.33	117324.00	118341.75
Other Charges	633.00	689.00	671.79
Count	129183.28	135897.00	144905.38

Data source: Bank Indonesia

Foreign exchange reserves are funds owned by each country, used during an economic downturn to be able to maintain the stability of the Indonesian economy as it will be faced today. The rules for the use of reserve assets have been stipulated in Law on Bank Indonesia No. 23 of 1999 as amended by Law No. 3 of 2004. Foreign exchange reserves are always in line with Bank Indonesia's balance of payments. The amount of foreign exchange reserves is influenced by the size of export, import activities in Indonesia and the rupiah exchange rate (exchange rate) (Uli, 2016).

According to Vincent sterk (2017) suggests that the indicator in explaining the recession is lower demand for goods so that it reduces job vacancies and the level of job search is more difficult. Jiří Mazurek & Elena Mielcova (Mazurek & Mielcová, 2013) recession compared to more than one economic indicator. In terms of policy in the face of recession, Scott Sumner (Sumner, 2017) in his writing stated that monetary policy is able to bring crises and recessions in a positive direction, namely by proposing a class of monetary policy rules that balance the need for policy flexibility in unusual situations. However, according to Sher Verick & Iyanatul Islam (Verick & Islam, 2010) consider that the global economy is not at all as stable as expected, where the world's poor do not benefit enough from stronger economic growth. Tulus TH tambunan (2010) Indonesia's economy is much more resilient to the last crisis compared to the crisis in 1997/98. Iman Sugema (Sugema, 2012) even though the global financial crisis in 2008/2009 did not cause economic growth to be negative but only slowed down, but the actual poverty and unemployment rate were slightly higher than they should be (Ravn & Sterk, 2017).

This study aims to explain the strategies used in dealing with the global recession on the amount of foreign exchange reserves. so that Indonesia is able to maintain the value of the country's existing foreign exchange reserves. This research has previously been conducted by several researchers related to foreign exchange reserves, including the analysis of Indonesia's foreign exchange reserves has been researched by (Sayoga & Tan, 2017; Uli, 2016). Research focusing on exports, imports, exchange rates, and inflation on Indonesia's foreign exchange reserves has been researched by (Agustina, 2014; Benny, 2013; Sonia & Setiawina, 2016). Furthermore, research that focuses on interest rate and foreign debt variables on foreign exchange reserves has been researched by (Ardianti & Swara, 2018; Putra & Indrajaya, 2013; Ridho, 2015). Meanwhile, the research that the researcher wrote before is still not too much done, namely Indonesia's strategy in dealing with the recession that will occur like the economic crises that have occurred before. This shows that the Indonesian economy was also affected by the world economic recession in 2008/09, however Indonesia was able to maintain a positive economic growth rate. This is the background for the author to raise research on "Indonesia's strategy in facing the threat of global recession to foreign exchange reserves" (Tambunan, 2010).

RESEARCH METHOD

The research method that researchers use in writing articles is Indonesia's Strategy in facing the threat of a global recession against foreign exchange reserves. So as to be able to provide in-depth identification and understanding to be able to prepare for the global recession by looking at data on Indonesia's foreign exchange reserves which have declined significantly in the quarterly period. As for foreign exchange reserves, there is a normal increase or decrease every year. It can be seen and measured from Foreign Exchange reserves since 2019-2022.

The research approach used by the author is to use qualitative research methods and use literature studies. Quality research is the collection of data in a natural setting with the intention of interpreting phenomena that occur where researchers are key instruments (Anggito & Setiawan, 2018, p. 8). Meanwhile, according to Maxwell, 13 qualitative research is aimed at understanding meaning, understanding the particular context, anticipating unanticipated phenomena and influences, and understanding processes. The steps when conducting research are to start from learning from previous research. So that the purpose of the study identifies and explains Indonesia's strategy in using foreign exchange reserves effectively and efficiently in facing the global recession. In research using SWOT Analysis (Prakoso et al., 2021).

