

## Investment:

# Betting on continuity

Barra Kuku Mamia

Senior Economist

13 February 2023

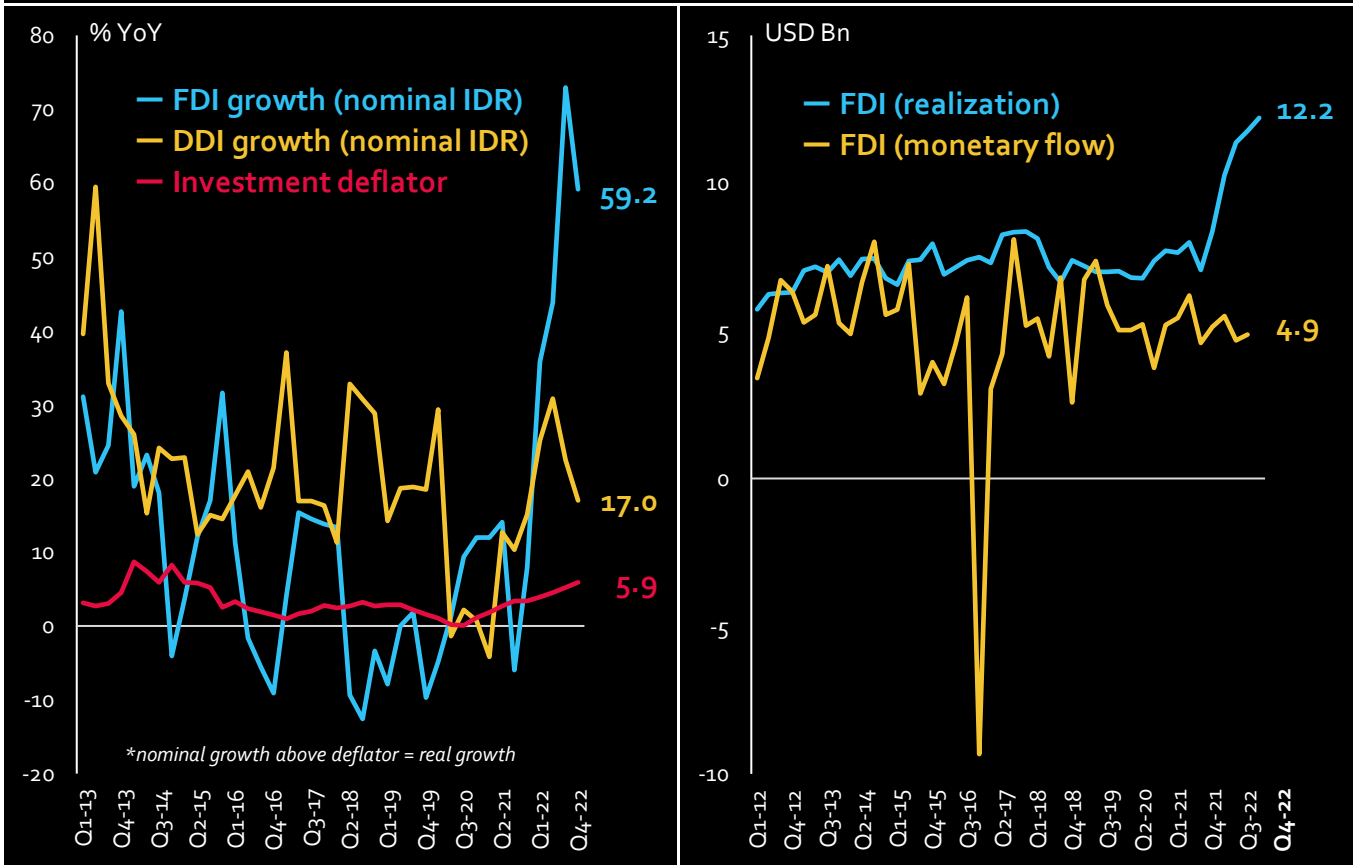
### Executive Summary

- Direct investment grew at its fastest pace in a decade (+32.8%), thanks to a combination of global growth recovery, commodity boom, and the success of the downstreaming policy.
- The investment target for 2023 seems high considering the global slowdown, normalization of commodity prices, and the narrower “fiscal space”. However, this could be offset by multi-year projects (e.g. new capital city) and long-term trends (esp. electrification).
- The upcoming 2024 Elections and the end of Pres. Jokowi’s term may raise uncertainty about investment prospects, but legal changes and Indonesia’s own clear comparative advantages in the metals sector would probably dictate continuity rather than abrupt policy shifts.

