

## Investment:

# Massive boom with some caveats

Barra Kuku Mamia

Senior Economist

11 November 2022

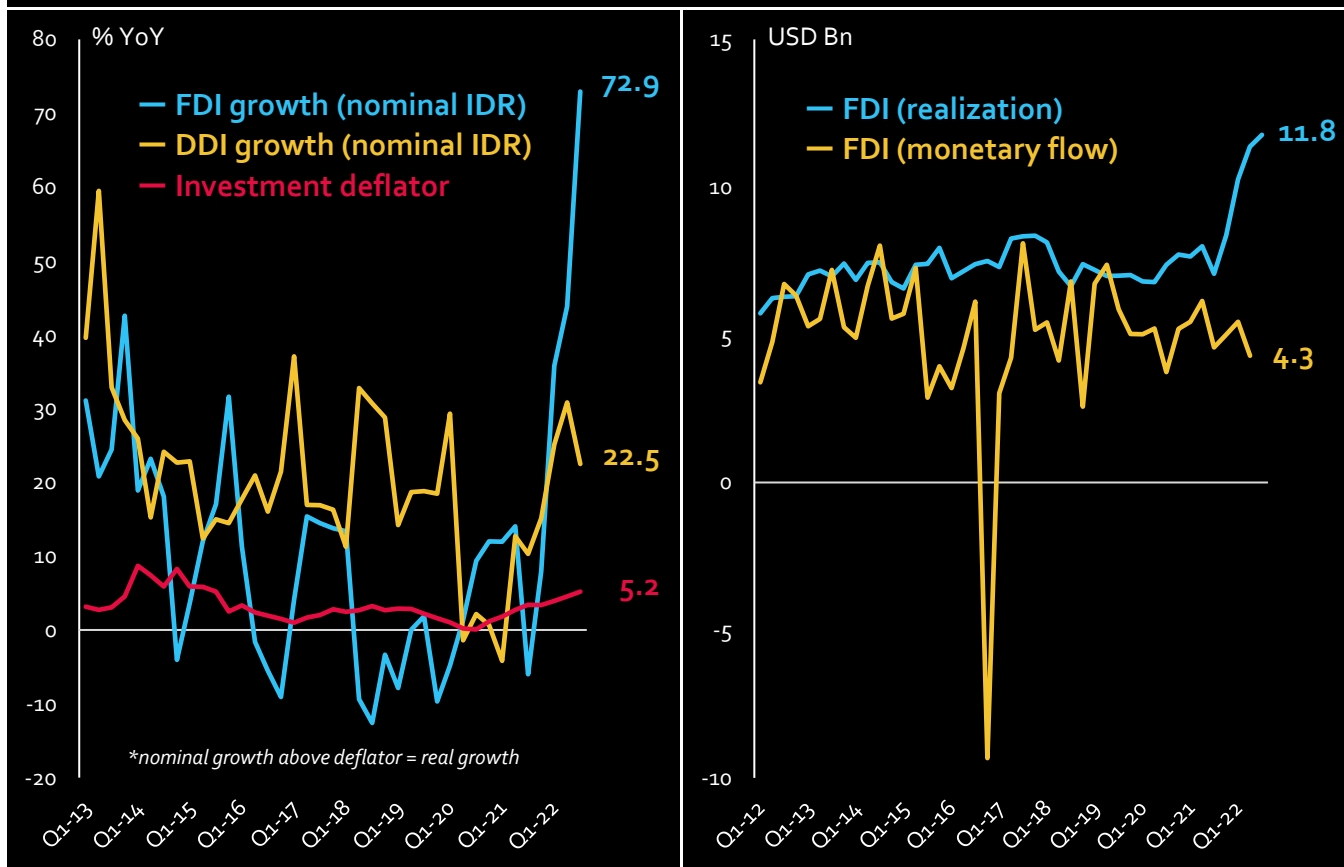
### Executive Summary

- Investment grew 35.2% YoY through the first three quarters of the year, driven by a solid growth in DDI and an exceptional one in FDI.
- There are two main types of winner in the current environment: exporters of energy or battery metals, and destination of manufacturing relocation from China. Indonesia clearly belongs in the first group, but evidence for the second is more limited so far.
- Strong investment growth should help Indonesia maintain solid GDP growth next year, amid solid – but maxed out – domestic consumption and weaker export demand.

