

Investment:

The beat goes on

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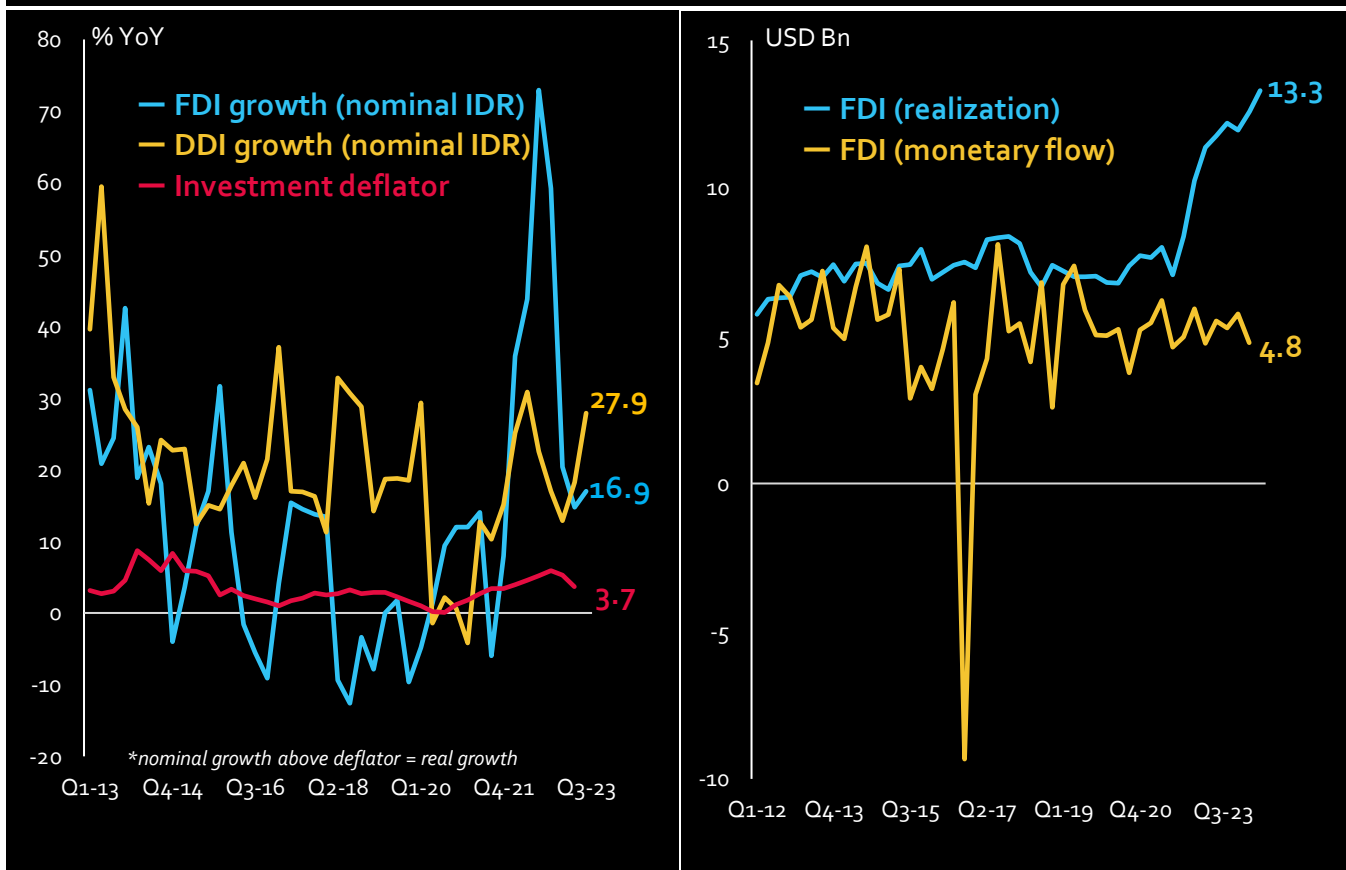
Executive Summary