- As initially reported a few weeks ago, Indonesian direct investment had shown spectacular growth in 2022, with FDI totaling USD 45.6 Bn (+46.7% YoY) and DDI at IDR 552.8 Tn (+23.6%). Altogether, direct investment amounted to roughly USD 82.8 Bn, with the 32.8% growth being the fastest in a decade. Not one to rest on its laurels, the BKPM – the government’s investment board – aims at 16.7% growth this year, even amidst an expected global growth slowdown.
- How realistic, then, is this goal? At a macro level, it may seem a tad ambitious. Global FDI is generally a function of global GDP growth (**Panel 3**), and for Indonesia in particular it is also greatly affected by commodity prices – with the mining and plantation sectors typically being the major receivers of FDI. Even the surge of manufacturing FDI in recent years is often specifically aimed at the (mineral-downstream) base metals sector. With global disinflation proceeding apace, and commodity prices slumping despite the expected boost from China’s post-Covid recovery, it should be the case that FDI would slow quite abruptly in 2023.
- One could also make a similar case for DDI. Since 2017, the tertiary (non-commodity, non-manufacturing) sectors have been the largest receivers of investment, courtesy of President Jokowi’s infrastructure building spree. In 2022, however, the trend appears to be slipping, as investment into the real estate and utilities sectors showed marked decline – to an even greater extent than during the initial (2020) pandemic lockdowns.

