

Investment:

Foreigners wait-and-see, but locals march on

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Executive Summary

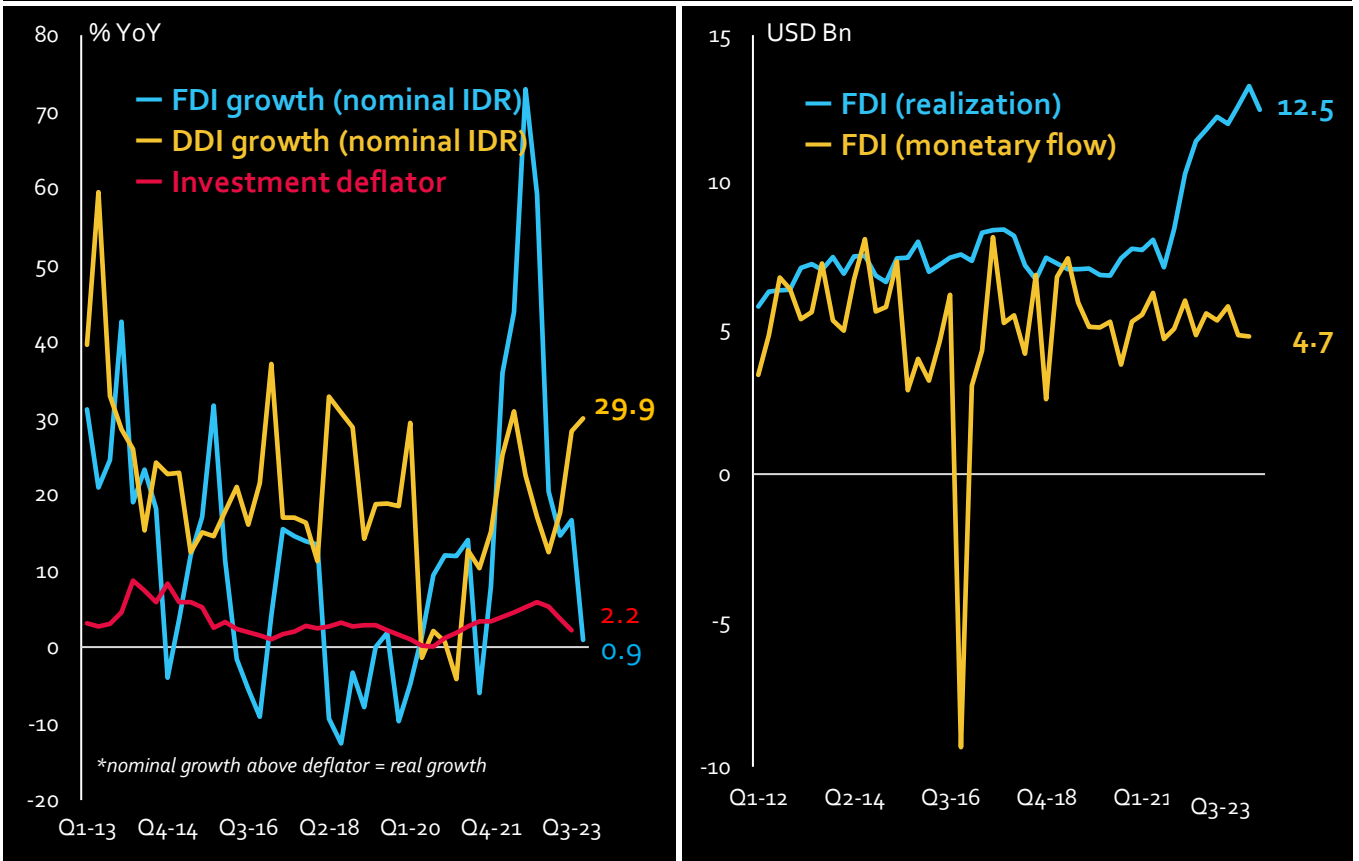
- DDI grew by 29.9% YoY in Q4-23, outpacing FDI which grew by 2.07% YoY in USD terms. Altogether, direct investment reached ~USD 94.7 Bn (14.2% YoY) in FY2023.
- The slowdown in FDI is likely associated with the upcoming presidential elections, economic slowdown in major investment partner countries, and falling commodity prices.
- Meanwhile, the strong DDI is a reflection of domestic companies' robust appetite for CAPEX amid the government's "downstreaming" push.
- Slowing corporate earnings, as well as uncertainty regarding the new government administration's policies, may prove to be headwinds for direct investment in the coming quarters.

