

# INDONESIA ECONOMIC QUARTERLY, JUNE 2019

## OCEANS OF OPPORTUNITY



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World Bank Indonesia



***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***

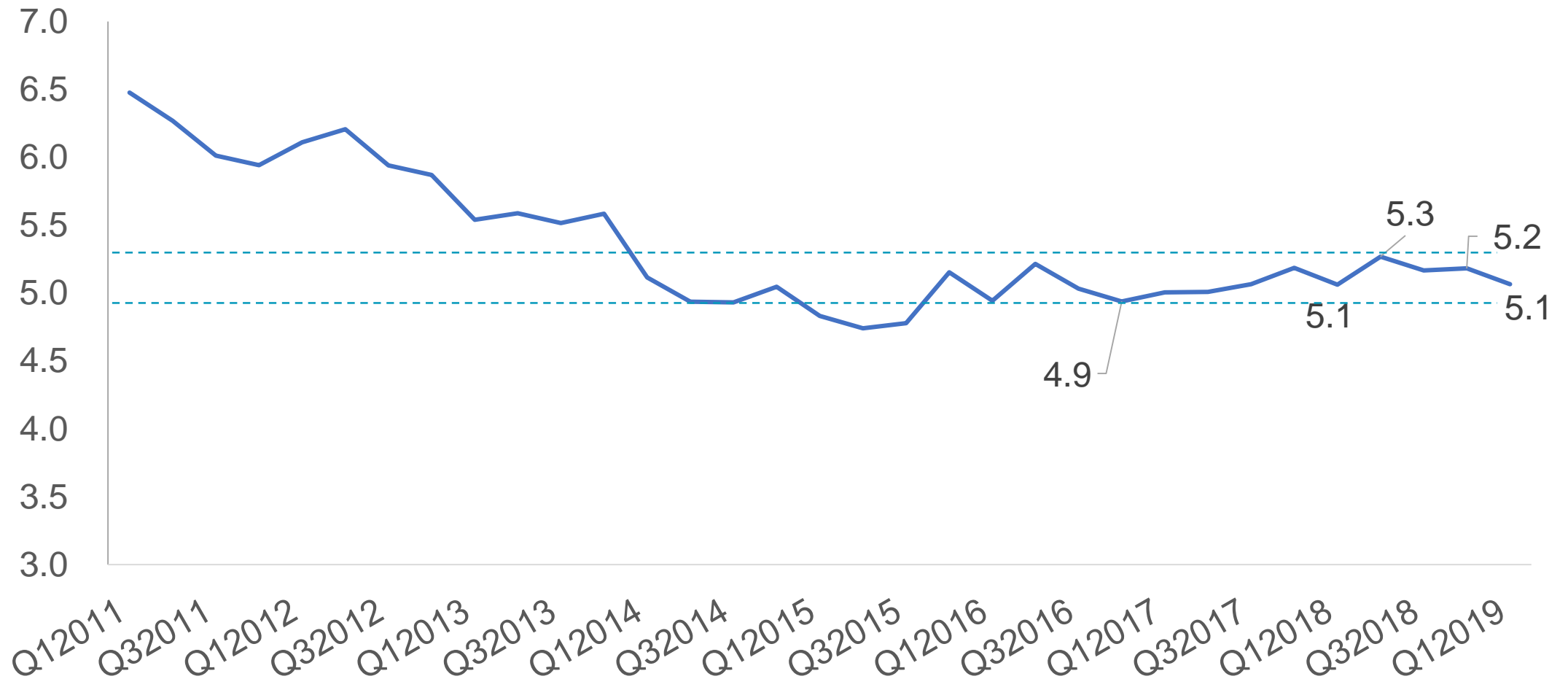