RESULTS AND DISCUSSION

According to Rizieq (Rizieq, 2006), foreign exchange reserves are foreign currency held by the government and private sector of the country. Foreign exchange reserves can be determined using the balance of payments. The more currency a country and its people have, the greater the country's ability to conduct international economic and financial transactions, and the stronger the country's currency. In other words, when the value of the currency increases, it indirectly has the effect of strengthening the country's economy when hit by recession or inflation. Therefore, research shows that a country's foreign exchange reserves are very important before a recession or inflationary boom. From several conditions based on several phenomena that have arisen, using the SWOT Analysis method will be explained clearly and in detail. The indicator used is that only 4 indicators will be explained according to the theory of SWOT Analysis.

Strenght

The strength in question is a superior capability or ability possessed from macroeconomic activities or activities so as to be able to make foreign exchange reserves survive in the economic tsunami wave that will hit. Some of these indicators will be combined and taken which are very relevant to foreign exchange reserves in times of global recession.

1) Which macroeconomic activity is dominant in times of recession underway?

Many macroeconomic sectors can be affected by the decline during the ongoing recession, but even on the contrary there are some that have a positive impact including export activities and manufacturing investment. It can be seen in the garifk image below.

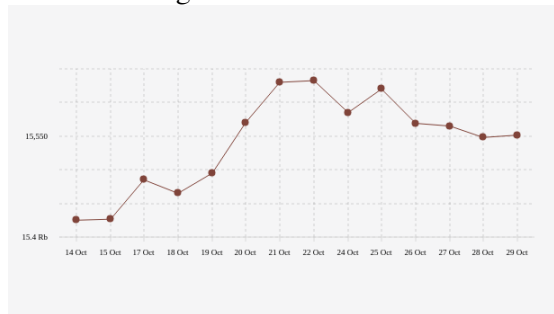


Figure 1
Manufacturing investment chart image Sep 2021 – Sep 2022
Source: Dkata data.co.id

From the figure above, it can be shown that manufacturing investment during a recession can answer the challenges to the resilience of Indonesia's economic growth value. The manufacturing sector that contributed the most to the achievement of PMDN was the food industry with a value of Rp. 24.2 trillion or an increase of 8.8% on an annual basis (*year-on-year*). Furthermore, for FDI achievement, the largest contribution from the manufacturing sector is the basic metal industry, metal goods, not machinery and equipment

which reached USD5.7 billion or rose 26.3% (YoY) and the chemical and pharmaceutical industry amounted to USD1.8 billion or rose 8.1% (YoY).

2) What are the benefits of the manufacturing investment sector?

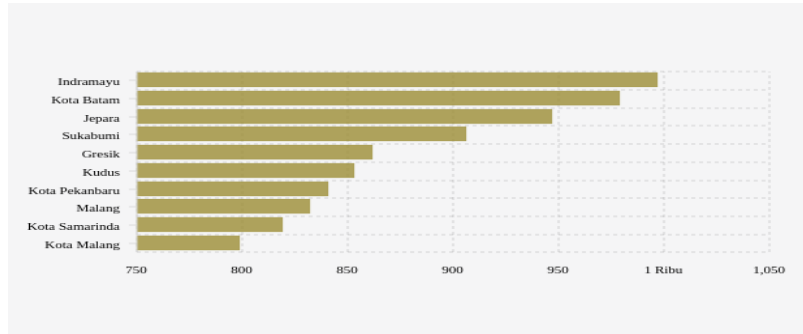


Figure 2
The biggest picture of foreign investment in Indonesia
 Source: Dkata data.co.id

In terms of benefits, the most dominant manufacturing investment is the basic metal industry, metal goods, not machinery and equipment of Rp87.9 trillion or up 15% (YoY), followed by the food industry of Rp 42 trillion or up 7.2% (YoY). This can provide added value and make foreign investors eager to invest. In addition, the impact and effects felt by Indonesia are able to become a *shock absorber* in facing the shock of the ongoing global recession.

3) Effect or not on foreign exchange reserves?

Its impact on foreign exchange reserves is very impactful and affects the rate of economic growth in Indonesia. In addition, making foreign exchange reserves increase, this can be seen from the growth of PMDN and PMA shown in the graph below.