- Direct investment grew 20.4% YoY reaching IDR 383.1 Tn in Q3-23. FDI grew modestly at 12.7% in USD terms, while DDI saw an impressive 28.2% YoY increase.
 - Indonesia continue to benefit from long-term geopolitical considerations which has increased the importance of securing resources, plus the short-term revival in manufacturing activity.
 - In the tertiary sector, there has been a notable increase in construction activities, with key projects are being ramped up in the waning days of Jokowi administration.
 - However, some caution is needed, as DDI growth may slow in the short term, and FDI doesn't necessarily translate to increased FX liquidity and job creation.
- Direct investment grew 20.4% YoY (to IDR 383.1 Tn) in Q3-23, which was stronger than the 15.7% number in Q2. FDI growth picked up modestly (12.7% YoY in USD terms), but it paled in comparison with domestic investment or DDI, which witnessed an even swifter growth of 28.2%.
 - At this point, it may seem like the investment momentum in Indonesia is “un-killable” despite the myriad of challenges that we are running into. In particular, the decline in commodity prices might have been expected to cool down investment growth given that mining and metals have been major drivers in recent years. But there are good reasons why this has not been the case.
 - For starters, direct investment is – as a rule – driven by long-term considerations, and thus should not be expected to be too sensitive to short-term macro gyrations. And the long-term case still makes plenty of sense: with a growing cleavage between China and the West, there is a greater premium to secure resources and supply chains, and resource-rich EM like Indonesia may continue to reap the benefit.
 - Metals and mining are, accordingly, still the premier attraction for investors – but an interesting trend emerged. Whereas earlier on, investment in metal processing were mostly driven by Chinese FDI, it is now Indonesian companies that are leading the charge, with DDI into the metal industry growing by a whopping 116.7% YoY (against “merely” 16.9% for FDI). Despite this belated entry of domestic players, however, mineral “downstreaming” is still largely a foreign-led game, with about 85% of direct investment flows still originating abroad.
 - Even more remarkable is the FDI growth into a few select manufacturing sectors: machinery and electronics (+103.5% YoY), paper and printing (+78.9%), chemicals and pharmaceuticals

(+39.3%), and motor vehicles (+34.3%). This growth is consistent with recent data that show some revival in manufacturing activities. Furthermore, it also squares with two key narratives that we are watching closely: (1) that China is trying to revive its flagging economy by massively stimulating its manufacturing sector, but also (2) that Western multinationals are trying to shift their production base away from China. The Indonesian manufacturing base seems to enjoy some spillover effect from both of these.