# Steady growth in turbulent times

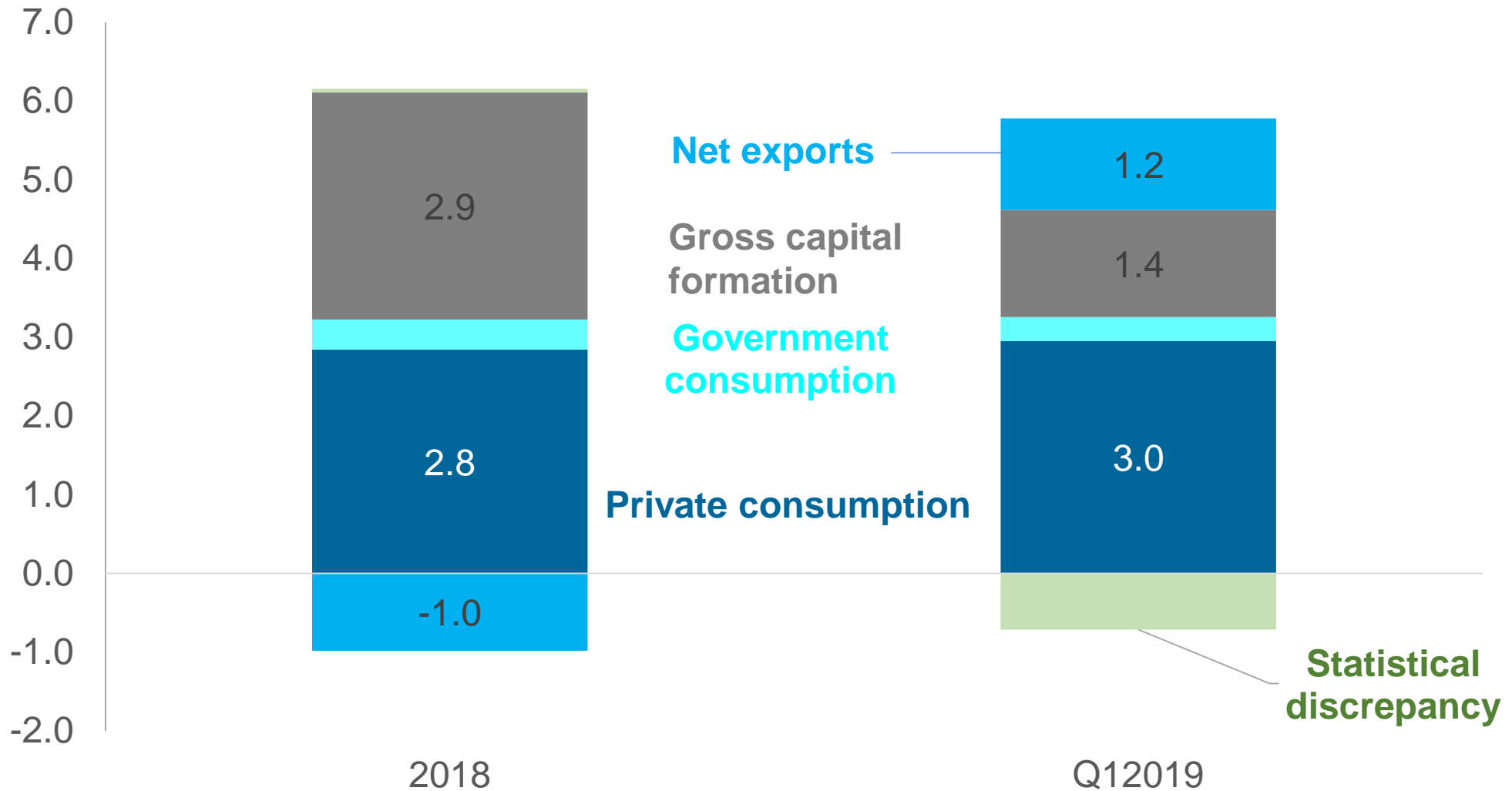
# Growth has been steady

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



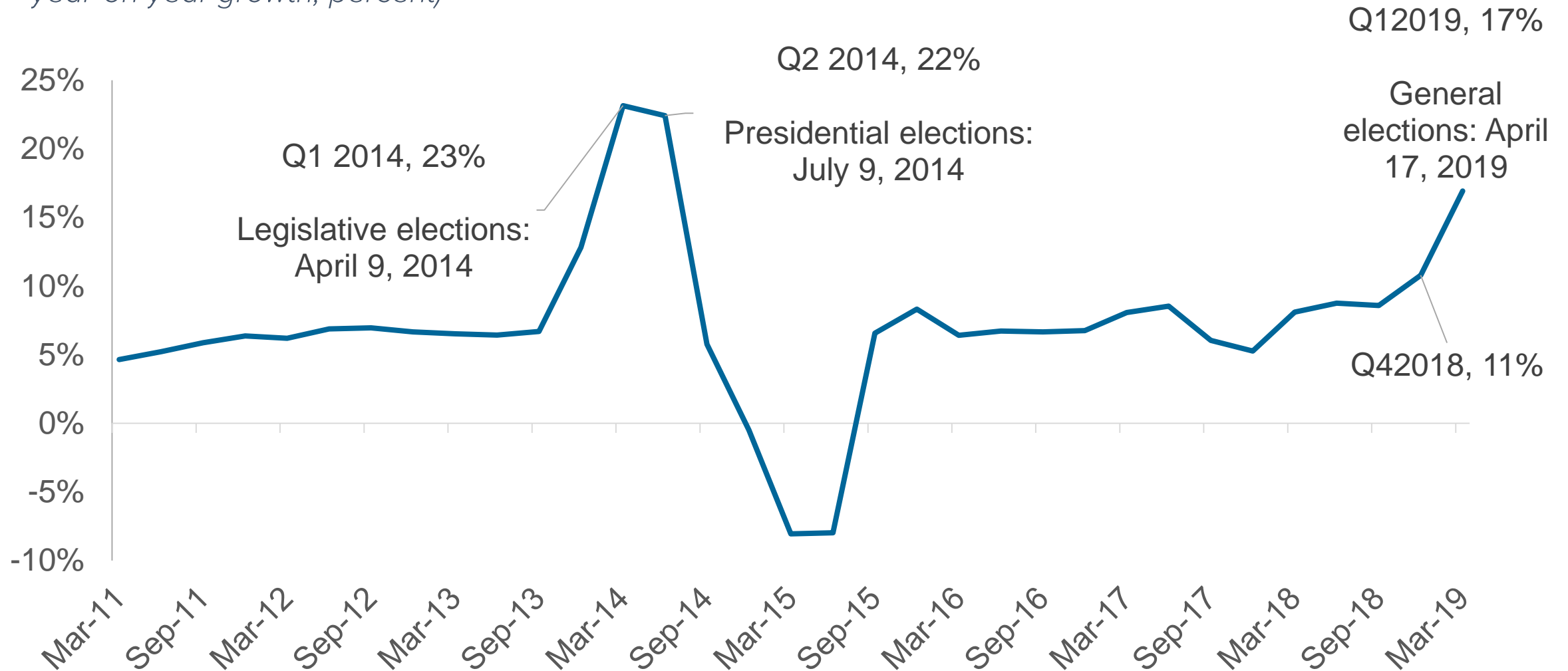
# Growth drivers shifted towards consumption...