- Indonesia's investment boom went from strength to strength, with FDI growing by 66.4% YoY in Q3-22 (to USD 11.8 Bn) while DDI grew 22.5% YoY (to IDR 139.0 Tn). Taken together, direct investment through the first three quarters of the year amounted to USD 61.7 Bn, which is a 35.2% YoY improvement over the same period in 2021.
- This boom is quite remarkable, in that FDI and DDI are both growing strongly. As we see in **Panel 1 (left)**, FDI and DDI boom seldom coincide – indeed, the large-scale infrastructure investment during peak Jokowiomics (2016-19) happened during a period of relative FDI drought. And while some of the nominal growth could be attributed to increased price of capital goods, the current pace clearly indicates real investment growth. It may be less bang for the buck, but there is a lot more bucks indeed.
- These numbers also fit in nicely with the macro picture that we have been painting for the past few months. Domestic consumption is strong but maxed out as a source of growth, fiscal stimulus is ending, while exports are likely to be impacted by the coming global slowdown. As a result, **investment is the main factor that determine whether Indonesia would enjoy robust growth next year** (4.7% or higher) or merely a decent one amid challenging global backdrop.
- Indonesia is among a select few countries that are expected to grow relatively strongly in 2023, and the IDR is also one of the few currencies that have held up better against the USD wrecking ball. **When we glance at both these lists, two themes emerge: they are either (1) exporter of energy or of metals used in batteries or renewable energy** (e.g. Australia, Chile, Philippines), **and (2) potential destination of manufacturing relocation as the US decouples from China** (e.g. India, Vietnam, Mexico).