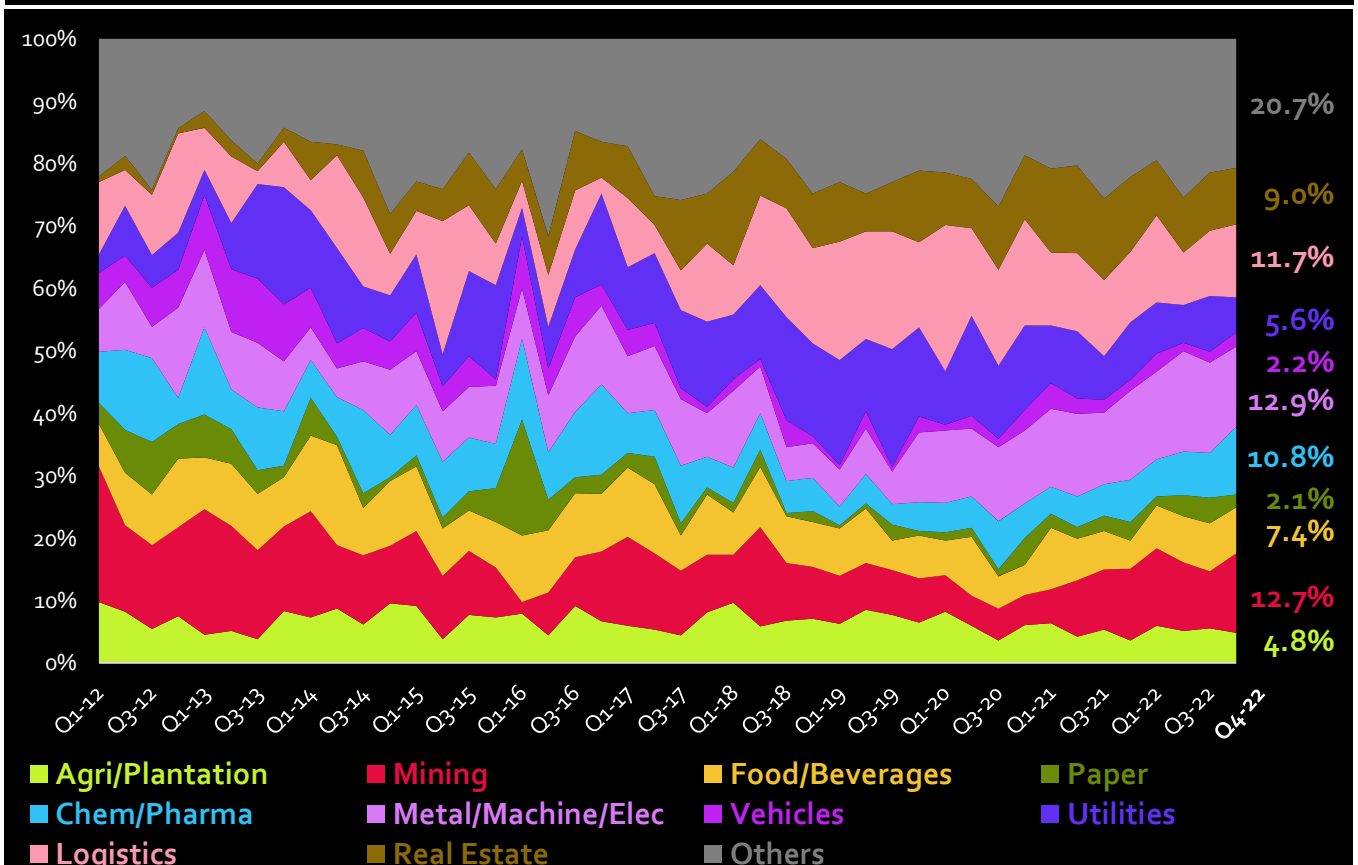
- The former mirrored property sales, which declined in the second half of 2022; the latter, however, may reflect a structural problem, whereby the commitment to phase out coal-fired power plants runs contrary to the massively coal-driven buildups in recent past. Realization of infrastructure projects might also be hampered by the decline in government CAPEX allocation, due to a general lack of “fiscal space” following the pandemic – with interest payment and subsidies being the main hindrance.
- Given these problems, how could the government justify its optimistic outlook? There are good cases to be made for investment into Indonesia’s ever-robust consumer-oriented sectors, as well as its burgeoning chemical/pharmaceutical fields which became a big recipient of FDI from China, Japan, and Europe in 2021-22.
- But the overarching answer here is simply: multi-year projects and long-term trends. The former rests largely on the new capital city project in Kalimantan, while the latter refers especially to global energy transition and electrification, in which Indonesia – as a producer of such key materials as nickel, copper, and aluminum – is expected to benefit from particularly through “forced downstreaming” (ban on ore export to encourage FDI into downstream processing). Despite hiccups from Indonesia’s defeat at WTO regarding nickel export ban, the government is determined to carry on (while appealing), and is in fact widening the net to encompass copper, bauxite (aluminum ore), and tin.
- All these projects, however, are heavily policy- (and therefore politics-) dependent, which may seem an iffy proposition one year prior to a general election, and indeed the end of President Jokowi’s final term. Such policy uncertainty may be part of the reason why investment had ebbed slightly during the last two electoral cycles (**Chart 2**) – even if its impact on GDP is more than offset by the increase in election-related spending.
- One possible antidote is the recent proposal to enshrine long-term developmental goals into the country’s legal hierarchy (as PPHN, or National Principal Objectives), which are championed by several key government-aligned legislators. But even if this plan meets with difficulties, we should keep in mind that the new capital city project is already built into law, while turning back the dial on downstreaming would seem to be a fundamental misreading of Indonesia’s comparative advantages in the current global landscape. The smart bet, then, is for continuity to overcome – and overpower – the temporary setbacks.

