CRIF INDONESIA STUDY: HE THREAT OF GLOBAL RECESSION, THE INDUSTRIAL SECTOR IS ON ALERT

Considering last quarter of 2022, the global economy is still facing the slowdown in economic growth which is also part of the continuing effects of downside risks from the Covid-19 pandemic, which until now has not been completely over. Projections of global economic growth presented by a number of international institutions also indicate the same thing, where for 2022 it will be in the range of 2.8%-3.2% and will be cut sharply for 2023 from what was originally expected to be in the range of 2.9%-3.3% to only 2.2%-2.7%.

The ability of the global economy to be able to recover at this time is also coupled with the latest challenges from global shocks in the form of high inflation spikes, tightening liquidity and high interest rates, stagflation, geopolitical turmoil, climate change, and crises in the energy, food and financial sectors. High uncertainty as a result of these conditions has also placed the global economy in the vortex of a perfect storm, resulting in the emergence of the threat of a global recession in 2023.

Fears of a recession are rife as geopolitical tensions escalate, skyrocketing inflation in various countries, and increases in global interest rates. In fact, until 2022 the wounds of the pandemic have not been fully healed. In fact, the unemployment rate is still relatively high and the level of business income is still declining in a number of sectors. In fact, a number of countries are still vulnerable to food and energy crises.

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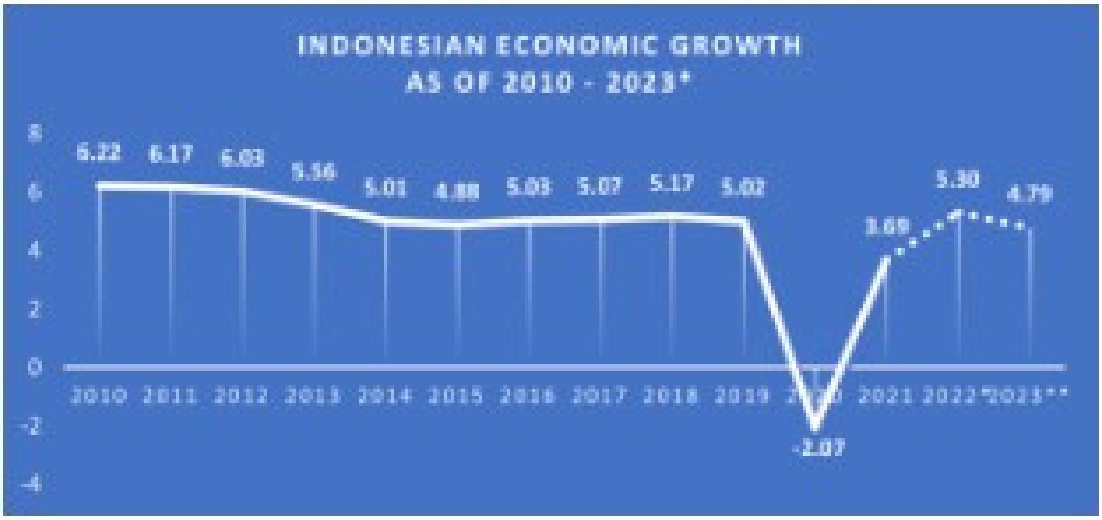

Nevertheless, Indonesia should be grateful because in the midst of vulnerable global conditions, national economic conditions tend to be stable and resilient. In the view of CRIF Indonesia, without ignoring the scarring effects of the pandemic, in 2022 the Indonesian economy had the opportunity to grow 5.0-5.3%. The Indonesian economy has its own characteristics and resilience, which differentiate it from many other countries, including peer countries. Indeed, external factors, particularly commodity prices, have had a major effect on driving growth throughout 2022. However, the strengthening of domestic demand, particularly the push for pent-up demand in line with the success of controlling the pandemic, is no less significant in achieving economic growth that equals and has the potential to even exceed pre-pandemic conditions.