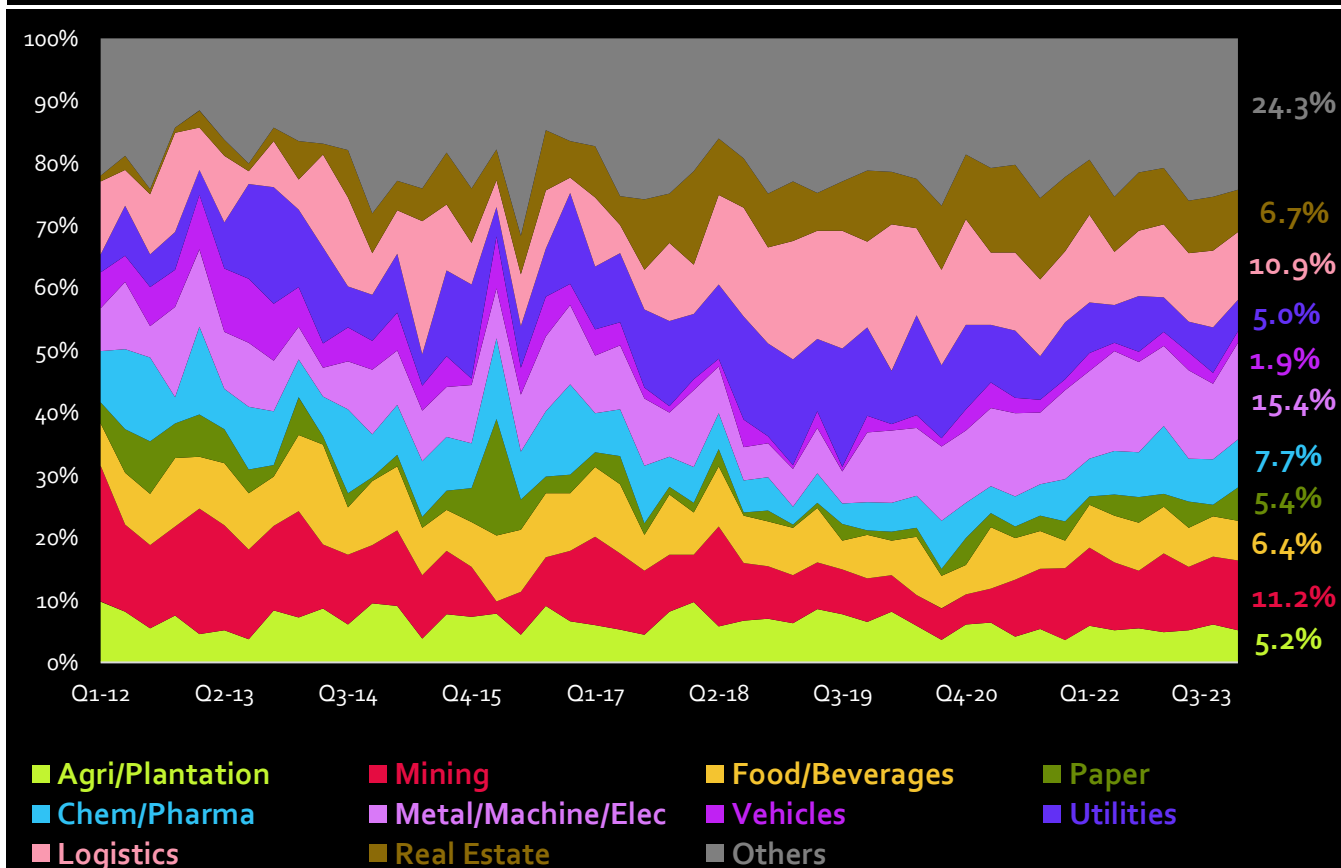
- Finally, in the tertiary sector, there has been a notable increase in construction activities particularly on the domestic side, as key projects are being ramped up in the waning days of the Jokowi administration. In particular, the new capital city project (Ibu Kota Negara, IKN) is being expedited to meet the goal of conducting next year's Independence Day ceremony (August 17th) there. All these have offset a sharp decline of investment into utilities (-33.7% YoY), which was partly a function of overcapacity in the Java-Bali electrical grid and a reluctance to develop new coal-fired power plants.
- All in all, Indonesia has thus remained a "growth haven" amid the global turmoil, and investment may be expected to remain a sizable contributor to GDP growth. A few caveats are in order, however. For one, there could be some pullback in DDI growth in the short-term, in line with the recent decline in corporate revenue and capital goods imports, as well as rising borrowing costs. It could be the case that Q3 marks a high-water mark for DDI growth for a while, outside of government-driven projects.
- Another caveat is our long-running misgivings about how FDI does not necessarily translate to more FX liquidity and job creation at home. While the BoP data for Q3 will not come out until later in November, we expect actual FDI-related BoP flows to remain stagnant, for reasons that we have outlined before – namely, that the investment is directly used to import goods from the source country, which means that it needs not "transit" into the Indonesian banking system. On the job front, meanwhile, it seems that FDI is mainly directed towards capital-intensive industries, while DDI has to pick up the slack for the more labor-intensive ones such as agriculture, F&B, and textile/footwear.

