Ayo bersih, bersihkan laut
Kau akan nyaman tanpa sampah
Di sekitarmu
Pantai indah tiap hari
Jangan suka buang plastik
Senang hati kita bermain,
bersihkan laut
Steady growth in turbulent times
Growth has been steady

(Real GDP growth, year-on-year growth, percent)

Source: BPS; World Bank staff calculations
Growth drivers shifted towards consumption...

(Contribution to year-on-year growth, percentage points)

- **Government consumption**: 2.8
- **Private consumption**: 2.9
- **Net exports**: 3.0
- **Gross capital formation**: 4.0

**Statistical discrepancy**: -1.0

**2018**

**Q1 2019**

**Source**: BPS; World Bank staff calculations
...in part due to election-related consumption

(Consumption of “non-profit institutions serving households”, year-on-year growth, percent)

Q1 2014, 23%
Legislative elections: April 9, 2014

Q2 2014, 22%
Presidential elections: July 9, 2014

Q1 2019, 17%
General elections: April 17, 2019

Q4 2018, 11%

Source: BPS; World Bank staff calculations
Note: Non-profit institutions serving households include “society organizations and political parties”. Source: BPS NPISHs accounts 2015-2017
Weaker machine, vehicle & equipment investment led to a slowdown in fixed investment growth

(Contribution to year-on-year growth, percentage points)

Source: BPS; World Bank staff calculations
The current account deficit improved in Q1 2019 due to a turnaround in the goods trade balance.

Source: Bank Indonesia and World Bank staff calculations
Slower imports of capital and intermediate goods drove down import growth...

(Contribution to year-on-year growth of goods imports, percentage points)

Source: BPS; World Bank staff calculations
...and were also related to the decline in exports, especially of manufactured items.

(Contribution to year-on-year growth of goods exports, percentage points)

Source: Bank Indonesia; World Bank staff calculations
Note: The processed commodities category includes wood, palm oil, base metals, and rubber. ‘Other’ primarily comprises “other manufactures” (paper, paper products, furniture, plastics, processed foods, chemicals), followed by textile & textile products, and other goods.
Portfolio flows recovered after recording their worst year since the Taper Tantrum, but recently turned volatile again.

(Cumulative flows, USD million)

Source: Institute of International Finance; World Bank staff calculations
Note: Net non-resident purchases of EM stocks ("portfolio equity flows") and bonds ("portfolio debt flows"). Proxy for portfolio flows as measured in the balance of payments.
Well-coordinated, prudent fiscal & monetary policies have minimized volatility – at a cost

(Fiscal balance, percent of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Budget 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>-2.1</td>
<td>-3.5</td>
<td>-3.4</td>
<td>-2.5</td>
<td>-1.8</td>
<td>-1.8</td>
</tr>
</tbody>
</table>

(Average real interest rate in 2018, 10-year bonds, percent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>4.4</td>
<td>3.2</td>
<td>2.1</td>
<td>1.8</td>
<td>1.6</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: MoF; World Bank staff calculations

Source: CEIC; World Bank staff calculations
What does the future hold for the Indonesian economy?
Real GDP growth is projected to ease...

<table>
<thead>
<tr>
<th></th>
<th>Annual</th>
<th>Revision from previous IEQ</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019f</td>
</tr>
<tr>
<td><strong>Gross Domestic Product (GDP)</strong></td>
<td>5.2</td>
<td>5.1</td>
</tr>
<tr>
<td><strong>Private consumption</strong></td>
<td>5.1</td>
<td>5.2</td>
</tr>
<tr>
<td><strong>Government consumption</strong></td>
<td>4.8</td>
<td>5.1</td>
</tr>
<tr>
<td><strong>Gross fixed capital formation</strong></td>
<td>6.7</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Exports of goods and services</strong></td>
<td>6.5</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>Imports of goods and services</strong></td>
<td>12.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Consumer price index</strong></td>
<td>3.2</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: BPS (2018), World Bank staff forecasts for 2019 and 2020. Further details can be found in Section A.9, page 30 of the IEQ.
Risks are mainly external and to the downside

- Renewed trade tensions (U.S. vs China, India, etc.) & policy uncertainty (e.g. Brexit)
- Slower growth in China and in advanced economies
- Risks of renewed financial stress in emerging markets
- Softer commodity prices → deterioration in Indonesia’s terms-of-trade
Beyond 2020, Indonesia’s growth trajectory hinges on its ability to execute key reforms

1. Create world-class human capital
2. Build even more infrastructure, faster
3. Import capital from job creators, not speculators
4. Collect more and spend better
5. Manage your natural assets

Source: BPS via CEIC, WB staff estimates using HP filter; WB staff projections (2019 onwards)
PART B
OCEANS OF OPPORTUNITY
Indonesia’s oceans have tremendous economic potential...

**Fisheries** sector employs 7 million Indonesians...
...contributes USD26.9 billion or 2.6% of GDP
...and 2.4% of total exports

**Marine & coastal tourism**

Large portion of the Coral Triangle, which has 76% of the world’s coral species
Coral reef tourism worth ~USD3.1 billion annually
~44% of foreign visitors undertake marine tourism activities
...but this potential has not yet been fully realized

Better management of fisheries could bring in **USD 3.3 billion more** per year within ten years relative to a situation in which current practices continue

Tackling marine pollution from plastic bags alone could bring in **USD 171 million more** in revenues from tourism & fisheries
Nearly half of Indonesia’s wild fish stocks were overfished in 2017

Strong stance on illegal foreign vessels has reduced illegal, unregulated & unreported fishing...

...but expansion of the domestic fleet needs to be better managed

Ineffective fisheries management:
- Unavailability of data to monitor overfishing
- Lack of cross-jurisdictional coordination

Overfishing threatens long-term growth & livelihoods
The brand is at risk

- **Infrastructure gaps** (waste water treatment, waste collection) for local residents in key tourism areas

- **Climate change**
  - 1/3 of Indonesia’s reefs are already in poor condition
  - >80% of coral reefs will experience thermal stress sufficient to induce severe bleaching in at least 5 out of 10 years in the 2030s

- **Over-tourism** in some parts of Bali & Lombok
Boosting the average amount that tourists spend on reef-associated activities could help the current account and finance ecosystem conservation efforts.

(Reef expenditure per foreign and domestic tourist, USD)

Source: World Bank staff calculations from data used in Spalding et al. (2017). Reef expenditure per tourist is calculated as the sum of reef-associated visitor expenditure divided by the sum of reef-tourist associated arrivals (domestic and foreign combined). Data is from 2012.
Marine plastic debris threatens fisheries & tourism

- Indonesia is the world’s 2nd-largest producer of marine debris (0.5-1.3 million tons/year)

- >80% of total waste is not adequately collected or disposed, especially in large urban areas...

- ...which exacerbates marine plastic debris, threatening:
  - Marine tourism
  - Shipping
  - Quality of seafood
  - Human Health

- Plastic bag pollution causes revenue losses of at least USD 140 million to Indonesia’s tourism sector & USD 31 million annually to fisheries
Indonesia can reap more from the blue economy if the Government enforces policies to protect & manage natural assets.

- Strengthen framework for decision-making
- Invest in fisheries data and knowledge
- Stronger monitoring, control and surveillance
- Monitor risks to natural and cultural assets
- Manage visitor flow through pricing & new technologies
- Introduce a plastic bag excise
- Invest in solid waste management & water treatment, especially in key tourism areas
Terima kasih!

fgilsander@worldbank.org