Poverty & Equity Brief

East Asia & Pacific

Indonesia

April 2019

Poverty has continued to decline in Indonesia with poverty rate registering in single digits for the first time in the country's history. Statistics Indonesia (BPS) reported that the poverty rate dropped from 10.6 percent in September 2017 to 9.7 percent in September 2018. In absolute terms, the number of poor people went down from 27.6 million to 25.7 million. Based on the PPP $1.9 per day international poverty line, headcount poverty rate stood at 5.7 percent in 2017. Although poverty has been declining, the rate of the decline has slowed in recent times. Between 2012 and 2018, the poverty rate based on the national poverty line decreased by only 0.36 percentage points on average per year compared to 0.97 percentage points between 2007 and 2012.

Growth, rather than changes in consumption distribution, continues to remain the main driver of the observed decline in poverty. Between 2012 and 2018 growth accounted the entire (100%) decline in poverty. Buoyant labor market conditions have also helped. The employment rate reached a two-decade high of 65.7 percent in February 2018, matched by the unemployment rate falling to an 18-year low of 5.1 percent. Moreover, 70 percent of the newly created jobs were in restaurants, hotels and the manufacturing sectors, which are noted for employing those at the lower end of the income distribution.

Indonesia had witnessed a substantial increase in inequality since the 1998 Asian financial crisis with the Gini index of consumption climbing from 30 points in 2000 to 41 in 2011. Since 2014, the index has been on a steady decline reaching 38.4 in September 2018. The post 2014 decline in inequality has been driven largely by the closing gap between the middle 40 and the top 20 percent of the distribution. The consumption growth of the bottom 40 percent has lagged mean growth resulting in a negative shared prosperity premium (-0.02). This, together with the fact that inequality remains high, reinforces the need for growth to be more inclusive.

POVERTY	Number of Poor (million)	Rate (%)	Period
National Poverty Line	28.1	10.6	2017
International Poverty Line 10195.6 in Indonesian rupiah (2017) or US$1.90 (2011 PPP) per day per capita	15.1	5.7	2017
Lower Middle Income Class Poverty Line 17171.5 in Indonesian rupiah (2017) or US$3.20 (2011 PPP) per day per capita	72.1	27.3	2017
Upper Middle Income Class Poverty Line 29513.5 in Indonesian rupiah (2017) or US$5.50 (2011 PPP) per day per capita	155.4	58.9	2017
SHARED PROSPERITY			
Annualized Consumption Growth per capita of the bottom 40 percent		4.77	2015-2017
INEQUALITY			
Gini Index		37.9	2017
Shared Prosperity Premium = Growth of the bottom 40 - Average Growth		-0.02	2015-2017
GROWTH			
Annualized GDP per capita growth		3.9	2015-2017
Annualized Consumption Growth per capita from Household Survey		4.79	2015-2017

Sources: WDI for GDP, National Statistical Offices for national poverty rates, POVCALNET as of March 2019, and Global Monitoring Database for the rest.