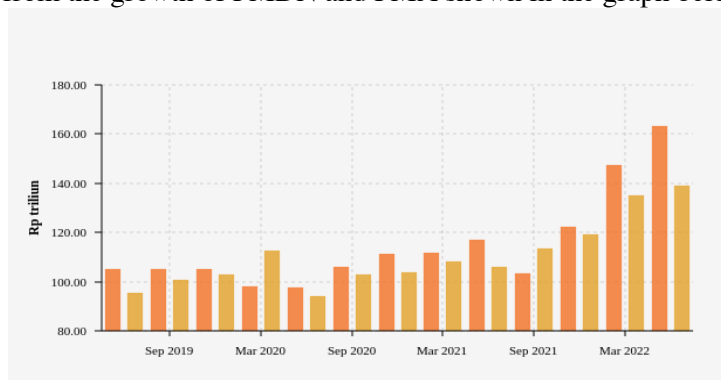


Figure 3
PMDN and PMA Graphic Image Sep 2019 – Mar 2022
 Source : Dkata data.co.id

As we see that in March 2022 PMA was higher compared to PMDN. Indirectly, foreign investors still believe that Indonesia is a bright spot in facing the global recession. In addition, it can be measured through a data table based on the trade balance as below.

Table 2
Real table of Trade Balance

Month	Neraca Perdagangan (Juta US\$)		
	Neraca Perdagangan		
	2020	2021	2022
January	141.52	231.48	177.22
February	185.33	214.17	512.01
March	202.20	207.49	523.08
April	172.64	281.17	619.62
May	106.13	281.17	577.77
June	130.66	207.37	400.23
July	179.14	219.67	501.93
August	85.76	247.07	493.98
September	113.57	167.34	-
October	137.39	317.91	-
November	150.59	321.85	-
December	186.17	346.32	-

Source: BPS

Based on the table, the Trade balance in 2022 has increased drastically. Where it can be concluded that the export value is greater than the import value. Indirectly, it is expected that export sales proceeds can cover financing from imports. This greatly impacts the foreign exchange reserves owned.

Weakness

In this case, it will be discussed about the weaknesses and shortcomings of one or several types of weaknesses that must be avoided and not implemented so as not to lead to losses or reduce the level of efficiency and effectiveness in the use of foreign exchange reserves.

1) What must be improved from the macroeconomic sector so that foreign exchange reserves can grow and grow?

What needs to be improved from the macroeconomic sector is in foreign currency so that it always circulates a lot in Indonesia. By utilizing the wealth of natural beauty so that it can attract foreign tourists / tourists to come and visit Indonesia. It can be seen as the graphic below.

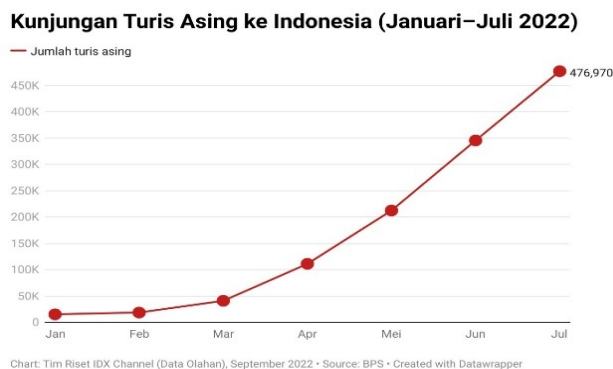


Figure 4
Graphic image shows increase in foreign tourists January-July 2022
Source: IDX Channel.com

From the graphic image, it explains that the graph is relatively up. This means that there is an increase in the number of foreign tourists visiting Indonesia. The details of these tourists will be illustrated in the graph below.

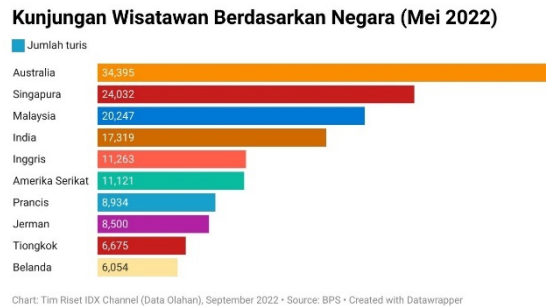


Figure 5
Image by number of foreign tourists in Indonesia May 2022
 Source : IDX Channel.com

From the chart data that the most frequent and number of foreign tourists are foreign tourists from Australia. Tourism contributes to GDP growth of 21.7% globally. Tourism revenue in Indonesia also increased to USD1.62 billion in the second quarter of 2022. This greatly impacts and has an impact on the country's foreign exchange reserves. From the income sector will be shown in the graph below.