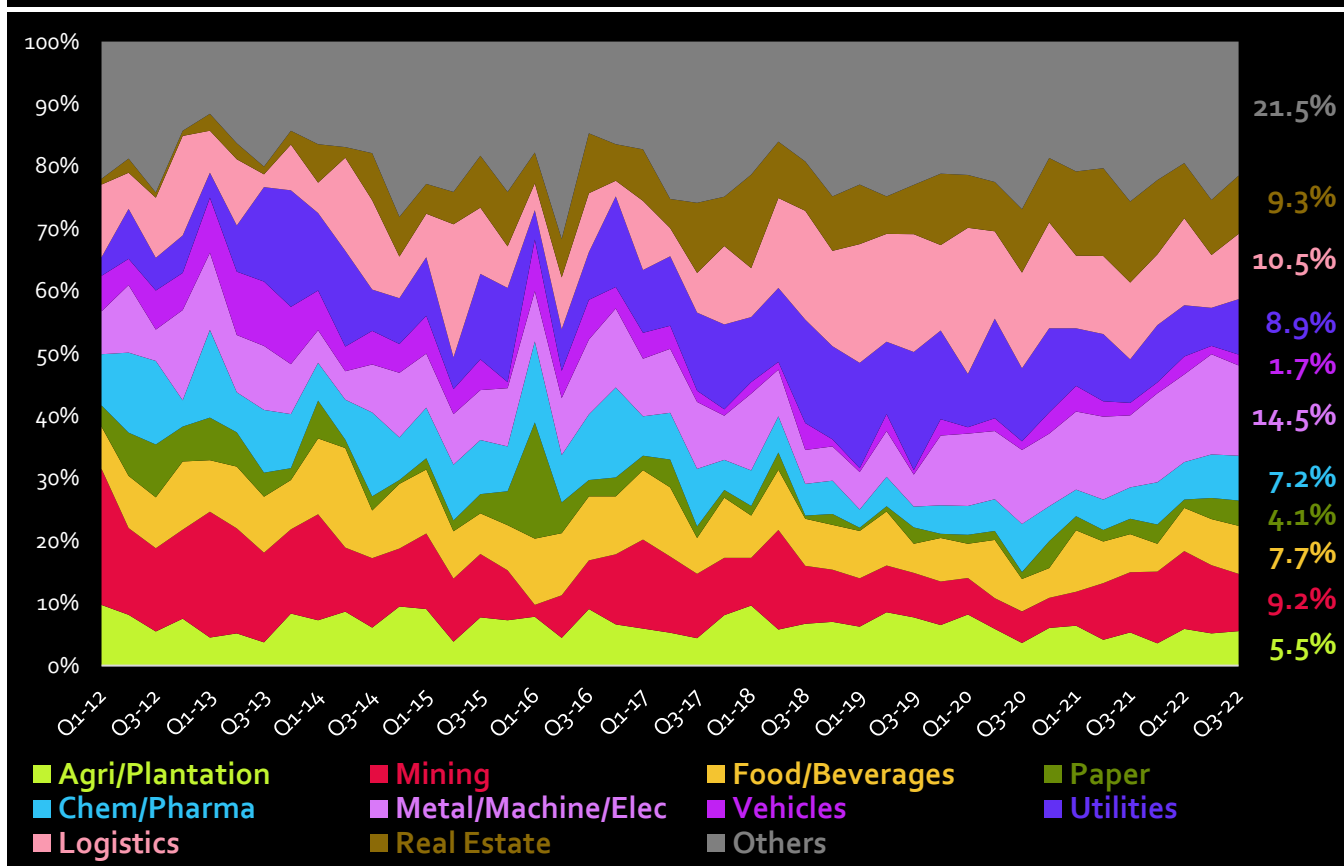
- Indonesia clearly belongs in the first group, and it shows from the strong investment into metals and mining (**Chart 1**). It is also, in theory, part of the second group – but the evidence here is less suggestive. Investment into manufacturing outside of smelter has not grown as strongly, although there are bright spots in chemical/pharmaceutical and food industries.
- Another relevant data point here is new export orders index under manufacturing Purchasing Managers' Index (PMI). While Indonesia's headline PMI remains above water, in terms of new export orders it is way down in the contraction zone. Meanwhile, the three prime candidates for relocation – India, Vietnam, Mexico – are seeing rising (or at least flat) export orders, alongside Singapore and Thailand which also have built-in advantages in this area.
- In a sense, Indonesia may not be quite ready for the industrial relocation sweepstakes, despite the genuine strides it has made during the past decade. Still, it is encouraging that **the two “enabling” sectors, namely logistics and utilities, continue to see strong investment**. Even if Indonesia does not benefit much from the current wave of relocation, it could position itself better for subsequent waves – especially if the legal limbo surrounding the Job Creation Law could be cleared up.
- Finally, there are two other points of caution. First, DDI growth in particular appears to be peaking, and may see a moderate slowdown next year. This is a reflection of the relatively conservative attitude of the corporate sector after the pandemic, with a clear preference towards maintaining liquidity and reducing leverage (**Panel 2**).
- Secondly, the FDI boom since the pandemic has not been matched by comparable FX inflows (**Panel 1, right**). This could reflect project delays, or otherwise tight financial control from the headquarters/origin countries. Either way, this means that **the FDI boom may not be a sufficient cushion for the IDR amid the current strong USD environment**. Instead, the trade surplus and interest rates remain critical weapons in this regard.