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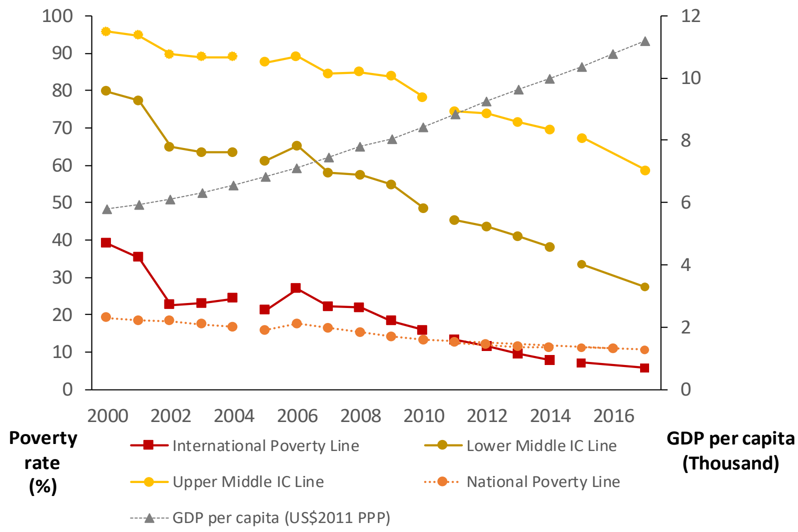
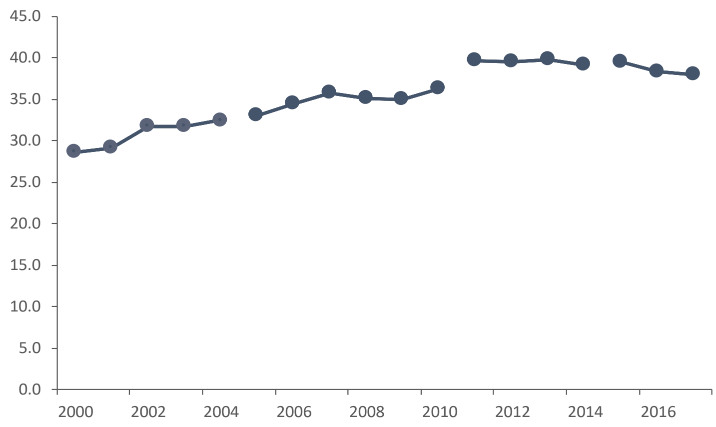
POVERTY HEADCOUNT RATE, 2000-2017



Source: World Bank using SUSENAS/EAPPOV/GMD

INEQUALITY TRENDS, 2000-2017

Gini Index



Source: World Bank using SUSENAS/EAPPOV/GMD

KEY INDICATORS (distribution among groups)

	International Poverty Line (%)		Relative Group (%)		Year
	Non-Poor	Poor	Bottom 40	Top 60	
Urban population	94	6	35	65	2016
Rural population	93	7	45	55	2016
Males	93	7	40	60	2016
Females	94	6	40	60	2016
0 to 14 years old	92	8	46	54	2016
15 to 64 years old	94	6	37	63	2016
65 and older	90	10	47	53	2016
Without education (age 16 and older)	86	14	58	42	2016
Primary education (age 16 and older)	92	8	47	53	2016
Secondary education (age 16 and older)	96	4	32	68	2016
Tertiary/post-secondary education (age 16 and older)	99	1	11	89	2016

Source: World Bank using Global Monitoring Database

POVERTY DATA AND METHODOLOGY

The poverty line in Indonesia is defined by Indonesia's national statistics office (Badan Pusat Stasitik, BPS) as the amount of money required to obtain 2,100 calories per day, along with a small amount for other basic non-food items. There are 67 poverty lines in Indonesia, one for each of the urban and rural areas of the provinces outside of Jakarta; and the national poverty line is calculated as the weighted average of the 67 local poverty lines. Unlike in some countries, and in the calculation of international poverty lines, where the basket of goods used in calculating the poverty line is fixed and simply inflated by CPI, in Indonesia, the basket of goods is allowed to change every year in the calculation of each of the 67 local poverty lines. The basket of goods for each of the 67 local poverty lines is recalculated each year for a reference group of ‘near poor' households, where ‘near poor' households are defined as households that fall between the poverty line and 20th percentile of the consumption distribution above the poverty line. In the face of high food prices, the inflation factors applied to the national poverty lines tend to be larger than the CPI. Also, because the basket of goods used in calculating the national poverty line may change, the price per calories changes. This may probably explain why poverty reduction based on national poverty line appeared to be slower than that based on the international poverty line.

HARMONIZATION

The numbers presented in this brief are based on the EAPPOV database. EAPPOV is a database of socio-economic statistics constructed using microdata from household surveys in the East Asia and the Pacific (EAP) region and is managed by the East Asia & Pacific Team for Statistical Development (EAPTSD). As of January 2019, the collection includes 19 countries and 93 surveys. Harmonized surveys in the EAPPOV database are compiled into 4 modules following Global Monitoring Database (GMD) Harmonization guidelines. A subset of the harmonized variables form the basis of the GMD collection, including the welfare aggregate which is used for Global Poverty Monitoring. Terms of use of the data adhere to agreements with the original data producers.