Figure 6
Graph of tourist spending in Indonesia since 2014 – 2022
 Source: IDX Channel.com

Based on the World *Travel & Tourism* Council's tables and calculations, domestic tourists in Indonesia spent IDR 185.131 billion on vacation, while foreign tourists only spent IDR 10.25 billion in 2021. Indirectly, the value of expenditures incurred by foreign tourists is smaller than foreign tourists. In this aspect, what must be built and improved so that the expenditure incurred by foreign tourists is greater than that of domestic tourists. In addition, it is expected that the value of tourism foreign exchange from the visit is also targeted to reach USD470 million to USD1.7 billion.

2) What should be avoided so that foreign exchange reserves cannot decline down?

Foreign debt must be suppressed and repaid. Because apabial at any time there is inflation, foreign debt will indirectly have a very large impact. Because faced with an increasingly weakening exchange rate, indirectly, debt that should have been at the dose has skyrocketed and swelled. Indonesia's foreign debt notes can be seen in the chart below.



Figure 7
Debt Diagram 2021 - 2022
 Source: BI (Bank Indonesia, 2021)

From the results of the diagram, it has been indirectly lower than in 2021 and also in the previous month. Data from Bank Indonesia (BI) shows that Indonesia's external debt position in July 2022 was USD 400.38 billion. This decreased from USD 403.65 billion in June 2022.

3) What will BI do as the holder of foreign exchange reserves if its availability decreases in terms of macroeconomics?

In macroeconomics to be able to maintain foreign exchange reserves so as not to decline, namely by increasing the value of exports and reducing the import sector of the Indonesian state, increasing foreign tourists to visit Indonesia to increase the circulation of foreign currency / foreign exchange in Indonesia. In addition, if the value of foreign exchange reserves is stable or even increases indirectly, it will be easy for foreign investors to put their capital into Indonesia. In addition, it also reduces the value of foreign debt and includes foreign debt loans.

Opportunities

This discusses opportunities and opportunities that can be used to increase or maintain the value of existing foreign exchange reserves from a macroeconomic perspective.

1) Opportunities or opportunities that can be used to maintain the value of foreign exchange reserves?

Opportunities that can be utilized as they are today, namely Existing manufacturing investments can maximize and allow to open jobs. So that it can reduce people affected by layoffs or for people who do not have jobs / unemployment. That can be an opportunity to reduce the unemployment rate in Indonesia. It can be seen as the chart below.

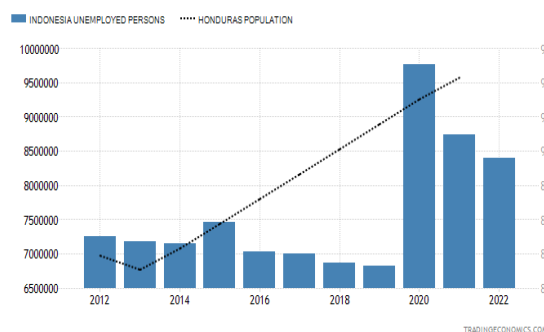


Figure 8
Graph of population growth and unemployment in 2012 2022
 Source: tradingeconomics.com

2) Faced with the current situation, what can be used as an opportunity or opportunity to maintain the value of foreign exchange reserves?

Apart from palm oil exports, it can increase the income of foreign tourists visiting Indonesia in the form of foreign exchange, indirectly also boost the economic system in the region where tourists visit, for example in Bali. This is what can create job vacancies and reduce unemployment in the region.

Flexibility in the use of the state budget in every expenditure so as to be able to get effective and efficient state budget results. To assist in maintaining and maintaining the value of existing or available foreign exchange reserves.

Threat

All possible threats that will be faced in maintaining the value of foreign exchange reserves remain stable or increase.

1) What obstacles will be faced and may reduce the value of foreign exchange reserves from a macroeconomic perspective?

