

## **Analysis of Sharia Bank Strategy Management in Dealing With 2023 Recession Issues**

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### **A B S T R A C T**

*This study aims to provide recommendations to Islamic financial institutions, especially Islamic banks as an anticipatory strategy in dealing with an impending recession. The economic recession was marked by a global economic slowdown and had an impact on the Indonesian economy. The recession will affect the performance of Islamic banks which causes an increase in liquidity risk, a decrease in the quality of financial assets, a decrease in profitability and an increase in net performing financing. This research is a descriptive qualitative research. The results of this study are that there are several strategies that can be implemented by Islamic banks in dealing with the 2023 recession issue including identifying the impact of the recession on Islamic banks, mitigating credit risk and adequacy of liquidity, conducting stress tests of capital adequacy and liquidity, and finally optimizing portfolio management by identifying Affected and Affected Portfolios*

***Keywords: Strategic Management; Islamic Bank; Recession***

## INTRODUCTION

The world is currently being overshadowed by a major phenomenon that disrupts the process of recovering global economic growth. Such as the increase in interest rates in the United States (The Fed) which resulted in difficulties in the circulation of money which caused the cost of borrowing to increase, a reduction in intensive investment, a weakening of manufacturing and ultimately a slow economic recovery. Next is the tension between Russia and Ukraine which has caused global tension to increase significantly due to the pros and cons between countries in the world. This increase in tension caused the economy to shake which resulted in rising energy prices such as crude oil and food prices globally. Rising prices on food and energy will cause a crisis and make global countries aware of the pressures of inflation and recession. A recession is a decline in economic growth that is not only caused by economic activity itself. In 2023, the IMF (International Monetary Fund) surprisingly cuts its projected global economic growth to 2.9% in 2023. With this projection, many countries will have difficulty obtaining state spending funds and managing costs. So that it will cause many countries to meet inflation and end with a dismal recession. (Finance & Booth, 2023)

Indonesia as part of a world country should have prepared itself to face the threat of a 2023 recession. The IMF speculates that Indonesia's economic growth rate will be haunted by the global deceleration. Indonesia's economic progress grew very impressive in the second quarter of 2022 at 5.4%. Indonesia's economic growth is estimated to reach 5.1% on an annual basis. As a developing country, Indonesia is predicted to experience inflation of 9.5% and economic growth of 3.9%. Given this momentum, Indonesia must begin to be careful in setting economic policies aimed at minimizing the impact of the recession. (BPS, 2022)

In addition to economic policy, the Indonesian state must have an optimistic attitude because it has an Islamic economic system, as can be seen from the marking of Islamic banks in 1992 which was pioneered by Bank Muamalat Indonesia. This is a milestone in the start of the dual economic system, namely Islamic economics and conventional economics. Islamic banks are increasingly showing progress after the enactment of Law Number 10 of 1998, which regulates the legal basis and types of businesses that can be run and applied to Islamic banking, also directs commercial banks to establish Islamic banks in the form of branches or change the whole to form Islamic banking. . After the law was revised, it was also approved by the government, Law no. 21 of 2008 was made to compile detailed rules and prohibitions for Islamic banking and the propriety of the distribution of funds. As well as the issuance of laws made by the central bank, the aim is that the performance of Islamic banking is always guided by Islamic law as well as government regulations, the public is not made to lose customers, and supports the pace of the economy in Indonesia (Financial Services Authority, 2023). As part of economic activity, various challenges are faced by Islamic banks. Islamic banking is a financial system that bridges between those who need funds and those who have excess funds through financial products and services in accordance with Islamic principles. The Islamic financial system, especially Islamic banks, is expected to be the best alternative in achieving social welfare. The abolition of the interest system in the Islamic financial system has quite a large macro impact.

This is because, the principle of direct and indirect investment frees interest. (Syariah et al., 2023) Therefore, a strategy for Islamic banks is needed in dealing with the global recession

## **RESEARCH METHODS**

This research is a descriptive qualitative research using a library research approach which is a study of collecting information and data sourced from various kinds of libraries such as documents, books, magazines and similar previous research results which aim to obtain a theoretical basis regarding the problem to be studied. researched. Data collection techniques are carried out by conducting a review of books, literature, records and reports related to the problem to be solved (Mirzaqon in Gobel, 2020: 215).

## **RESULTS & DISCUSSION**

### **Strategic**

Strategy is taken from the term strategya (Greek). This word is intended as an artistic concept that must be owned to be used as a general. AM Kardiman, "Strategy is determining the main long-term goals and objectives of a company or organization as well as owning ways of acting and allocating the resources needed to realize these goals. In general, strategy is defined as a process in determining the plans of the top leaders of the company whose focus is on long-term plans and company plans. This plan is prepared based on how or the effort to get to the company's goals. Whereas specifically, the strategy is an incremental action, meaning that there must be an increase in each period. Must increase in every period continuously.