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



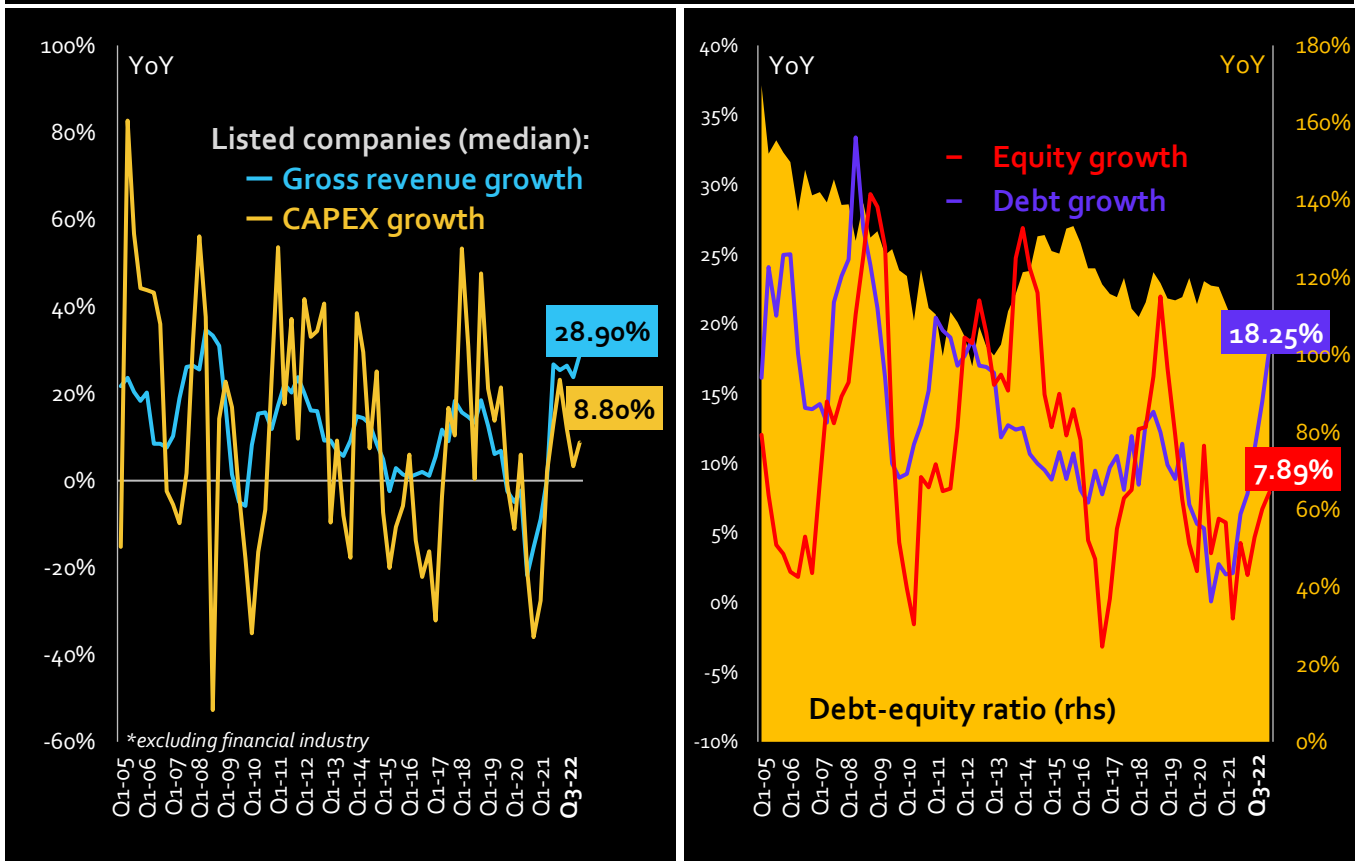
Source: BKPM, BPS, BI, calculation by BCA Economic Research