Future obstacles that will be faced are inflation that is heading towards the brink of recession, including continued by stagflation. 2 things that are obstacles and challenges in the future that will be felt relevant. This is described and associated with problems for small companies that at the time of establishment needed debt or loans from outside funds to build the company. So that's what you have to watch out for. In addition, inflation that is starting to rise slowly is depicted in the inflation increase graph as shown below.



Figure 9
Inflation graph from 2019 - 2022
Source: BPS (Tempo.co)

This will indirectly have an impact on the exchange rate of the Indonesian currency against the dollar, so that existing foreign debt will also have a higher impact due to the low exchange rate. Stagflation where a condition of high unemployment is followed by an increase in other prices in tandem within a certain period of time. Slowing economic growth should not affect its unemployment rate. However, by looking at current conditions, faced with expensive materials so that small companies are more likely to reduce their production prices by laying off workers / employees. So that creates a condition called economic stagnation.

Judging from several obstacles that must be watched out for and faced in maintaining the value of existing foreign exchange reserves.

2) In terms of the rules for the use of foreign exchange reserves, are there any policies that change or even the latest that are irrelevant?

Government regulations related to the Financial Sector Development and Strengthening Bill (PPSK) or financial omnibus law are considered to threaten the independence of authority institutions in the financial sector. Indirectly it will also affect the country's foreign exchange reserves if it is under party leadership. Considered to have the potential to weaken and damage the stability of the financial system that has been running well. BI's independence is fundamental, as a pillar of credibility of our economic policies, macroeconomic policies and policies in the field of central banking, especially regarding monetary.

3) Technological developments that can threaten related to the country's foreign exchange reserves?

In terms of technology as it is today, it is very advanced and modern. However, this can sometimes be an obstacle but can be a supporter and even an opportunity that the implementation and storage of foreign exchange reserve funds can be carried out in a transparent and accountable manner. So as to be able to support BI's performance in regulating and managing foreign exchange reserve funds. In addition, to facilitate the public in its supervision.

CONCLUSION

The results of writing this research can be concluded based on the research results of the previously discussed discussion, including the following: Strength (Strenght): Based on the results of the discussion above, which can be a strength, power so that it can support the increase in foreign exchange reserves in terms of macroeconomics, namely the source of large export capabilities, in addition to manufacturing investment and also in the circulation of foreign exchange through foreign tourists coming to Indonesia. Weakness: weaknesses that must be avoided include the value of foreign debt. Because with the existence and increasing amount of foreign debt, which is dangerous if there is inflation, then indirectly the debt will also swell seeing that indirectly the rupiah exchange rate against the dollar is decreasing. Opportunities: Based on the research results in the discussion chapter, it can be concluded that from employment opportunities through manufacturing investment and also the presence of foreign tourists who come so that they can create jobs indirectly and absorb existing unemployment. In addition, it must be able to be careful in utilizing APBN funds so that they can be used flexibly and more efficiently used. Threat: For the results of the possible threats that will be posed based on the discussion in the previous chapter, it can be concluded with several possibilities that can threaten including; 1) inflation and stagflation. Both are harmful to foreign exchange reserves and threaten economic growth around the world. If this is left without anticipation and vigilance in dealing with it, it will be able to bring it to the brink of recession or a continuous crisis without knowing when it will stop. Therefore, it is necessary to take preventive and precautionary measures so as not to fall into the abyss of recession as is currently happening. 2) In terms of technology, the current monitoring of foreign exchange reserves is already running well, it's just that it must be maintained and not changed regarding transparent and accountable reporting in its use. 3) So that government policies and regulations that have been regulated in the PPSK Bill are adjusted to what is currently in effect. Because if the regulation is given to the party group, it will be very impactful and dangerous for those who can utilize the foreign exchange reserves. So that this must be a guideline for the government in considering these policies or regulations. the research that has been conducted agrees with the results of research conducted by rizieq (2006).