- Domestic direct investment (DDI) remained strong, with its growth accelerating to 29.9% YoY (1.8% QoQ) on Q4-23. Foreign direct investment (FDI) on the other hand, slowed down substantially, growing by just 2.07% YoY (-6.0% QoQ) – in USD terms – in the same period. Altogether, direct investment grew by 14.2% YoY in FY2023, roughly amounting to USD 94.7 Bn.
- While direct investment tends to be less sensitive to current events due to the long-term nature of the projects that it is funding, the upcoming presidential elections and ongoing economic slowdown in major investment partner countries (China in particular) may have slightly dampened investment appetite. This deceleration is particularly pronounced in the mining sector, the second-largest FDI category by nominal terms, where FDI contracted by 26.2% YoY in Q4-23 alongside falling commodity prices.
- Despite a general slowdown across the board, FDI continued to remain resilient for a few select sectors. FDI into the metal processing industry, for instance, still remained strong (24.5% YoY) despite recent concerns over a nickel supply glut due to a subdued demand for EVs and competition from LFP batteries (which do not require nickel). Similarly, investments within the EV supply chain remained robust, partly contributing to the surge in FDI growth for motor vehicles (79.0% YoY).
- A few other manufacturing sectors, specifically pulp and paper, also continued its strong performance with a notable 263.2% YoY FDI growth. This probably reflect investment decisions made by Indonesian paper giants (jointly with their foreign partners) to take advantage of increased demand for paper and packaging amid the rise in e-commerce. While

the growth of e-commerce has normalized after its pandemic-era boom, we cannot help but think that China's efforts to export their way out of a slowdown and the general shift away from plastic packaging could help sustain the demand for paper in the medium-term.