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



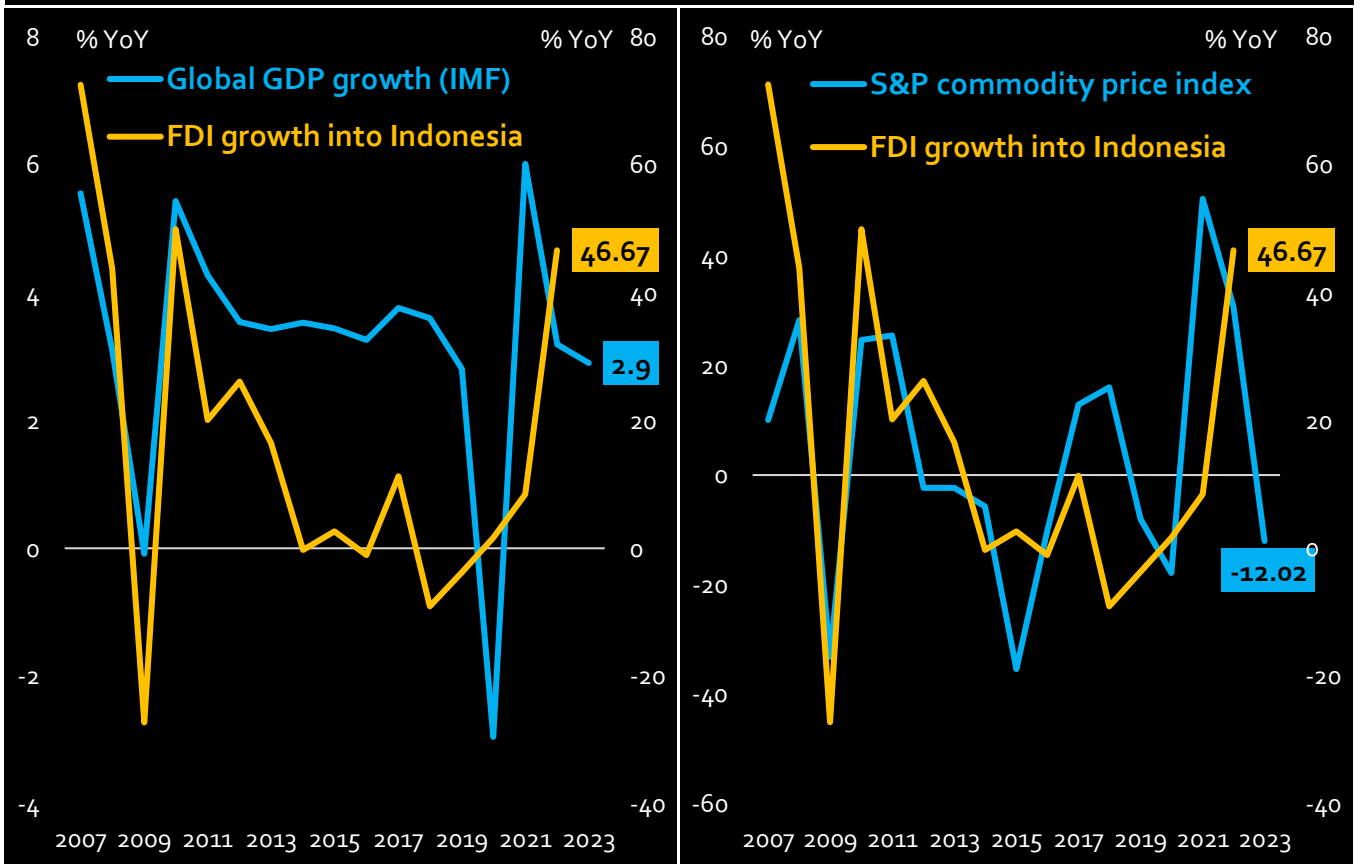
Source: BKPM, BCA Economic Research

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



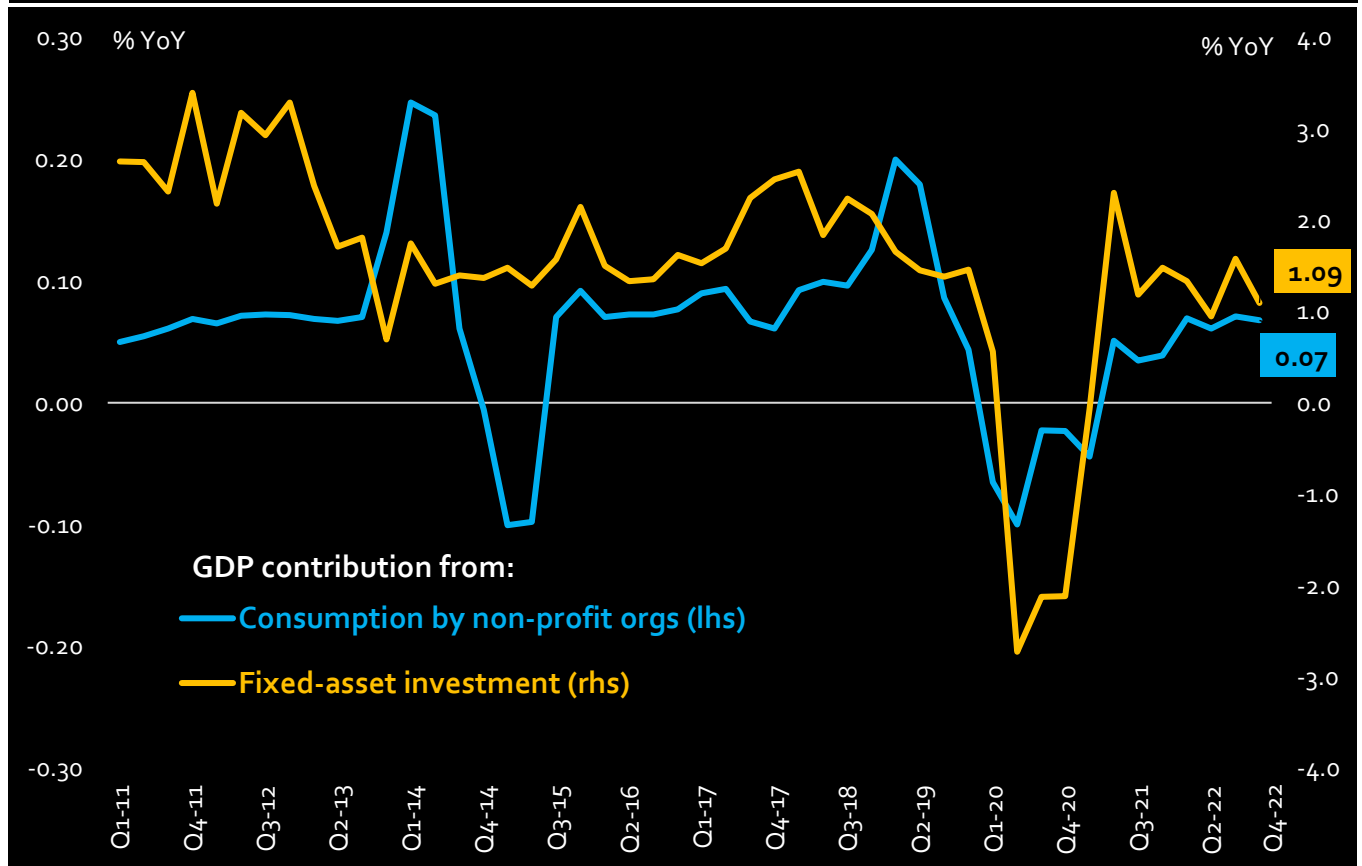
Source: Listed companies data from Bloomberg, calculations by BCA Economic Research

**Panel 3.** FDI growth is typically determined by global growth and commodity prices, which may suggest some slowdown in 2023



Source: BKPM, IMF, Bloomberg

**Chart 2. The last two election cycles saw a slight decline in investment growth, although it was unclear if election (or coincident global developments) was the factor**