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



# ...in part due to election-related consumption

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

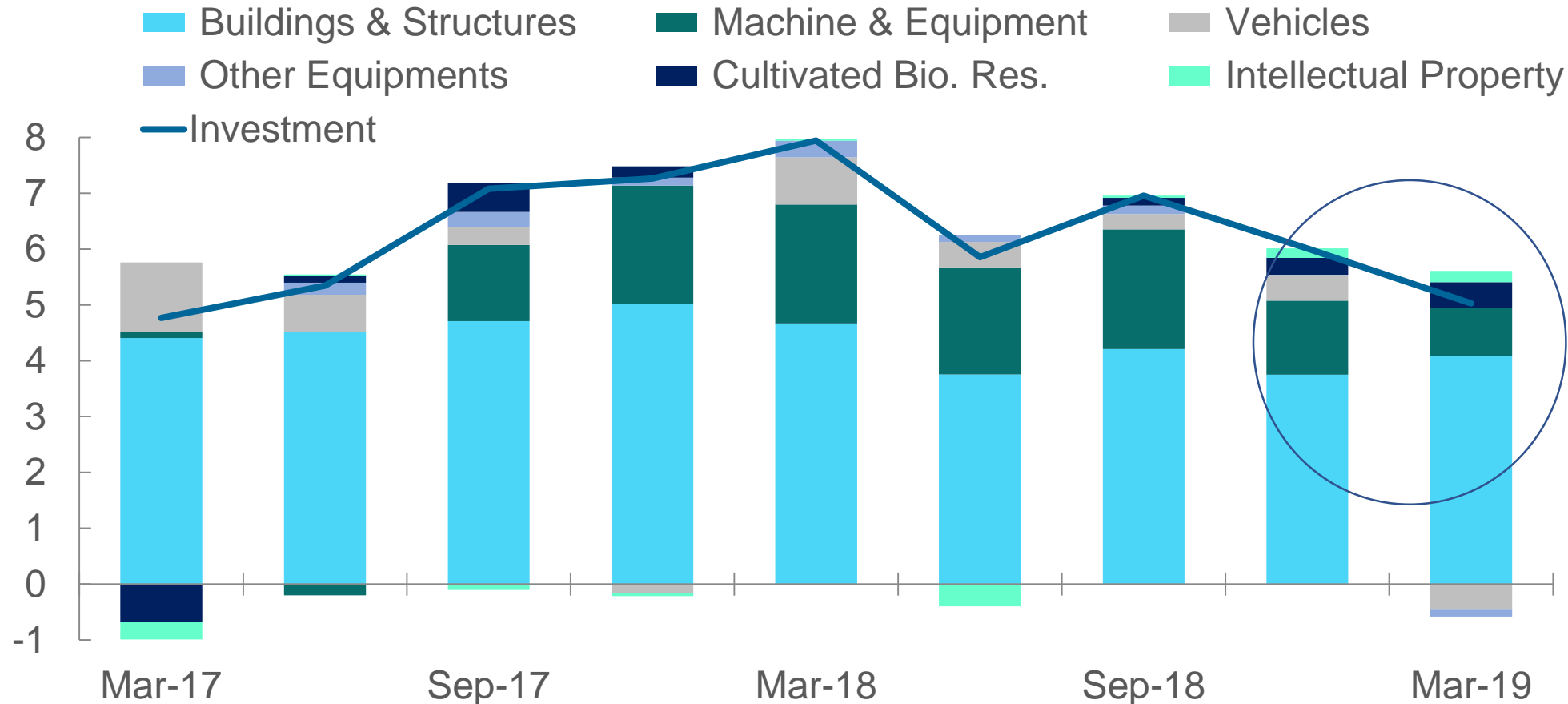


Source: BPS; World Bank staff calculations

Note: Non-profit institutions serving households include “society organizations and political parties”. Source: BPS NPISHs accounts 2015-2017

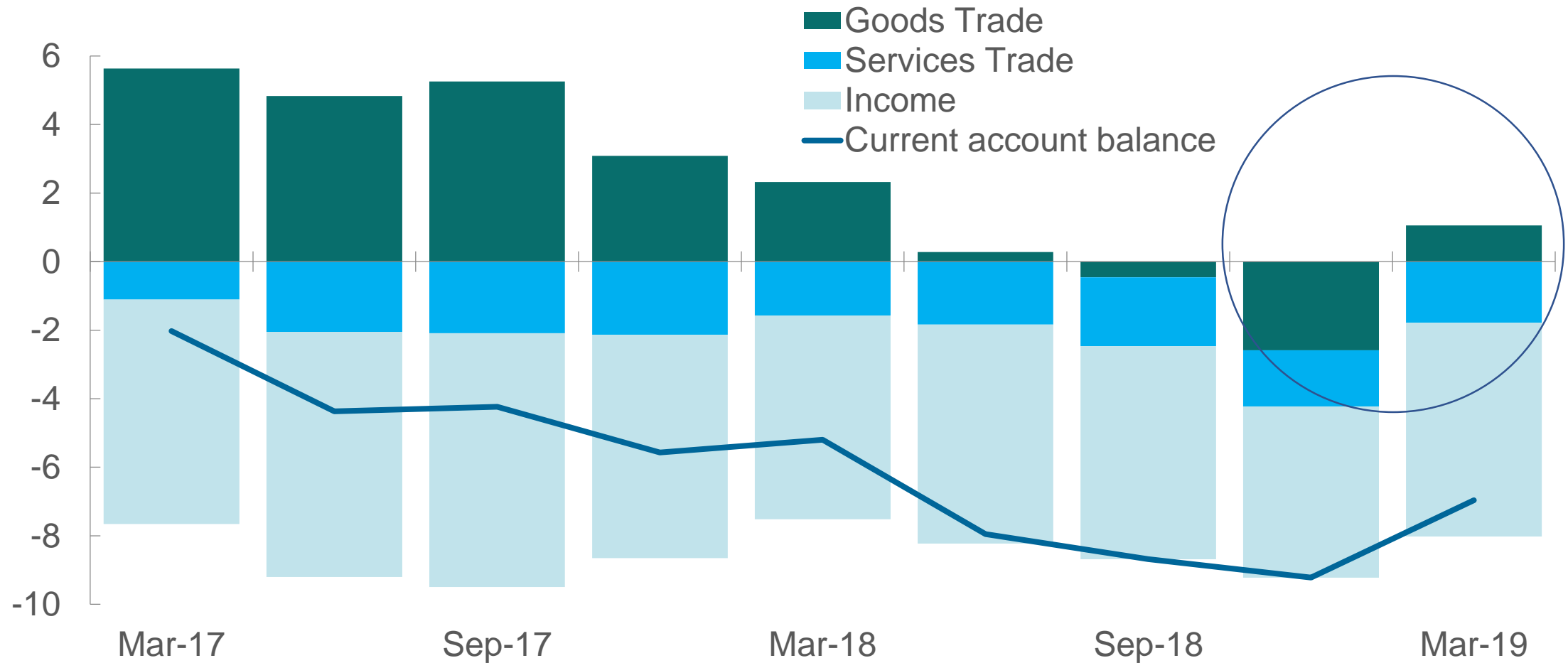
# Weaker machine, vehicle & equipment investment led to a slowdown in fixed investment growth