Panel 1. Investment grew, although actual FX inflow is more limited



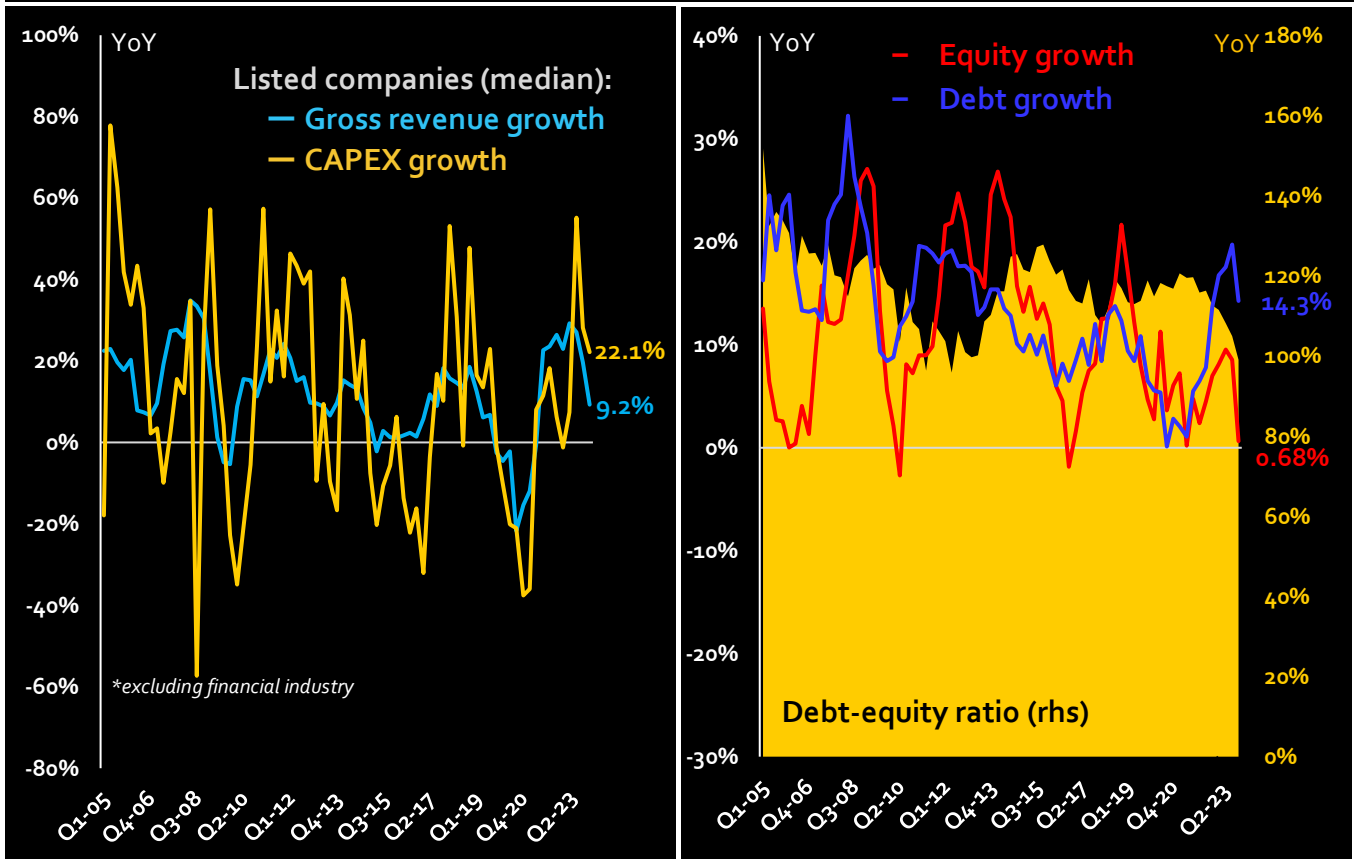
Source: BKPM, BPS, BI, calculation by BCA Economic Research

Chart 1. Investment in metals and mining have been the dominant one in recent years