The strategy must use and utilize the future point of view as a reference, especially on the hopes and desires of customers and prospective customers in the future.

The important tasks of strategic management include:

- a) Formulate the vision of a company.
- b) Analyzing internal conditions and their strengths in real terms, not making things up.
- c) Analyze external factors owned by the company. Competitors and consumer tastes are included in this section.
- d) Determine the best decision by taking into account the resources owned and pay attention to the internal environment.
- e) Identify every choice made and evaluate every decision according to the company's mission.
- f) Determine short-term goals and annual goals and strategies.
- g) Determine long-term goals along with a series of strategies to produce the desired choices.
- h) Implementation of strategies with the allocation of owned resources and reward systems to facilitate the achievement of company goals.
- i) Evaluate the success of the strategic process as input for future decision making.

The benefit of management is that it makes it easier for all managers in an organization to interact and coordinate in planning and implementing it. So that the decision making is easier because it uses the participation of other members. As a result, decision making becomes more accurate with the amount of data each manager has in the company. So that the main goal of companies that want big profits is increasingly real. (Sri Anugerah Natalina & Arif Zunaidi, 2021)

According to Laksana 2008 Important activities in a management strategy, namely: planning, implementing and controlling. These three things are interrelated with one another.

In planning activities, several stages can be carried out to achieve optimal planning, namely:

1. Determine the corporate mission (defining the corporate mission)
2. Determine the business unit strategy (Establishing strategy business units).
3. Determine the resources for each unit owned by the company (Assigning resources to each unit)

### **Islamic Bank**

Islamic banks are banking institutions whose operations and products are developed based on the Al-Qur'an and hadith, in other words Islamic banks are financial institutions whose main business is providing financing and services in payment traffic and money circulation whose operations are adjusted to Islamic sharia principles. The existence of Islamic banking in Indonesia gained a solid footing after the birth of banking law number 7 of 1992 which was revised through law number 10 of 1998 which strictly follows the existence and function of profit-sharing banks. Thus, this bank is operating on the principle of profit sharing. Profit sharing is the principle of muamalah based on sharia in conducting bank business activities. The roles of Islamic banks are as follows:

- a) Purify sharia banking operations so as to further increase public trust
- b) Increase the sharia awareness of Muslims so as to expand the segment and market share of sharia banking
- c) Establish cooperation with the scholars because after all the role of the scholars is very dominant for the life of Muslims.

In particular, the role of Islamic banks can be manifested in the following aspects:

- a) Becoming the glue of new nationalism, means that sharia banks become active facilitators for the formation of populist economic business networks
- b) Empowering the people's economy and transparently oriented, the management of Islamic banks must be based on the vision of a populist and sharia-based economy
- c) Providing better returns, meaning that Islamic banks do not provide definite promises regarding the benefits given to investors. Therefore, Islamic banks must be able to provide better benefits compared to conventional banks. In addition, financing customers will

provide profit sharing according to the profits earned.

- d) Encouraging a reduction in speculation on the financial market, Islamic banks encourage productive transactions from public funds so that speculation can be suppressed.
- e) Encouraging income distribution. The related Islamic bank only collects third party funds but also collects ZIS funds. ZIS funds can be channeled through qordul hasan funds so that they can encourage economic growth which ultimately results in economic equity.
- f) Increasing the efficiency of fund mobility, with the product mudharabah al muqayyadah means that there is freedom for banks to invest in funds submitted by investors so that Islamic banks as financial arrangers get commissions or profit sharing not because of interest spreads. (Wilardjo, 2019)

### **Islamic banking development strategy**

In dealing with a recession, a strategy needs to be designed by Islamic banks, including the first development in terms of human resources. Human resources, or what we are familiar with as HR, is one of the aspects in management that is very important. The central role of HR in the management system and the economy greatly influences how the development of an organization or company. The success of developing Islamic banks at the micro level is largely determined by the quality of management and the level of knowledge and skills of bank managers. Therefore, the quality of human resources must be continuously improved, both knowledge about banking management and knowledge about banking sharia through training. This training is not only given to the leadership level, but also to everyone in the Islamic banking environment, from operators, customer service, directors to owners, so that they are more skilled and can function as good socializers or educators about Islamic banking in society. (Asrini, 2008) Second, from the financial side, Islamic banking applies profit and risk sharing between providers of funds (investors) and users of funds (entrepreneurs). Similar to conventional banking, the maximum profit level that is in accordance with sharia values must also be considered so that the parties involved can enjoy these benefits. Likewise, if there is a loss, the parties involved also bear it. In addition, Islamic banking manages zakat, avoids transactions related to goods that are haram and contain elements of maisir, gharar and usury. The third is from the marketing side Marketing is a social process in which individuals and groups get what they need and want by creating, offering and freely exchanging products of value with other parties. The goal of marketing itself is to know and understand the customer in such a way that the product or service fits the customer. The marketing mix is the control variables combined to produce the response expected from the target market. And for service businesses there are 7 elements of the marketing mix (Marketing Mix-7p), namely: Product, Price, Promotion, Place, Participant, Process, and Physical Evidence. Each company directs its business activities to produce products that can provide satisfaction to consumers so that within a certain period of time and in a certain number of products, the expected profit can be obtained. Through the products it produces, the company creates, fosters and maintains trust in these products. The success of a company can be determined by the accuracy of the producer in