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



# The current account deficit improved in Q1 2019 due to a turnaround in the goods trade balance

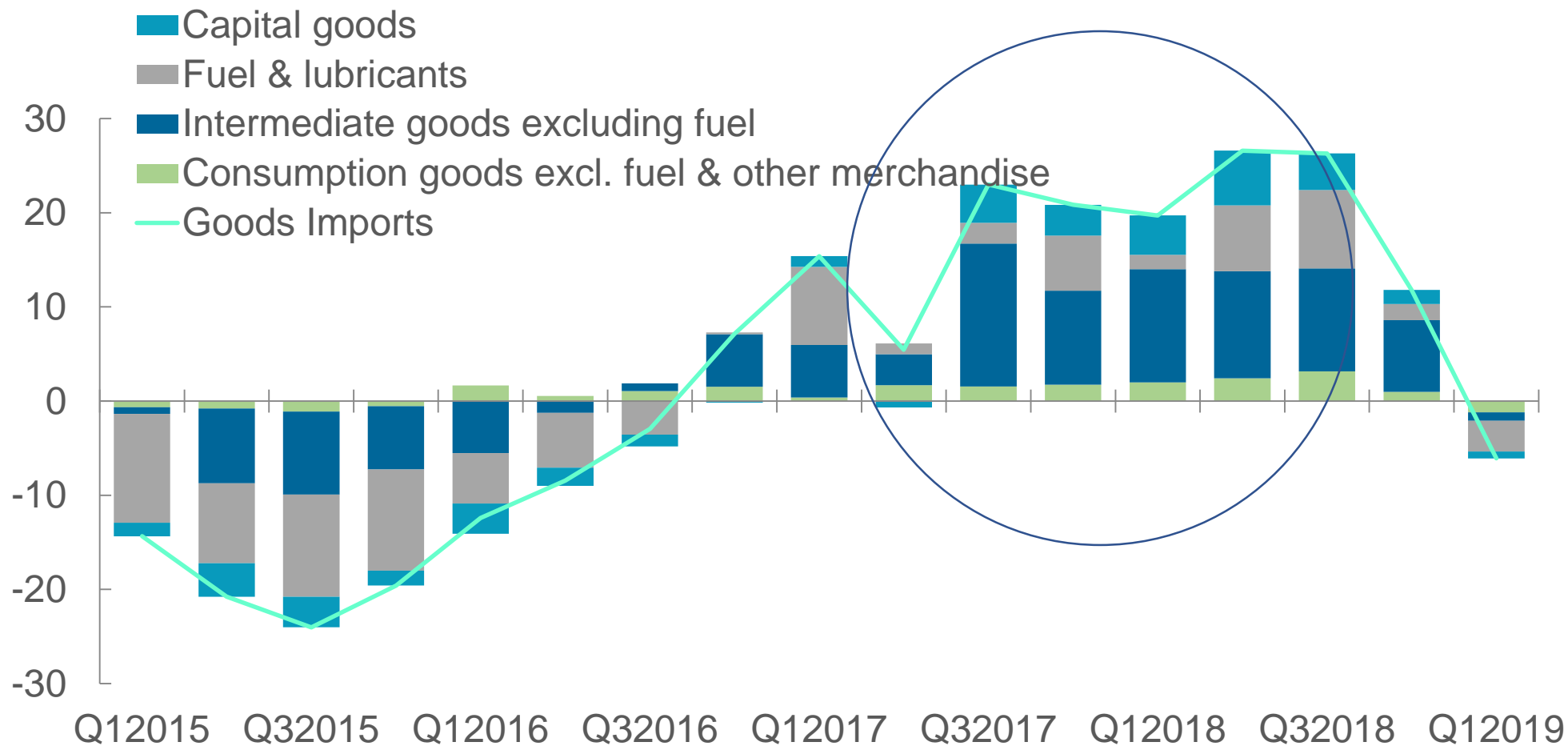
(USD billion)





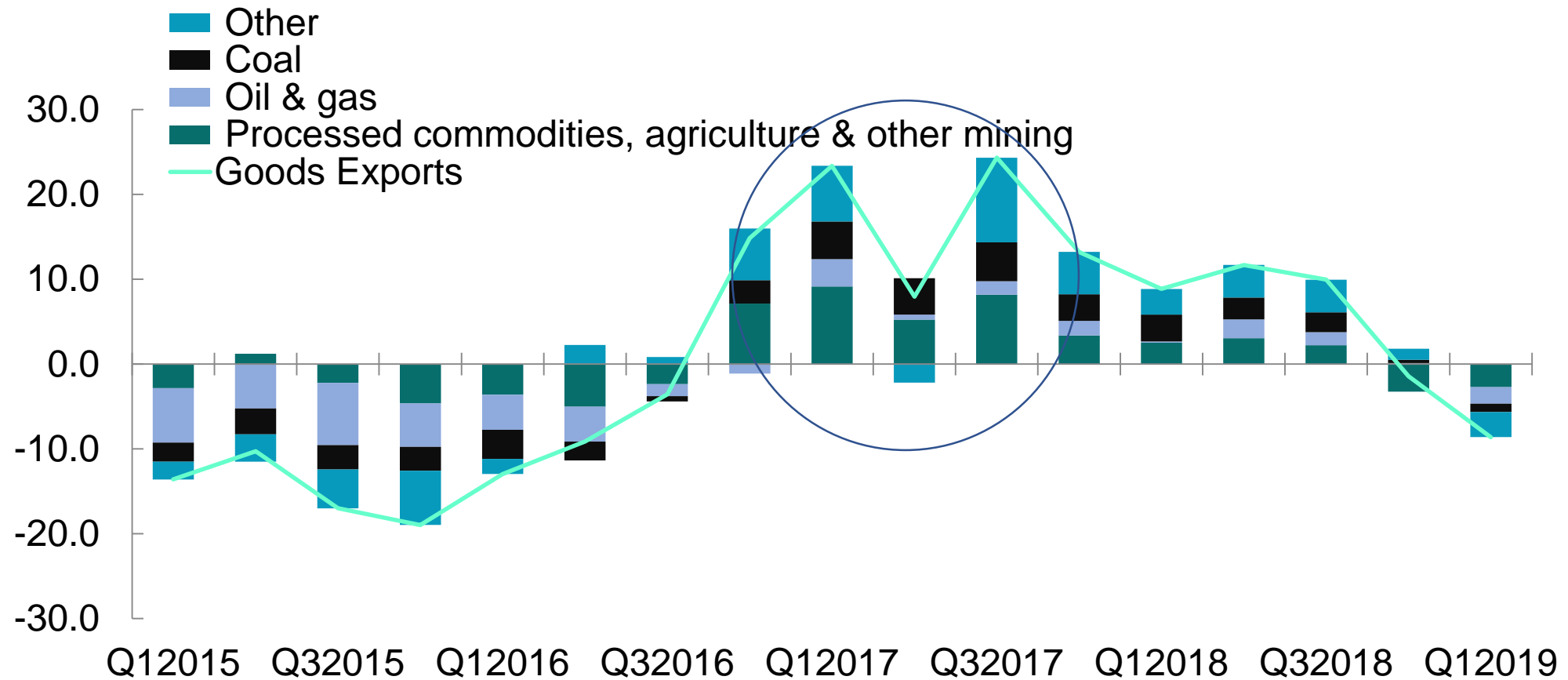
# Slower imports of capital and intermediate goods drove down import growth...