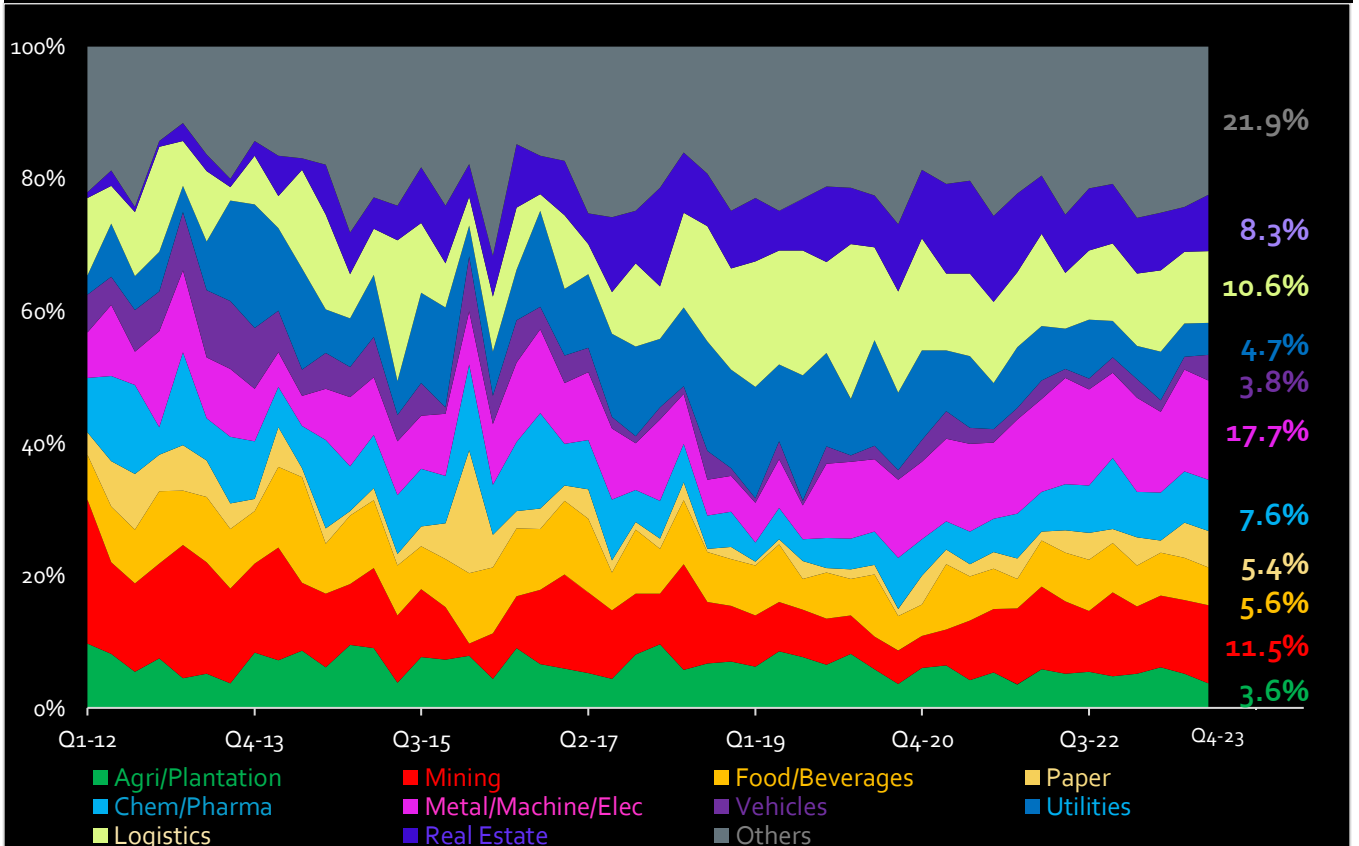
- Meanwhile, DDI growth was widespread across various sectors. Domestic companies' robust appetite for CAPEX in Q4-23 can also be seen in the decline of our Big Data's retained earnings to total revenue ratio and OJK's loan statistics.
- Despite the slowdown in prices, domestic investment in "traditional" industries like mining remained strong, experiencing a growth of 57.1% YoY in Q4-23. But there also seems to be a growing interest in developing "future" industries such as renewables, evident from the growth in electricity, gas, water (41.5% YoY), and others such as chemicals and pharmaceuticals (45.5% YoY), metal processing (133.4% YoY), and paper goods (48.6% YoY). These investments align with the government's "downstreaming" push, and – although growth in industries that produce final goods such as electronics and textiles are comparatively slower – may also reflect some beneficial effect from the ongoing decoupling between China and the West.
- Overall, Indonesia has maintained its status as a "growth haven" amid global turmoil, and investment is poised to remain a substantial contributor to GDP growth. However, challenges may increase in the coming quarters, with potential constraints on private sector investment due to slowing corporate earnings. Additionally, foreign investors are likely to hold off investments before gaining clarity on the policies of the new administration post-President Jokowi.
- We add one final note regarding Chinese investments and the gap between two sets of FDI numbers – the BKPM version which reports project initiation, and the BI (BoP) version which reports actual financial flows related to FDI. As we have mentioned in several prior reports, the gap might be caused by several factors, among them the fact that investors from certain countries like China tend to directly source goods and manpower from their home country. This bypasses the need for actual cash flow to enter the domestic financial system. If this hypothesis is true, then the decline in Chinese FDI in 2023 as a whole (-9.6% YoY) relative to other major investor countries like Singapore (15.6%), Japan (30.2%), South Korea (10.7%), and the US (8.5%) should lead to the narrowing of this gap. We shall see this once the Q4-23 BoP data is out later in the month.