REFERENCES

- Agustina, A. (2014). Pengaruh ekspor, impor, nilai tukar rupiah, dan tingkat inflasi terhadap cadangan devisa indonesia. *Jurnal Wira Ekonomi Mikroskil*, 4(2), 61–70. [Google Scholar](#)
- Anggito, A., & Setiawan, J. (2018). *Metodologi penelitian kualitatif*. CV Jejak (Jejak Publisher). [Google Scholar](#)
- Ardianti, D. A. M., & Swara, W. (2018). Pengaruh Ekspor Neto, Kurs, PDB dan Utang Luar Negeri terhadap Cadangan Devisa Indonesia 1997-2016. *Jurnal Ekonomi Pembangunan Unud*, 7(6), 1199–1227. [Google Scholar](#)
- Bank Indonesia. (2021, January 8). *Cadangan Devisa Desember 2020 Meningkat*. Bank Indonesia. https://www.bi.go.id/id/publikasi/ruang-media/news-release/Pages/sp_230521.aspx [Google Scholar](#)

- Benny, J. (2013). Ekspor dan impor pengaruhnya terhadap posisi cadangan devisa di Indonesia. *Jurnal EMBA: Jurnal Riset Ekonomi, Manajemen, Bisnis Dan Akuntansi*, 1(4). [Google Scholar](#)
- BPMI Sekretariat Presiden. (2022). *Indonesia Adalah Titik Terang ditengah Kesuraman Ekonomi Dunia*. <https://kemenkopmk.go.id/indonesia-adalah-titik-terang-ditengah-kesuraman-ekonomi-dunia> [Google Scholar](#)
- Mazurek, J., & Mielcová, E. (2013). The Evaluation of Economic Recession Magnitude: Introduction and Application. *Prague Economic Papers*, 22(2), 182–205. [Google Scholar](#)
- Prakoso, L. Y., Prihantoro, K., & Suhirwan, S. (2021). *Metode SWOT AHP dalam Merencanakan Strategi Pertahanan*. Cv. Aksara Global Akademia. [Google Scholar](#)
- Putra, I., & Indrajaya, I. G. B. (2013). Pengaruh Tingkat Inflasi, Utang Luar Negeri Dan Suku Bunga Kredit Terhadap Cadangan Devisa Indonesia Tahun 1996-2011. *E-Journal Ekonomi Pembangunan Universitas Udayana*, 2(11), 492–546. [Google Scholar](#)
- Ravn, M. O., & Sterk, V. (2017). Job uncertainty and deep recessions. *Journal of Monetary Economics*, 90, 125–141. [Google Scholar](#)
- Ridho, M. (2015). Pengaruh ekspor, hutang luar negeri dan kurs terhadap cadangan devisa Indonesia. *E-Journal Perdagangan Industri Dan Moneter*, 3(1), 1–9. [Google Scholar](#)
- Rizieq, R. (2006). Analisis faktor-faktor yang mempengaruhi cadangan devisa Indonesia. *Jurnal Equilibrium*, 3(2), 120–136. [Google Scholar](#)
- Sayoga, P., & Tan, S. (2017). Analisis cadangan devisa Indonesia dan faktor-faktor yang mempengaruhinya. *Jurnal Paradigma Ekonomika*, 12(1), 25–30. [Google Scholar](#)
- Sonia, A. P., & Setiawina, N. D. (2016). Pengaruh Kurs, Jub Dan Tingkat Inflasi Terhadap Ekspor, Impor Dan Cadangan Devisa Indonesia. *E-Jurnal Ekonomi Pembangunan Universitas Udayana*, 5(10), 1077–1102. [Google Scholar](#)
- Sugema, I. (2012). Krisis keuangan global 2008-2009 dan implikasinya pada perekonomian Indonesia. *Jurnal Ilmu Pertanian Indonesia*, 17(3), 145–152. [Google Scholar](#)
- Sumner, S. (2017). Monetary policy rules in light of the great recession. *Journal of Macroeconomics*, 54, 90–99. [Google Scholar](#)
- Tambunan, T. T. H. (2010). The Indonesian experience with two big economic crises. *Modern Economy*, 1(03), 156. [Google Scholar](#)
- Uli, L. B. (2016). Analisis Cadangan Devisa Indonesia. *Jurnal Perspektif Pembiayaan Dan Pembangunan Daerah*, 4(1), 15–24. [Google Scholar](#)
- Verick, S., & Islam, I. (2010). The great recession of 2008-2009: causes, consequences and policy responses. *Consequences and Policy Responses*. [Google Scholar](#)