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



# ...and were also related to the decline in exports, especially of manufactured items

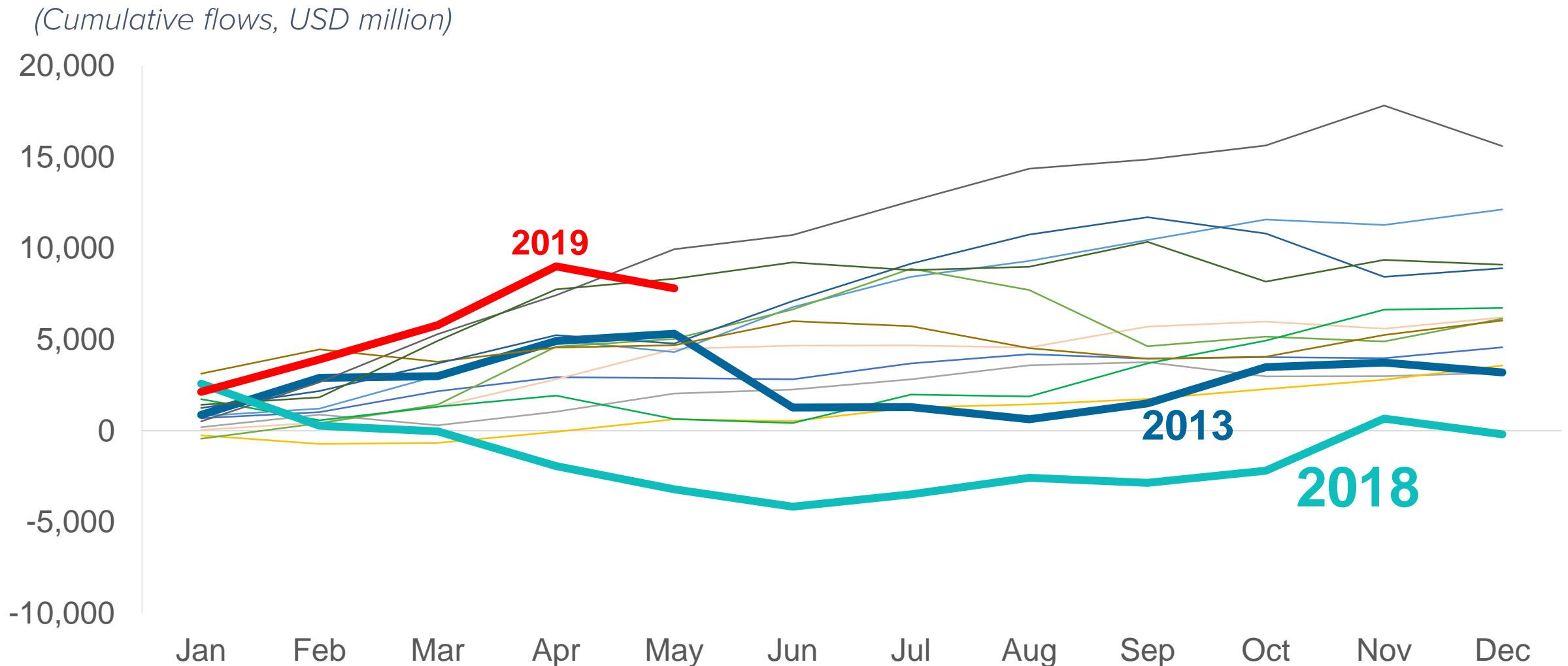
(Contribution to year-on-year growth of goods exports, percentage points)