Panel 1. DDI continued to accelerate, while FDI slowed down sharply



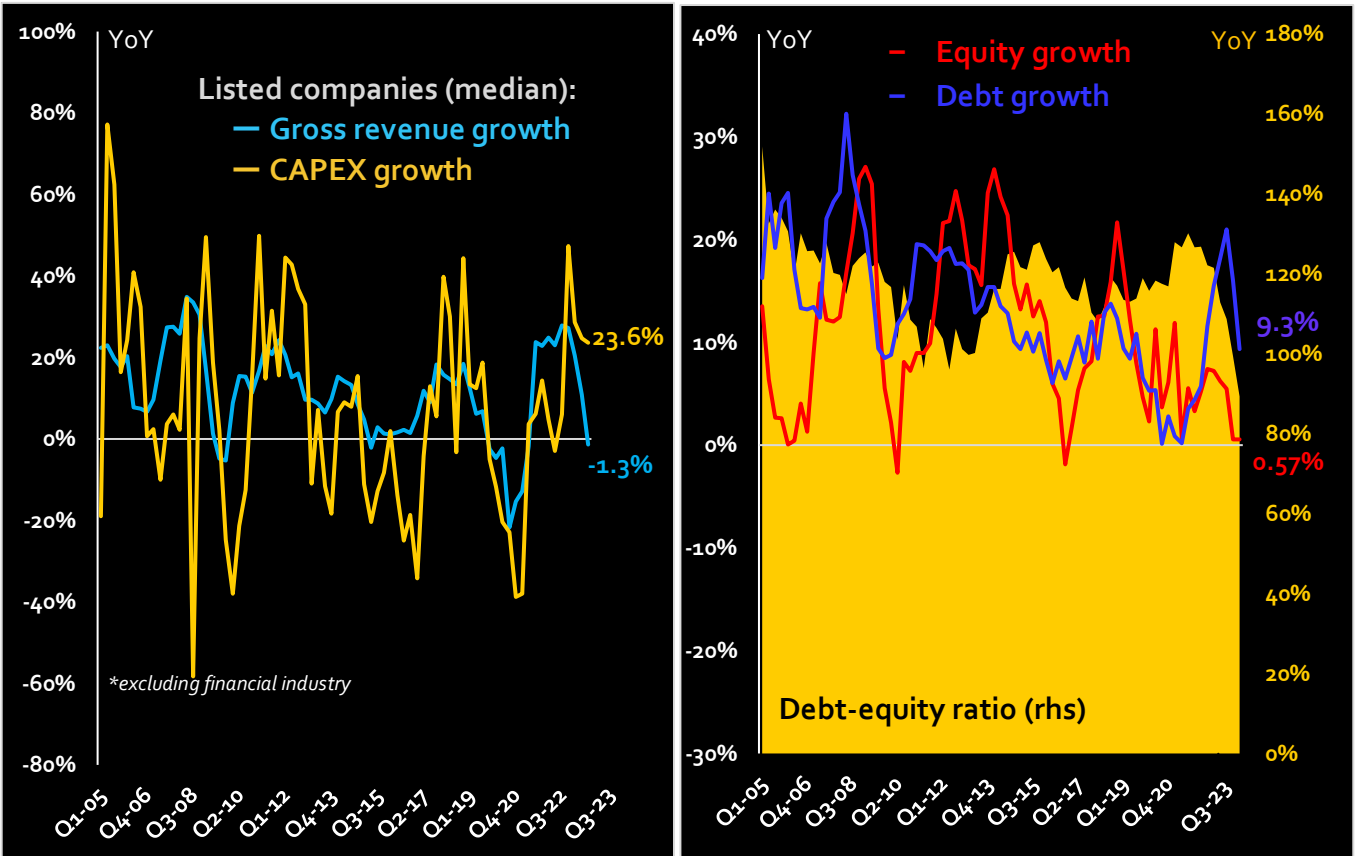
Source: BKPM, BPS, BI, calculation by BCA Economic Research