## Panel 1. Investment growth has been strong, but actual FX inflow is more limited



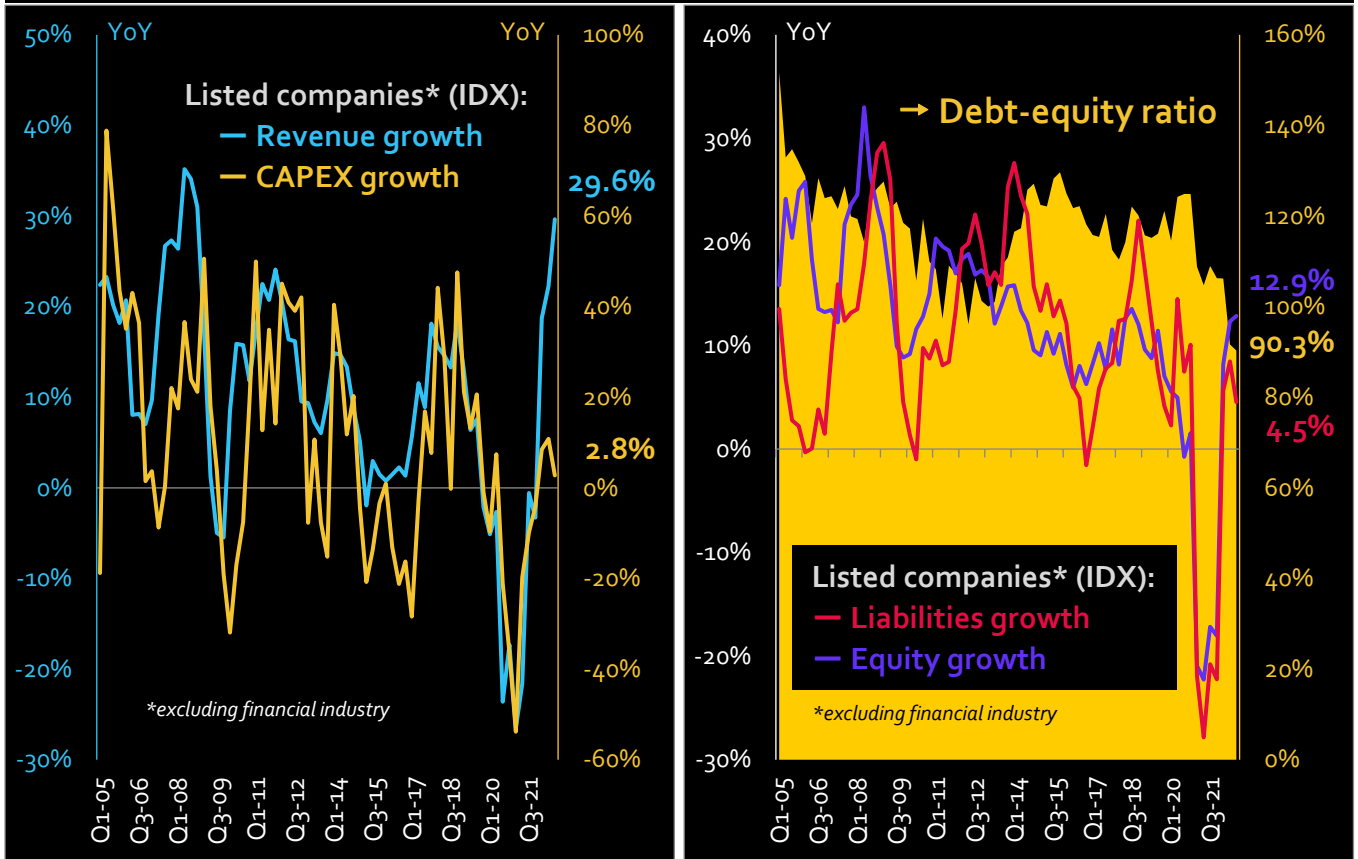
Source: BKPM, BPS, BI, calculation by BCA Economic Research

## Chart 1. Investment in recent years have been dominated by metals and mining



Source: BKPM, BCA Economic Research

**Panel 2. Despite the recovery, corporations have been relatively conservative in taking on more debt and spending towards CAPEX**