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

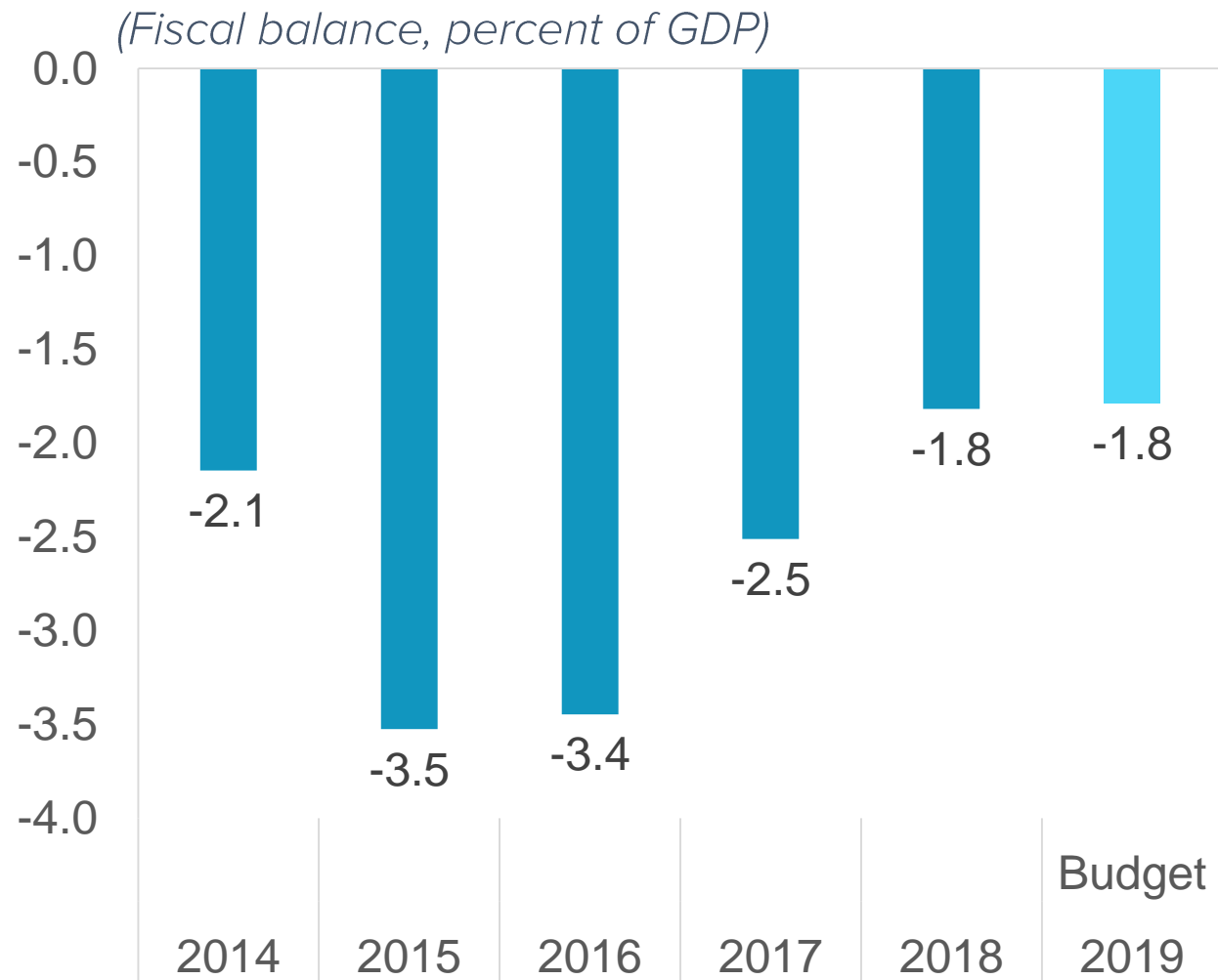


Source: Institute of International Finance; World Bank staff calculations

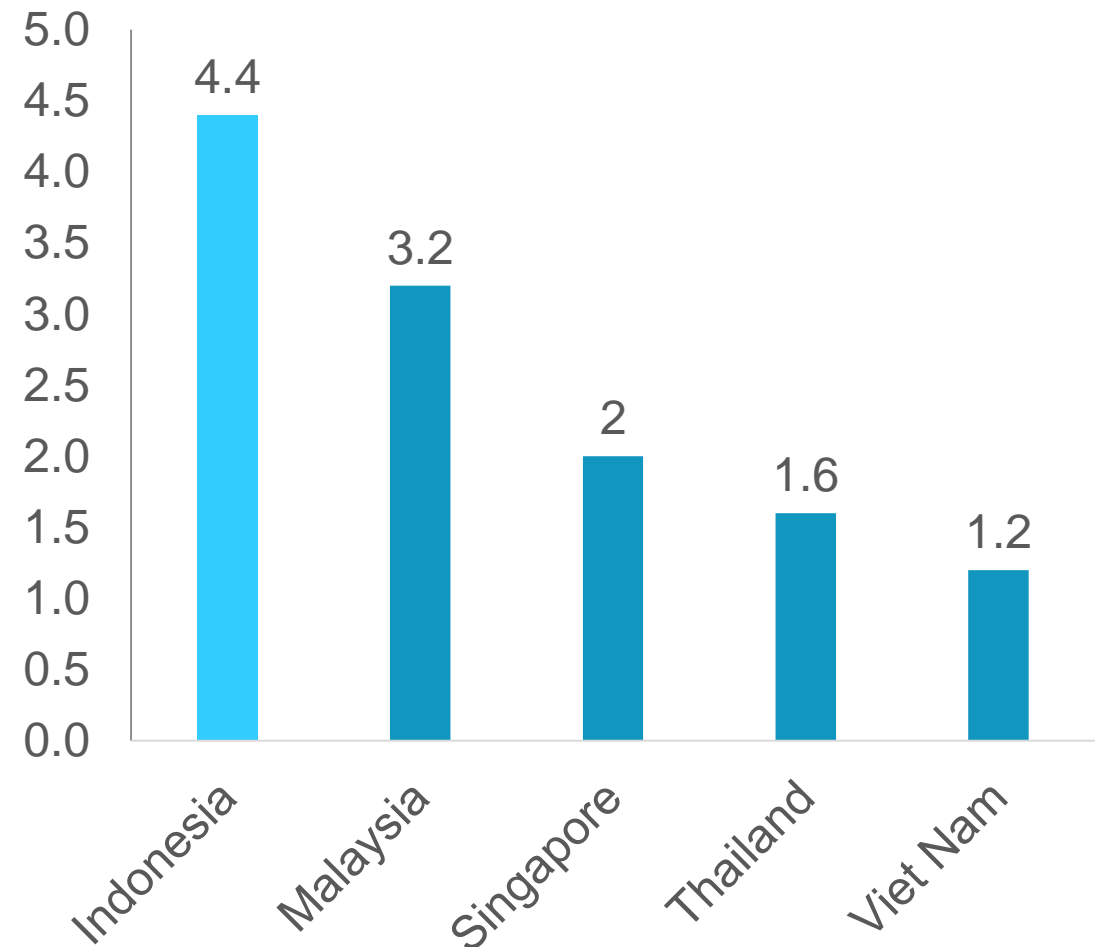
Note: Net non-resident purchases of EM stocks ("portfolio equity flows") and bonds ("portfolio debt flows"). Proxy for portfolio flows as measured in the balance of payments.



# Well-coordinated, prudent fiscal & monetary policies have minimized volatility – at a cost



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





**What does the future hold for  
the Indonesian economy?**

# Real GDP growth is projected to ease...

	Annual			Revision from previous IEQ
	2018	2019f	2020f	2019
<b>Gross Domestic Product (GDP)</b>	5.2	5.1	5.2	-0.1
<b>Private consumption</b>	5.1	5.2	5.2	0.0
<b>Government consumption</b>	4.8	5.1	5.0	-0.2
<b>Gross fixed capital formation</b>	6.7	5.0	5.2	-2.5
<b>Exports of goods and services</b>	6.5	2.6	3.5	-4.6
<b>Imports of goods and services</b>	12.0	0.0	3.2	-10.7
<b>Consumer price index</b>	3.2	3.0	3.1	-0.5