Source: BPS

## Selected Macroeconomic Indicator

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

	2020	2021	2022	Q1-2022	Q2-2022	Q3-2022	Q4-2022
<b>PRIMARY SECTORS</b>	<b>3,280.0</b>	<b>4,826.2</b>	<b>7,064.9</b>	<b>1,636.5</b>	<b>1,695.1</b>	<b>1,602.0</b>	<b>2,131.3</b>
Food crops, plantations, & livestock	1,184.2	950.6	1,789.5	456.2	401.1	503.1	429.1
Forestry	42.6	41.4	98.9	8.0	23.8	39.9	27.2
Fishery	48.1	17.2	31.6	1.2	12.0	6.7	11.8
Mining	2,005.1	3,816.9	5,145.0	1,171.1	1,258.2	1,052.4	1,663.3
<b>SECONDARY SECTORS</b>	<b>13,202.2</b>	<b>15,802.8</b>	<b>24,679.4</b>	<b>5,429.2</b>	<b>6,114.3</b>	<b>6,595.1</b>	<b>6,540.8</b>
Food industry	1,592.2	2,337.4	2,424.5	685.9	552.7	698.7	487.2
Textile industry	279.8	312.1	658.3	126.1	109.5	285.1	137.6
Leather goods & footwear industry	214.0	484.9	630.5	96.8	163.1	241.2	129.4
Wood industry	84.7	68.1	243.2	22.6	112.0	71.9	36.8
Paper & printing industry	942.8	952.5	1,630.0	156.4	504.8	648.2	320.6
Chemical & pharmaceutical ind.	1,742.6	1,656.5	4,505.5	854.0	896.5	958.4	1,796.6
Rubber & plastic industry	291.4	262.2	362.7	67.2	72.4	119.6	103.6
Non metallic mineral ind.	248.3	327.0	537.3	101.5	94.1	102.8	238.8
Metal, machinery, electronics, & other instruments	6,570.5	7,653.8	11,749.4	2,716.7	3,283.1	2,993.1	2,756.5
Transport equipment & other transport	941.9	1,501.9	1,522.8	542.0	236.0	316.5	428.3
Other industries	294.0	246.3	415.0	60.0	90.1	159.6	105.3
<b>TERTIARY SECTORS</b>	<b>12,183.8</b>	<b>10,464.2</b>	<b>13,860.8</b>	<b>3,193.3</b>	<b>3,560.9</b>	<b>3,572.0</b>	<b>3,534.5</b>
Electricity, gas and water supply	4,613.9	2,938.6	3,762.7	982.5	836.3	1,225.8	718.1
Construction	189.5	93.3	165.3	24.5	31.0	67.8	42.1
Trade & reparation	434.1	463.8	736.7	184.5	242.8	222.4	87.0
Hotel & restaurant	441.1	432.2	498.0	155.3	95.6	111.9	135.2
Transport, warehouse & telco	3,580.5	3,159.1	4,125.1	872.1	881.4	859.2	1,512.3
Real estate, industrial estate & business activities	2,191.4	2,186.4	3,014.6	516.1	997.4	765.5	735.6
Other services	733.3	1,190.7	1,558.4	458.3	476.4	319.4	304.2
<b>TOTAL</b>	<b>28,666.0</b>	<b>31,093.2</b>	<b>45,605.0</b>	<b>10,259.0</b>	<b>11,370.3</b>	<b>11,769.1</b>	<b>12,206.6</b>