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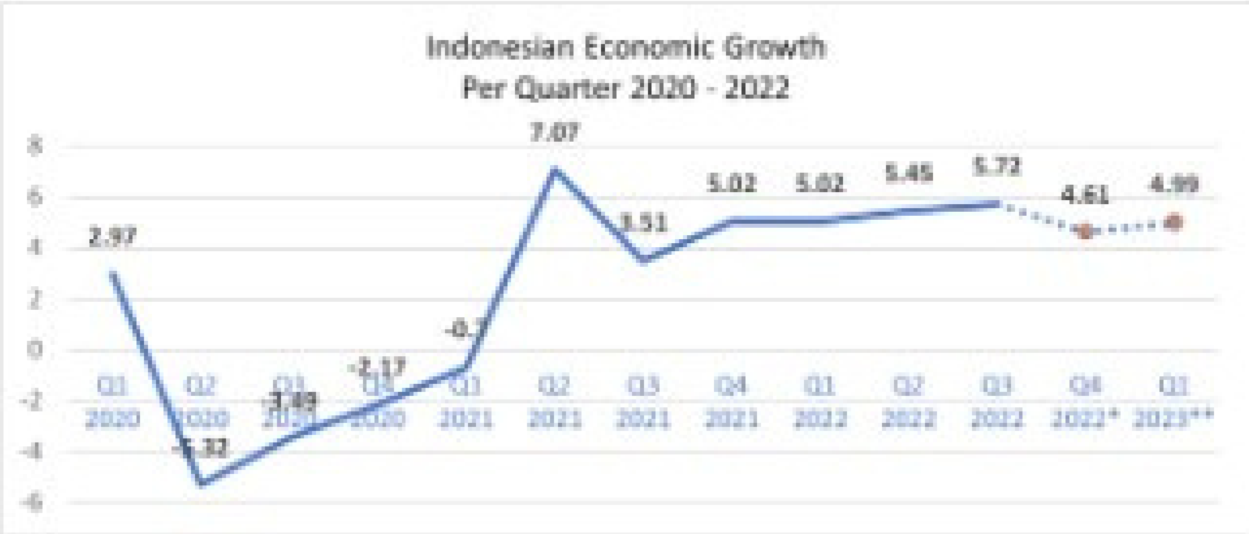

Along with the increasingly controlled Covid-19 cases, the national economy for 2022 was able to record solid performance with growth above 5% (yoy) until Q3/2022. In Q3/2022, national economic growth was able to reach 5.72% (yoy) or 1.81% (qtq) while still having prospects for perching at 5.2% (yoy) at the end of 2022. Household consumption was recorded to grow 5.39% (yoy) and PMTB grew 4.96% (yoy), while the Transportation and Warehousing as well as Accommodation and Food and Beverage sectors also seemed to recover.

In CRIF Indonesia's perspective, economic growth in Q4/2022 is estimated to be at 5% or possibly below, namely around 4.61%. Economic growth at the end of the last quarter 2022 will slow down due to the economic cycle which usually slows down at the end of the year as well as a higher base effect in Q4/2021. The risk of global uncertainty still haunts the Indonesian economy, so it is estimated that Indonesia's economic growth in Q4/2022 has the potential to slow down.

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So, the economy in 2022 is relatively solid and the challenge that is being prepared is precisely 2023. Looking at the world economy in 2023, although it is predicted to grow more slowly, CRIF Indonesia still sees an opportunity not to suddenly fall into a recession. The economies of western countries such as the United States and the European Union may become vulnerable due to soaring inflation and monetary tightening. However, China, which is the largest trading partner for many countries, including Indonesia, is showing indications of improvement, in line with the increasingly controlled spread of Covid-19. Global inflation still has the potential to increase, however, CRIF Indonesia predicts that the pressure will likely be lower than this year.