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



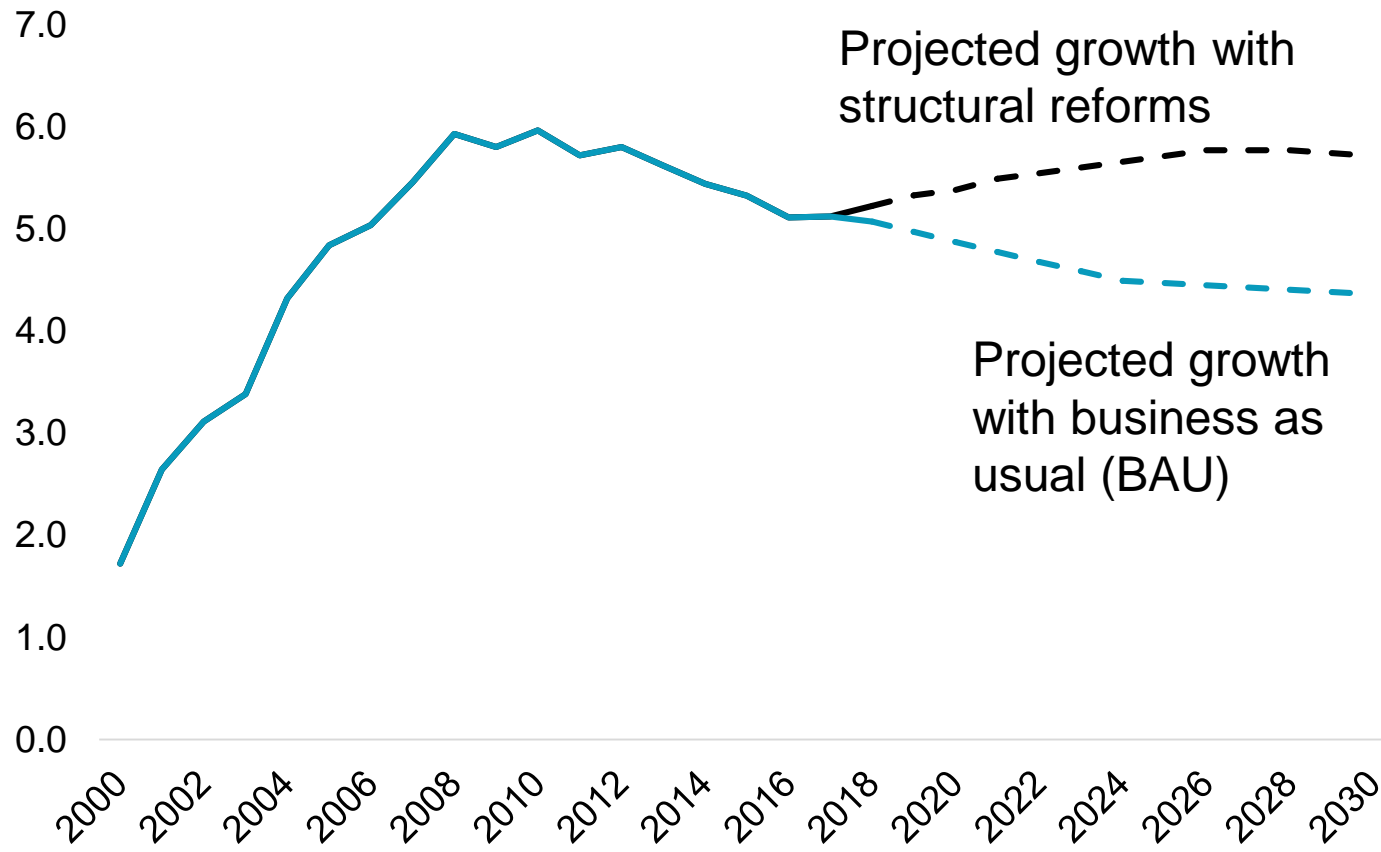
Risks of renewed financial stress in emerging markets



Softer commodity prices → deterioration in Indonesia's terms-of-trade

# Beyond 2020, Indonesia's growth trajectory hinges on its ability to execute key reforms

Growth rate of potential GDP, percent



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**



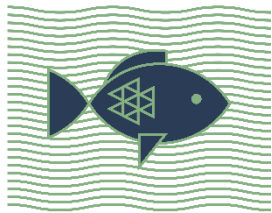
An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. A person is visible swimming in the shallow water. The beach is sandy and bordered by lush green vegetation on the left side.

# PART B OCEANS OF OPPORTUNITY



# Indonesia's oceans have tremendous economic potential...

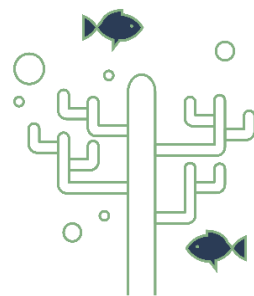
**Fisheries** sector employs **7 million Indonesians...**



...contributes **USD26.9 billion** or **2.6%** of GDP

...and **2.4%** of total exports

## Marine & coastal tourism

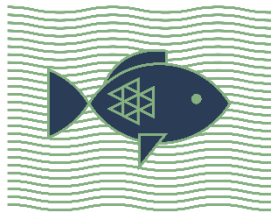


Large portion of the Coral Triangle, which has **76%** of the world's coral species