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

Source: BKPM

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

	2020	2021	2022	Q1-2022	Q2-2022	Q3-2022	Q4-2022
<b>PRIMARY SECTORS</b>	<b>47,580.1</b>	<b>62,766.7</b>	<b>111,217.3</b>	<b>31,125.0</b>	<b>26,713.3</b>	<b>24,139.8</b>	<b>29,239.1</b>
Food crops, plantations, & livestock	32,096.6	29,374.7	38,878.5	10,073.3	9,814.8	9,808.8	9,181.5
Forestry	1,163.6	6,862.7	8,603.1	2,526.0	1,672.1	607.3	3,797.6
Fishery	564.9	1,012.1	1,214.1	140.1	242.5	522.6	308.9
Mining	13,755.0	25,517.1	62,521.6	18,385.6	14,983.9	13,201.1	15,951.1
<b>SECONDARY SECTORS</b>	<b>82,817.9</b>	<b>94,698.7</b>	<b>143,564.3</b>	<b>25,575.7</b>	<b>39,575.1</b>	<b>39,714.4</b>	<b>38,699.1</b>
Food industry	27,872.7	26,517.5	54,937.0	9,715.9	14,485.7	13,762.5	16,972.9
Textile industry	2,103.3	1,972.4	5,614.7	587.9	2,008.4	1,412.3	1,606.1
Leather goods & footwear industry	394.7	700.4	483.4	61.1	127.8	90.4	204.2
Wood industry	1,263.4	1,143.7	3,587.9	733.3	855.1	1,178.8	820.8
Paper & printing industry	3,745.9	7,833.6	9,508.2	1,584.1	3,009.7	3,137.0	1,777.3
Chemical & pharmaceutical ind.	22,526.1	23,363.6	28,905.2	4,657.1	8,226.0	8,279.0	7,743.2
Rubber & plastic industry	4,428.7	7,803.1	7,369.7	1,062.2	1,941.3	2,005.6	2,360.6
Non metallic mineral ind.	5,861.9	6,522.2	6,367.9	1,231.3	1,783.0	1,889.0	1,464.6
Metal, machinery, electronics, & other instruments	10,013.6	16,190.9	17,643.8	3,652.9	4,419.9	5,218.9	4,352.0
Transport equipment & other transport	2,556.6	1,459.3	2,425.2	385.7	677.0	650.4	712.1
Other industries	2,051.0	1,192.0	6,721.3	1,904.2	2,041.2	2,090.4	685.5
<b>TERTIARY SECTORS</b>	<b>283,137.7</b>	<b>289,598.5</b>	<b>297,987.3</b>	<b>78,481.1</b>	<b>72,728.8</b>	<b>75,098.7</b>	<b>71,678.7</b>
Electricity, gas and water supply	35,518.8	38,727.7	32,107.5	8,970.7	6,297.9	9,676.4	7,162.5
Construction	68,289.2	39,569.4	33,846.5	6,229.7	11,127.2	4,132.7	12,356.9
Trade & reparation	16,748.4	22,432.3	31,051.3	6,840.7	10,646.0	8,591.4	4,973.1
Hotel & restaurant	10,203.1	17,819.3	21,579.1	5,000.4	7,233.3	3,875.6	5,469.7
Transport, warehouse & telco	93,282.8	61,241.6	75,138.4	26,966.7	12,932.0	20,179.8	15,059.9
Real estate, industrial estate & business activities	44,852.8	85,497.8	66,167.9	17,467.4	12,428.4	17,894.1	18,377.9
Other services	14,242.6	24,310.4	38,096.7	7,005.5	12,064.0	10,748.6	8,278.6
<b>TOTAL</b>	<b>413,535.7</b>	<b>447,064.0</b>	<b>552,768.8</b>	<b>135,181.80</b>	<b>139,017.20</b>	<b>138,952.88</b>	<b>139,616.97</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

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	4.7
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	4.3
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.00
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,647
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	43.2
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	0.9*	-0.2

\*Estimated number

\*\* 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

**Thierris Nora Kusuma**

*Economist / Analyst*

thierris\_kusuma@bca.co.id

+6221 2358 8000 Ext: -

**Agus Salim Hardjodinto**

*Head of Industry and Regional Research*

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

**Arief Darmawan**

*Research Assistant*

arief\_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

**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

**Elbert Timothy Lasiman**

*Economist / Analyst*

Elbert\_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

**Firman Yosep Tember**

*Research Assistant*

firman\_tember@bca.co.id

+6221 2358 8000 Ext: 20378

### 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)