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

## Selected Macroeconomic Indicator

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

	2019	2020	2021	Q4-2021	Q1-2022	Q2-2022	Q3-2022
<b>PRIMARY SECTORS</b>	<b>3,293.8</b>	<b>3,280.0</b>	<b>4,826.2</b>	<b>1,676.8</b>	<b>1,636.5</b>	<b>1,695.1</b>	<b>1,602.0</b>
Food crops, plantations, & livestock	946.9	1,184.2	950.6	190.7	456.2	401.1	503.1
Forestry	36.3	42.6	41.4	9.0	8.0	23.8	39.9
Fishery	54.1	48.1	17.2	4.0	1.2	12.0	6.7
Mining	2,256.5	2,005.1	3,816.9	1,473.0	1,171.1	1,258.2	1,052.4
<b>SECONDARY SECTORS</b>	<b>9,550.8</b>	<b>13,202.2</b>	<b>15,802.8</b>	<b>3,898.6</b>	<b>5,429.2</b>	<b>6,114.3</b>	<b>6,595.1</b>
Food industry	1,272.2	1,592.2	2,337.4	319.2	685.9	552.7	698.7
Textile industry	238.9	279.8	312.1	67.9	126.1	109.5	285.1
Leather goods & footwear industry	188.2	214.0	484.9	200.2	96.8	163.1	241.2
Wood industry	94.9	84.7	68.1	20.8	22.6	112.0	71.9
Paper & printing industry	446.1	942.8	952.5	359.6	156.4	504.8	648.2
Chemical & pharmaceutical ind.	1,486.1	1,742.6	1,656.5	355.3	854.0	896.5	958.4
Rubber & plastic industry	291.6	291.4	262.2	38.0	67.2	72.4	119.6
Non metallic mineral ind.	475.0	248.3	327.0	72.7	101.5	94.1	102.8
Metal, machinery, electronics, & other instruments	4,058.6	6,570.5	7,653.8	2,146.4	2,716.7	3,283.1	2,993.1
Transport equipment & other transport	754.1	941.9	1,501.9	271.8	542.0	236.0	316.5
Other industries	245.3	294.0	246.3	46.6	60.0	90.1	159.6
<b>TERTIARY SECTORS</b>	<b>15,364.3</b>	<b>12,183.8</b>	<b>10,464.2</b>	<b>2,795.9</b>	<b>3,193.3</b>	<b>3,560.9</b>	<b>3,572.0</b>
Electricity, gas and water supply	5,921.2	4,613.9	2,938.6	995.8	982.5	836.3	1,225.8
Construction	161.6	189.5	93.3	22.7	24.5	31.0	67.8
Trade & reparation	421.3	434.1	463.8	114.4	184.5	242.8	222.4
Hotel & restaurant	625.9	441.1	432.2	136.9	155.3	95.6	111.9
Transport, warehouse & telco	4,727.8	3,580.5	3,159.1	782.1	872.1	881.4	859.2
Real estate, industrial estate & business activities	2,888.6	2,191.4	2,186.4	401.0	516.1	997.4	765.5
Other services	617.9	733.3	1,190.7	342.9	458.3	476.4	319.4
<b>TOTAL</b>	<b>28,208.9</b>	<b>28,666.0</b>	<b>31,093.2</b>	<b>8,371.3</b>	<b>10,259.0</b>	<b>11,370.3</b>	<b>11,769.1</b>