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

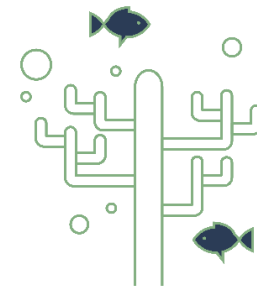


## Better management of fisheries

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

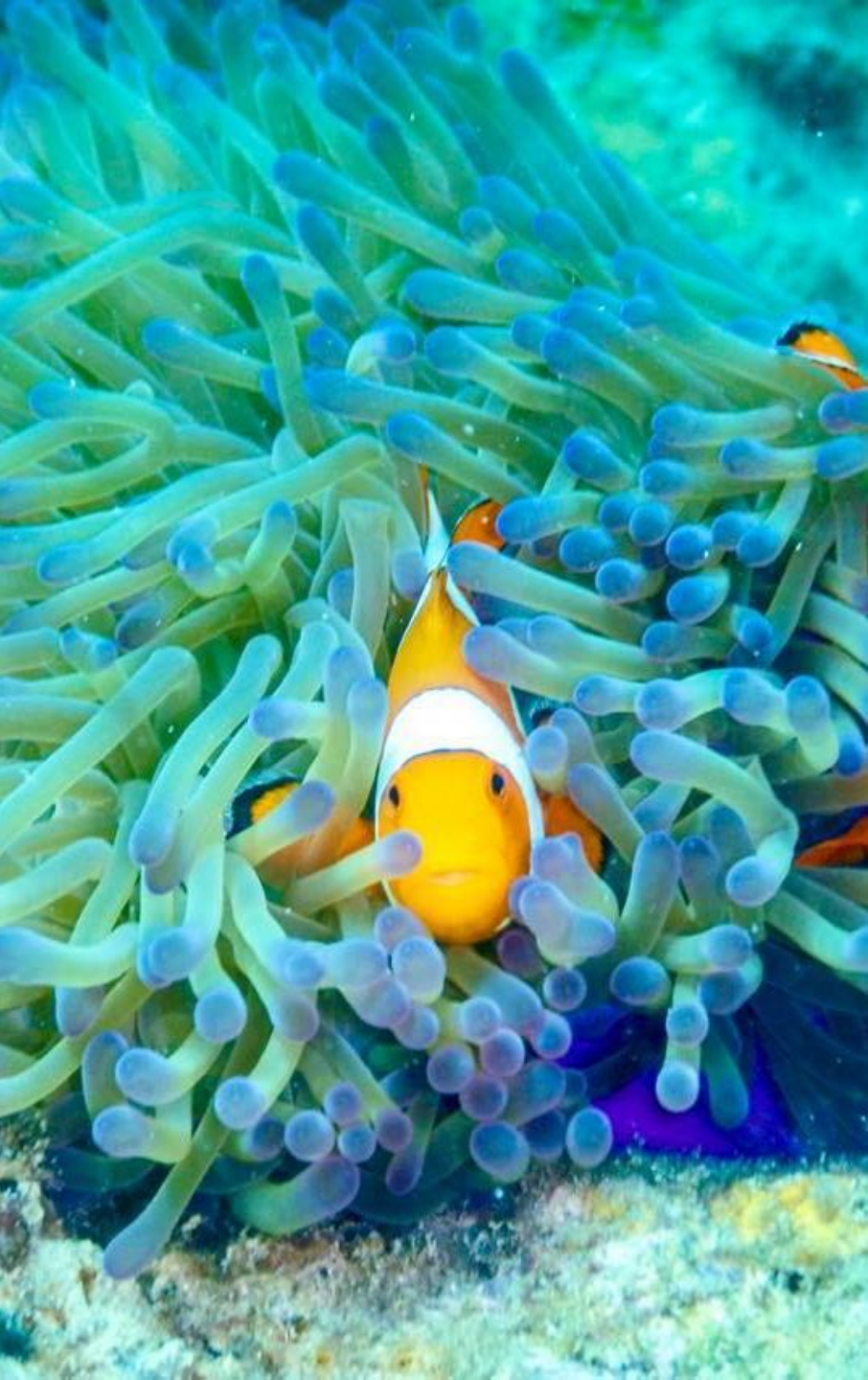




# Overfishing threatens long-term growth & livelihoods

- ❖ **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





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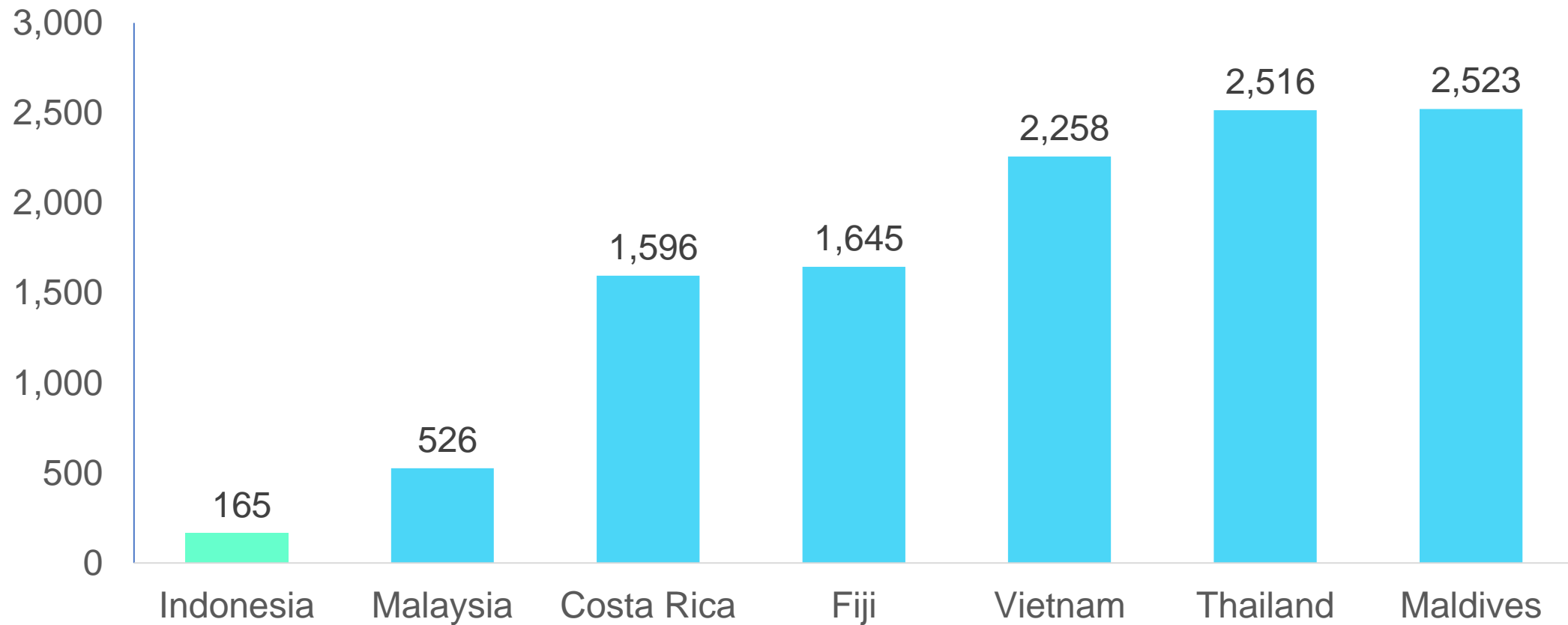


brand is at risk

- ❖ **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.*

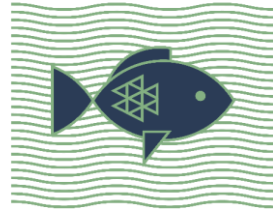


# Marine plastic debris threatens fisheries & tourism



- ❖ 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



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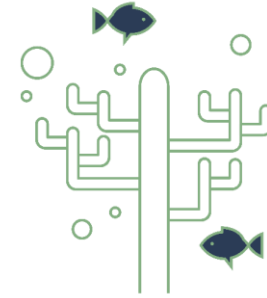
Strengthen framework for decision-making

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Invest in fisheries data and knowledge

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Stronger monitoring, control and surveillance



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Monitor risks to natural and cultural assets

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Manage visitor flow through pricing & new technologies



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Introduce a plastic bag excise

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Invest in solid waste management & water treatment, especially in key tourism areas





**Terima  
kasih!**

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