providing satisfaction and the specified consumer targets, where marketing efforts are directed at consumers who are intended as the target market. The fourth is service excellence. This service is very important to retain and attract more customers. Service excellence is concern for customers by providing the best service to facilitate convenience, fulfilling needs and realizing satisfaction, so that they are always loyal to the company. Efforts to improve the quality of services provided by Islamic Banks must be market or community oriented as users of banking services. This relates to people's expectations, they want to get a good relationship with a bank that is comfortable and easy to make transactions (Mardiany et al., 2015)

The differences between Islamic banks and conventional banks can be seen in the following table:

**Table 1.** The Difference Between Islamic Banks And Conventional Banks

<b>Islamic Bank</b>	<b>Conventional Banks</b>
Based on the principle of profit sharing, buying and selling and renting	Has a flower device in its operational activities
Conduct investment activities in the halal business sector	Carry out investment activities in the business sector that are lawful and legal
Relationship with customers is a form of partnership	Relations with customers in the form of creditors and debtors
Profit and loss oriented	Profit oriented
There is a sharia supervisory board that oversees banking operational activities	There is no supervisory board

Source: Firdausia, 2022

### **Recession**

Recession is a condition when the economy declines. This recession is usually marked by a country's GDP becoming negative and unemployment begins to appear. The World Bank through its publication entitled "*Is a Global Recession Imminent*" projects that in 2023 there will be a global recession. This projection is even more real with indications that are already happening, such as the aggressive increase in benchmark interest rates by central banks of various countries in an effort to reduce the inflation rate (Bisnis Indonesia, 11 January 2023). In addition, according to economist Julius Shiskin, a recession is a decline in GDP that occurs for two consecutive quarters. This is due to a significant decline in economic activity that lasts for months or even years. Experts also state that an economic recession occurs when a country experiences a negative Gross Domestic Product (GDP), there is an increase in the unemployment rate, a decrease in retail sales, and a contraction in manufacturing income for a long period of time (Virdita Ratriani, 2020).

The recession was preceded by the weakening of the global economy which affected the

country's economy. The stronger a country's economic dependence on the world financial system, the faster a recession will occur in that country (Miranza, 2009). In general, some of the characteristics of an economic recession are as follows:

- a) In particular, economic recession is associated with a decrease in Gross Domestic Product (GDP) of 2% and in severe cases it can reach 5%.
- b) There was a decline in industrial production and investment as well as a large decline in consumption levels
- c) A drastic decline in international trade both imports and exports during the economic slowdown
- d) Increased unemployment, decreased demand for goods and services and turmoil in financial markets are also triggers for an economic recession

Recession causes a simultaneous decrease in activity in the economic sector, the occurrence of a recession has an effect on every economic activity. When investment, production and services as well as employment will automatically decrease which will have an impact on people's low purchasing power. If not addressed immediately the effects of the recession will spread and weaken many sectors including SMEs and SMEs. This eventually leads to a long-lasting recession, thus becoming an economic depression that leads to economic bankruptcy. Economic recovery will be more difficult if the country's economy goes bankrupt. It can also cause unemployed workers to lose their skills and connections in the labor market, making it difficult to find new jobs, and with many small businesses going bankrupt, few companies are able to employ the unemployed (Soemartini, 2020). According to Suara.com, Rifan Aditya said that the real causes of the recession were quite complex. But what is clear is that the increasing number of unemployed could be a contributing factor to the faster the recession occurs. Apart from unemployment, other causes of economic recession are:

- a. The flow of production and consumption is not balanced
- b. Slow economic growth
- c. Inflation is too high
- d. Unbalanced deflation
- e. High unemployment rate
- f. Investor trust is lost (Rifan Aditya, 2022).