**\*Gold = Top 5 sectors for the year**

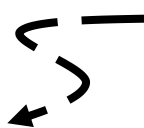
Source: BKPM

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

	2019	2020	2021	Q4-2021	Q1-2022	Q2-2022	Q3-2022
<b>PRIMARY SECTORS</b>	<b>78,884.9</b>	<b>47,580.1</b>	<b>62,766.7</b>	<b>16,905.2</b>	<b>31,125.0</b>	<b>26,713.3</b>	<b>24,139.8</b>
Food crops, plantations, & livestock	43,598.9	32,096.6	29,374.7	5,793.4	10,073.3	9,814.8	9,808.8
Forestry	9,366.5	1,163.6	6,862.7	4,392.4	2,526.0	1,672.1	607.3
Fishery	247.5	564.9	1,012.1	251.7	140.1	242.5	522.6
Mining	25,672.0	13,755.0	25,517.1	6,467.6	18,385.6	14,983.9	13,201.1
<b>SECONDARY SECTORS</b>	<b>72,673.8</b>	<b>82,817.9</b>	<b>94,698.7</b>	<b>31,724.1</b>	<b>25,575.7</b>	<b>39,575.1</b>	<b>39,714.4</b>
Food industry	36,602.6	27,872.7	26,517.5	6,089.8	9,715.9	14,485.7	13,762.5
Textile industry	1,312.6	2,103.3	1,972.4	436.9	587.9	2,008.4	1,412.3
Leather goods & footwear industry	77.3	394.7	700.4	238.9	61.1	127.8	90.4
Wood industry	1,585.5	1,263.4	1,143.7	418.1	733.3	855.1	1,178.8
Paper & printing industry	2,950.2	3,745.9	7,833.6	2,144.9	1,584.1	3,009.7	3,137.0
Chemical & pharmaceutical ind.	9,484.2	22,526.1	23,363.6	11,123.6	4,657.1	8,226.0	8,279.0
Rubber & plastic industry	3,069.1	4,428.7	7,803.1	3,953.4	1,062.2	1,941.3	2,005.6
Non metallic mineral ind.	3,572.9	5,861.9	6,522.2	1,082.1	1,231.3	1,783.0	1,889.0
Metal, machinery, electronics, & other instruments	9,334.8	10,013.6	16,190.9	5,511.2	3,652.9	4,419.9	5,218.9
Transport equipment & other transport	2,608.2	2,556.6	1,459.3	276.4	385.7	677.0	650.4
Other industries	2,076.5	2,051.0	1,192.0	448.8	1,904.2	2,041.2	2,090.4
<b>TERTIARY SECTORS</b>	<b>234,933.2</b>	<b>283,137.7</b>	<b>289,598.5</b>	<b>70,708.0</b>	<b>78,481.1</b>	<b>72,728.8</b>	<b>75,098.7</b>
Electricity, gas and water supply	37,164.2	35,518.8	38,727.7	7,715.5	8,970.7	6,297.9	9,676.4
Construction	55,090.7	68,289.2	39,569.4	9,742.5	6,229.7	11,127.2	4,132.7
Trade & reparation	13,662.9	16,748.4	22,432.3	6,051.0	6,840.7	10,646.0	8,591.4
Hotel & restaurant	16,163.6	10,203.1	17,819.3	5,064.6	5,000.4	7,233.3	3,875.6
Transport, warehouse & telco	68,082.5	93,282.8	61,241.6	15,915.3	26,966.7	12,932.0	20,179.8
Real estate, industrial estate & business activities	27,796.5	44,852.8	85,497.8	22,724.4	17,467.4	12,428.4	17,894.1
Other services	16,972.7	14,242.6	24,310.4	3,494.7	7,005.5	12,064.0	10,748.6
<b>TOTAL</b>	<b>386,491.9</b>	<b>413,535.7</b>	<b>447,064.0</b>	<b>119,337.35</b>	<b>135,181.80</b>	<b>139,017.20</b>	<b>138,952.88</b>

\*Gold = Top 5 sectors for the year

Source: BKPM



Scan for the link to our report depository or click:

<https://s.id/1fMOq>

## Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.1
GDP per Capita (US\$)	3877	3927	4175	3912	4350	4564
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	6.4
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	5.5
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,584
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	45.5
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	1.4

\*\* Estimation of Rupiah's fundamental exchange rate

### Economic, Banking & Industry Research Team

**David E.Sumual**

*Chief Economist*

david\_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

**Victor George Petrus Matindas**

*Senior Economist*

victor\_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

**Lazuardin Thariq Hamzah**

*Economist / Analyst*

lazuardin\_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

**Agus Salim Hardjodinito**

*Senior Industry Analyst*

agus\_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

**Gabriella Yolivia**

*Industry Analyst*

gabriella\_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

**Keely Julia Hasim**

*Economist / Analyst*

keely\_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

**Firman Yosep Tember**

*Research Assistant*

firman\_tember@bca.co.id

+6221 2358 8000 Ext: 20378

**Barra Kukuh Mamia**

*Senior Economist*

barra\_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

**Suryaputra Wijaksana**

*Economist / Analyst*

suryaputra\_wijaksana@bca.co.id

+6221 2358 8000 Ext: 1065752

**Arief Darmawan**

*Research Assistant*

arief\_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

### PT Bank Central Asia Tbk

#### Economic, Banking & Industry Research of BCA Group

20<sup>th</sup> Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

#### DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 20364 or fax to: (62-21) 2358 8343 or email: [arief\\_darmawan@bca.co.id](mailto:arief_darmawan@bca.co.id)