CRIF Indonesia predicts that the national economy will be able to grow by 4.5 to 5.0% in 2023. Household consumption is predicted to remain strong and exceed pre-pandemic consumption levels, although growth has slowed marginally due to global pressures. The inflation rate is predicted to be lower and will not significantly disrupt aggregate consumption levels, although it will still suppress the purchasing power of low-income people and may also hold back the recovery of long-distance mobility. Monetary tightening is predicted to be more limited due to reduced global and domestic inflationary pressures. Investment is predicted to become the second biggest contributor to economic growth in 2023. Private investment growth has not been much disturbed by global economic pressures. However, the trade surplus is predicted to narrow due to weakening demand for some of the main export destination countries and also weakening commodity prices, especially non-energy commodities.

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Global and domestic economic conditions will have a varied impact on sectoral economic growth. The higher the linkage of a sector with the global economy, the greater the potential for pressure on that sector, and vice versa. In 2023 there is optimism to grow better than 2022, but global and domestic challenges will still be faced by Indonesia so: optimistic but must be realistic.

National Economic Growth Targets for 2023 – Sector/Business Field

Sector/Business Field	2023
Processing Industry	5.4 – 6.0
Agriculture	4.0 – 4.2
Construction	6.3 – 6.9
Mining	3.2 – 3.5
Trading	5.0 – 5.6
Accommodation and Food and Beverage Provider	5.2 – 5.6
Information and Communication	7.9 – 9.4
GDP	5.3 – 5.9

Source: Deputy for Economic Affairs, Bappenas

The manufacturing industry sector is expected to become a driving force for growth supported by the continued development of 7 priority sectors (food and beverage, textile, chemical, automotive, electronics, pharmaceuticals, medical equipment), green and sustainable industry programs and expansion of the application of industry 4.0. Meanwhile, the agricultural sector will grow positively with the continuation of the Food Estate (FE) development policy and the 3 Times Export Movement (Gratieks) Agriculture program in an effort to increase investment and exports of agricultural sector products.

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As well as the construction sector is expected to grow high supported by the construction of IKN infrastructure in 2023 and the continued development of other priority infrastructure.

National Economic Growth Targets for 2023 – Expenditure Side

Expenditure Components	2023
Household Consumption and Non-Profit Institutions Serving Households	5.2 – 5.3
Government Consumption	3.4 – 3.8
Investment	6.4 – 7.9
Export	6.3 – 7.8
GDP	5.3 – 5.9

Source: Deputy for Economic Affairs, Bappenas

Public consumption is expected to grow by 5.2-5.3, driven by increased community activity in line with the transition from pandemic to endemic. Meanwhile, investment is expected to grow high in 2023 along with the continuation of priority infrastructure development projects, industrialization development, and increased investment in environmentally friendly industries. And don't forget, the boost to exports is expected to come from increased global demand in line with improving global conditions and increased domestic productivity.

CRIF Indonesia predicts that in 2023 there will be several factors that have the potential to affect Indonesia's macroeconomic conditions.

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First, global economic growth, which is leading to a recession, has the opportunity to reduce people's purchasing power, especially the lower middle class. Then, US monetary tightening has had an impact on strengthening the value of the US dollar against other countries' currencies. Thus, the price of food imports, especially in developing countries, is becoming increasingly expensive. Inflationary pressure in various countries due to high energy and commodity prices, even though they have fallen from their peak, has depressed people's purchasing power.

Second, the decline in energy commodity prices will reduce food production costs. Throughout 2022 the prices of energy and fertilizer, which are components of the cost of food production and transportation, will experience a sharp increase, resulting in an increase in food prices. The increase in prices resulted in an increase in the price of fertilizers, especially urea and ammonium nitrate, which are raw materials from natural gas. Therefore, if the downward trend in energy prices continues into next year (2023), the input costs of food production will also be cut so that prices will be lower than this year's (2022).

Third, the La Nina Period, which will increase rainfall in several food-producing regions such as Australia and Southeast Asia, and parts of North America, will last until early next year.

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La Nina occurs when winds south of the Equator flow westward, which causes seawater around the waters south of the Equator to be colder than usual. This can lead to changes in the weather in various regions around the world, including climate change, precipitation and drought. Thus, the potential for increased production can occur in these areas, although at the same time the high intensity of rainfall has the potential to cause flooding which hampers harvesting and transportation.