World Bank Group President David Malpass said that a 2023 recession risks slowing global growth. A number of effects of a recession that are at risk for society include rising prices for daily needs including food, layoffs, rising prices for energy supplies, and rising poverty rates. Global growth slowed sharply, with further slowdown possible as more countries fall into recession (Wulandari, 2022). BI is of the view that financial system stability is maintained amidst the world economic slowdown, high global inflation and aggressive monetary tightening in developed countries. The economic crisis will fluctuate in all directions, and the banking

industry will not be immune, simply attracting Islamic banking can minimize or even avoid the Negative Spread effect, which requires banks to continue to pay very high interest costs to debtors. Because Islamic banks use a profit sharing system. Banking is also not affected by interest payments on funds owned by debtors, so that banks are not affected by the crisis that affected the economy due to weak public purchasing power and creditor defaults. Sharia Potential. Automatically adds assets, as of August 2020. So far, the global economic crisis has occurred at least three times, in 1998, 2008 and finally in 2020.

### **Causes of 2023 Recession**

The possible triggers for the global recession in 2023 are: *First*, the Covid-19 pandemic. The Covid-19 pandemic has indeed begun to subside, and many countries have freed their citizens to carry out their activities as usual. However, in the period between the Covid-19 outbreak in early 2020 and early 2022, global economic activity fell sharply. Each country is more focused on responding to Covid-19 and imposing restrictions on activities, including economic activity. Second, the Russian-Ukrainian war. The global economy has not recovered due to the Covid-19 pandemic, and the Russia-Ukraine war broke out. The Russo-Ukrainian war that started in February 2022 has cost the world GDP by \$2.8 trillion (Bisnis Indonesia, 2008). The Russo-Ukrainian war disrupted global supply chains, sparked crises, especially in the food and energy sectors, which in turn accelerated inflation. The Russo-Ukrainian war is the main factor behind the forecast for a global recession in 2023. Third, the high inflation rate. In its July 2022 World Economic Outlook Update, the International Monetary Fund (IMF) revised its estimates of global inflation due to food and energy prices and supply-demand imbalances. Inflation is expected to reach 6.6% this year in developed countries and 9.5% in developing countries. Fourth, increase interest rates. During 2022, the Bank of England will raise its benchmark interest rate by 200 basis points. At the same time, the Fed raised its benchmark interest rate by 300 basis points. In response to this, Bank Indonesia also raised its benchmark interest rate by 50 basis points to 4.25% (Kompas, 28 September 2022). Simultaneous increases in benchmark interest rates by central banks around the world will have an impact on economic growth and can cause a global recession

### **Impact of Recession**

The economic recession has become a scary ghost for all countries in the world, including Indonesia. Looking at reports of alarming global economic developments, we are increasingly aware that the brink of crisis and recession is imminent. Previously, a recession had occurred during the Covid-19 outbreak, by all means the countries of the world maintained their economic stability. The economic recession that occurred during Covid-19 was a form of recession that began with a health crisis that required each country to adopt more responsive policies such as regional quarantines and so on. This health crisis then had the impact of decreasing economic activity which was colored by a number of problems that had characteristics similar to those that occur in an economic recession (Darmastuti et al., 2021).



## **Strategy of Islamic Banks in Dealing With 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 of achieving and maintaining rupiah stability through its three authorities, namely first, to set and implement monetary policy, second to regulate and maintain the smooth operation of the payment system, and third to regulate and supervise banks. (Trisila, 2022) According to Heru Kristiyana (2022) there are several strategies that need to be implemented to deal with a recession including:

- a) First, Islamic banks must be able to identify the impact of the recession on financing customer performance and other aspects that affect the health of the banking system. Then, banks must also develop various scenarios of a recession on the economy and the spillover effect on banking performance.
- b) Second, banks must mitigate credit risk and adequacy of liquidity. This can be done by understanding the economic sector and affected financing customers and their performance. Banking must also activate an early warning system and develop scenarios for restructuring and efforts to save financing customers.
- c) Third, banks must carry out stress tests on capital adequacy and liquidity. Thus, banks need to carry out a scenario analysis of the need for and availability of capital associated with an increase in credit risk. Then, it is necessary to identify liquidity gaps and test these various strategies.
- d) Fourth, banks must also optimize portfolio management by identifying portfolios that are vulnerable to being affected and affected. Then, banks must also optimize capital allocation and liquidity availability and apply various crisis scenarios.

## CONCLUSION & SUGGESTION

Based on the analysis and discussion conducted by research and discussion on the Strategic Management Analysis of Islamic Banks in Facing the 2023 Recession Issues, the results of the research can be summarized as follows:

1. The recession was preceded by the weakening of the global economy which affected the country's economy. The stronger a country's economic dependence on the world financial system, the faster a recession will occur in that country.
2. 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.
3. In the face of a recession, banks must mitigate credit risk and adequacy of liquidity. This can be done by understanding the economic sector and affected financing customers and their performance. Banking must also activate an early warning system and develop scenarios for restructuring and efforts to save financing customers

The suggestions for this research are:

1. Economic policy is needed from the government so that it can deal with the issue of an impending recession
2. The government is holding outreach to the wider community regarding the threat of a 2023 recession

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