Chart 1. Metals have been the big one for a long time



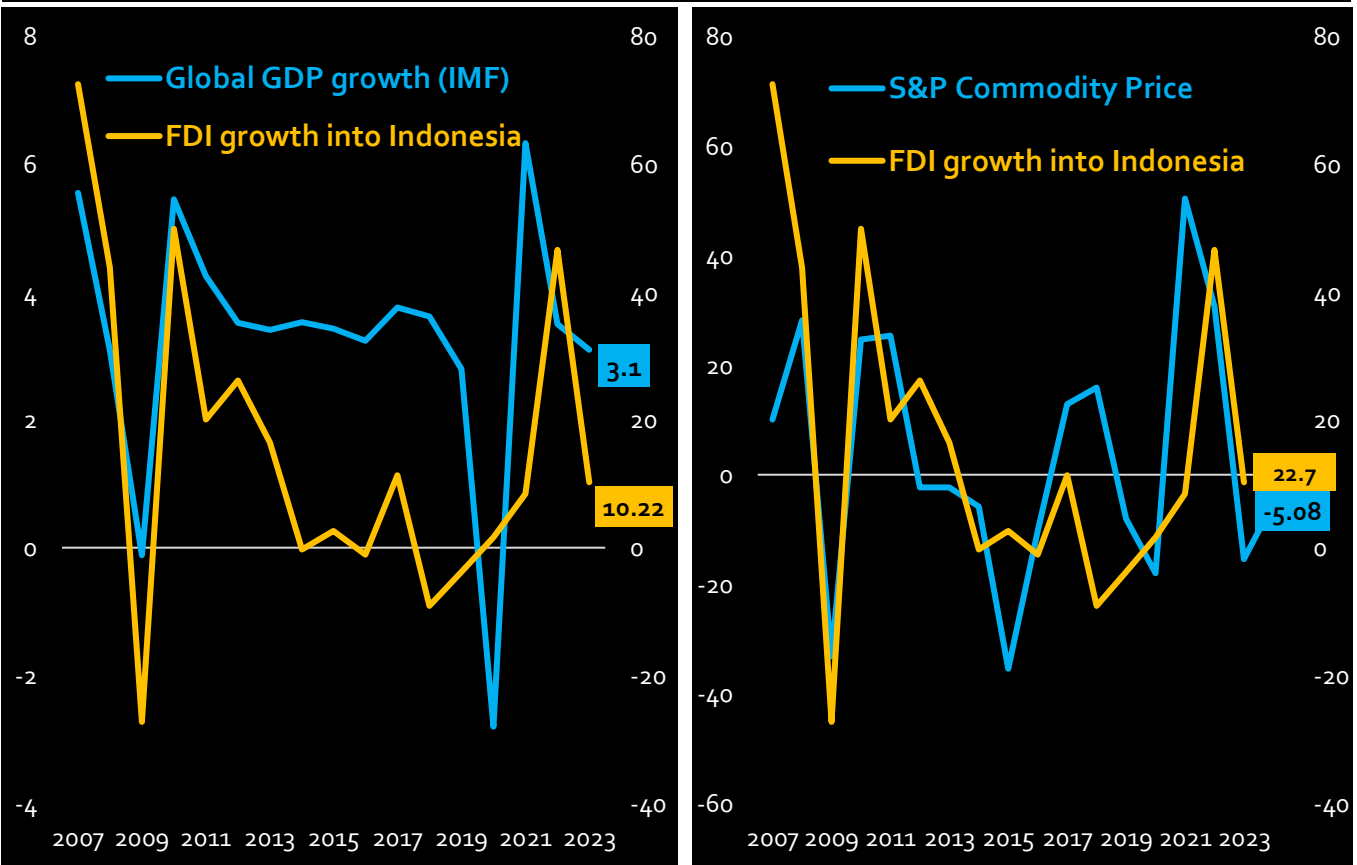
Source: BKPM, BCA Economic Research

Panel 2. Despite declining revenue, CAPEX of listed companies remains strong in Q3-23



Source: Listed companies data from Bloomberg, calculations by BCA Economic Research

Panel 3. Declining global growth and commodity prices may have influenced the slowdown of FDI growth in 2023



Source: BKPM, IMF, Bloomberg

Selected Macroeconomic Indicator

Table 1. FDI realization by sector (USD Million, *current price*)

	2020	2021	2022	Q1-2023	Q2-2023	Q3-2023	Q4-2023
PRIMARY SECTORS	3,280.0	4,826.2	7,064.9	1,411.8	1,898.6	1,913.8	1,558.2
Food crops, plantations, & livestock	1,184.2	950.6	1,789.5	435.2	635.6	566.8	308.0
Forestry	42.6	41.4	98.9	44.3	17.3	15.6	18.7
Fishery	48.1	17.2	31.6	12.4	4.3	4.6	4.4
Mining	2,005.1	3,816.9	5,145.0	919.9	1,241.4	1,326.8	1,227.1
SECONDARY SECTORS	13,202.2	15,802.8	24,679.4	7,026.6	6,027.2	7,916.9	7,719.1
Food industry	1,592.2	2,337.4	2,424.5	615.4	501.9	638.3	507.1
Textile industry	279.8	312.1	658.3	114.2	130.0	81.6	131.7
Leather goods & footwear industry	214.0	484.9	630.5	190.2	178.4	205.7	208.2
Wood industry	84.7	68.1	243.2	54.5	25.2	45.8	32.3
Paper & printing industry	942.8	952.5	1,630.0	830.6	276.2	1,159.6	1,164.4
Chemical & pharmaceutical ind.	1,742.6	1,656.5	4,505.5	1,068.4	1,258.4	1,335.0	1,143.3
Rubber & plastic industry	291.4	262.2	362.7	173.5	160.0	87.7	154.6
Non metallic mineral ind.	248.3	327.0	537.3	119.6	75.6	161.1	167.2
Metal, machinery, electronics, & other instruments	6,570.5	7,653.8	11,749.4	3,259.2	2,949.8	3,683.2	3,108.7
Transport equipment & other transport	941.9	1,501.9	1,522.8	531.7	322.9	425.1	264.7
Other industries	294.0	246.3	415.0	69.2	149.1	93.9	766.5
TERTIARY SECTORS	12,183.8	10,464.2	13,860.8	3,522.1	4,662.5	3,429.0	3,182.7
Electricity, gas and water supply	4,613.9	2,938.6	3,762.7	615.5	806.9	819.5	500.2
Construction	189.5	93.3	165.3	71.9	53.2	120.8	35.9
Trade & reparation	434.1	463.8	736.7	293.4	211.7	306.6	132.1
Hotel & restaurant	441.1	432.2	498.0	189.1	318.2	120.9	182.9
Transport, warehouse & telco	3,580.5	3,159.1	4,125.1	1,213.5	1,941.0	1,085.1	1,375.8
Real estate, industrial estate & business activities	2,191.4	2,186.4	3,014.6	569.5	807.8	595.5	601.7
Other services	733.3	1,190.7	1,558.4	569.2	523.6	380.6	353.0
TOTAL	28,666.0	31,093.2	45,605.0	11,960.5	12,588.3	13,259.7	12,459.0

*Gold = Top 5 sectors for the year

Source: BKPM

Table 2. DDI realization by sector (IDR Billion, current price)

	2020	2021	2022	Q1-2023	Q2-2023	Q3-2023	Q4-2023
PRIMARY SECTORS	47,580.1	62,766.7	111,217.3	34,991.6	40,304.8	39,364.5	40,479.3
Food crops, plantations, & livestock	32,096.6	29,374.7	38,878.5	10,687.1	12,075.5	10,997.5	9,151.9
Forestry	1,163.6	6,862.7	8,603.1	3,845.1	8,168.4	5,135.9	5,883.0
Fishery	564.9	1,012.1	1,214.1	620.7	525.4	968.4	392.0
Mining	13,755.0	25,517.1	62,521.6	19,838.6	19,535.6	22,262.7	25,052.3
SECONDARY SECTORS	82,817.9	94,698.7	143,564.3	35,907.7	41,179.5	46,485.2	48,085.0
Food industry	27,872.7	26,517.5	54,937.0	11,268.6	15,455.1	14,532.4	13,571.8
Textile industry	2,103.3	1,972.4	5,614.7	2,947.0	1,702.2	1,854.3	1,446.2
Leather goods & footwear industry	394.7	700.4	483.4	344.5	586.8	242.3	467.9
Wood industry	1,263.4	1,143.7	3,587.9	1,419.5	734.3	1,330.3	1,126.7
Paper & printing industry	3,745.9	7,833.6	9,508.2	1,752.3	2,292.5	2,608.4	2,641.8
Chemical & pharmaceutical ind.	22,526.1	23,363.6	28,905.2	6,777.6	6,837.0	8,988.4	11,266.8
Rubber & plastic industry	4,428.7	7,803.1	7,369.7	1,935.9	2,624.3	1,900.6	2,795.2
Non metallic mineral ind.	5,861.9	6,522.2	6,367.9	1,865.4	2,596.8	1,793.4	1,514.7
Metal, machinery, electronics, & other instruments	10,013.6	16,190.9	17,643.8	4,793.0	5,980.6	10,339.2	8,363.3
Transport equipment & other transport	2,556.6	1,459.3	2,425.2	1,467.7	1,301.0	784.0	2,620.0
Other industries	2,051.0	1,192.0	6,721.3	1,336.1	1,068.8	2,111.7	1,597.2
TERTIARY SECTORS	283,137.7	289,598.5	297,987.3	81,050.6	81,965.6	92,285.0	92,824.7
Electricity, gas and water supply	35,518.8	38,727.7	32,107.5	7,221.7	13,689.7	6,539.1	10,134.4
Construction	68,289.2	39,569.4	33,846.5	7,772.6	6,923.9	9,000.6	9,116.3
Trade & reparation	16,748.4	22,432.3	31,051.3	9,951.1	11,572.1	16,204.3	10,830.4
Hotel & restaurant	10,203.1	17,819.3	21,579.1	5,188.1	5,830.0	5,799.7	6,545.1
Transport, warehouse & telco	93,282.8	61,241.6	75,138.4	18,148.3	14,291.6	24,816.5	19,403.0
Real estate, industrial estate & business activities	44,852.8	85,497.8	66,167.9	19,469.3	18,400.2	16,647.1	22,582.5
Other services	14,242.6	24,310.4	38,096.7	13,299.6	11,258.0	13,277.6	14,213.0
TOTAL	413,535.7	447,064.0	552,768.8	151,949.92	163,449.90	178,134.64	181,388.98

*Gold = Top 5 sectors for the year

Source: BKPM



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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023E	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.1	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4982	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6*	3.2
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00*	5.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397*	16.037
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0*	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	0.1	-0.5

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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