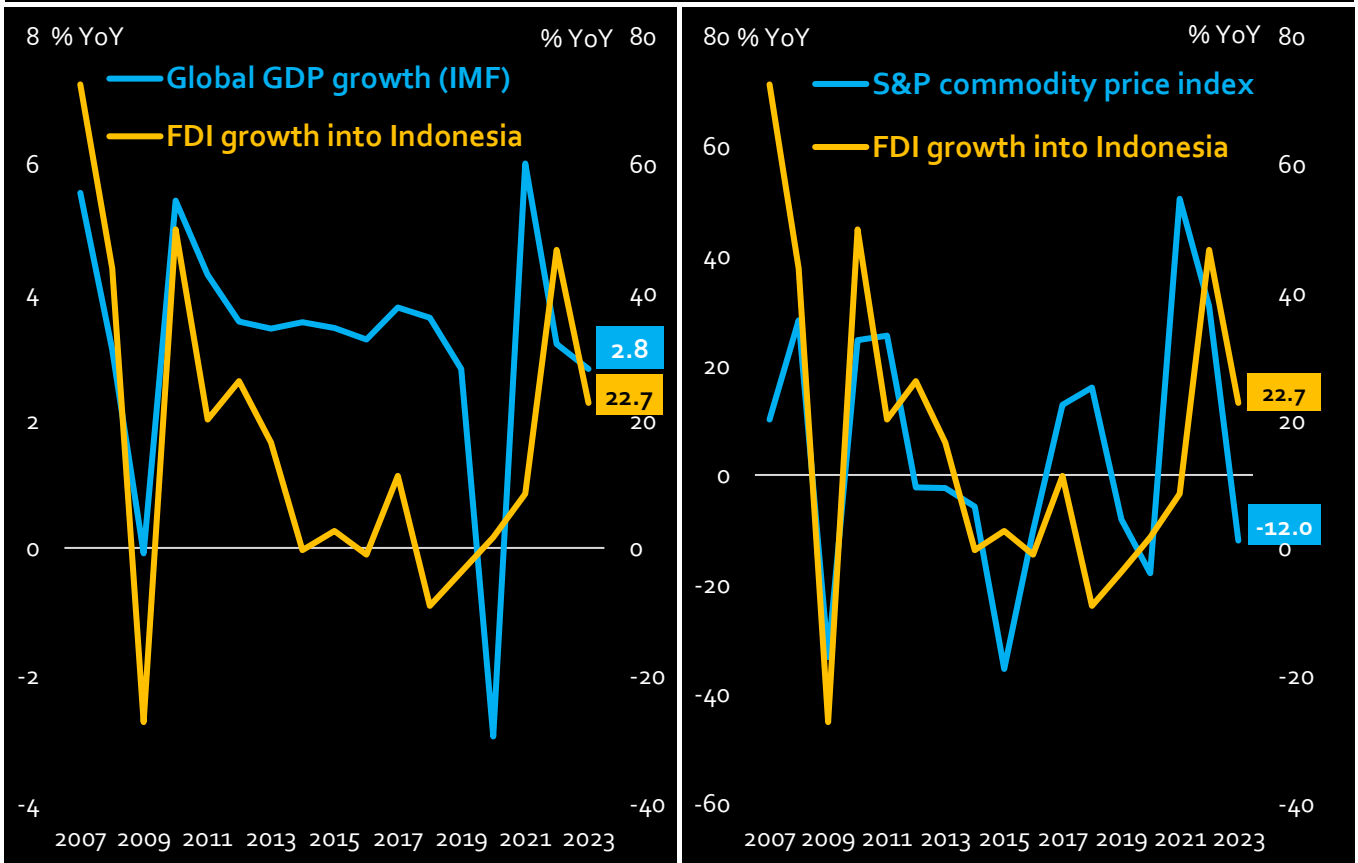
Source: BKPM, BCA Economic Research

Panel 2. CAPEX growth by listed companies are still declining, aligns with deteriorating revenue growth



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

Panel 3. Declining global growth and commodity prices influence 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	Q4-2022	Q1-2023	Q2-2023	Q3-2023
PRIMARY SECTORS	3,280.0	4,826.2	7,064.9	2,131.3	1,411.8	1,898.6	1,913.8
Food crops, plantations, & livestock	1,184.2	950.6	1,789.5	429.1	435.2	635.6	566.8
Forestry	42.6	41.4	98.9	27.2	44.3	17.3	15.6
Fishery	48.1	17.2	31.6	11.8	12.4	4.3	4.6
Mining	2,005.1	3,816.9	5,145.0	1,663.3	919.9	1,241.4	1,326.8
SECONDARY SECTORS	13,202.2	15,802.8	24,679.4	6,540.8	7,026.6	6,027.2	7,916.9
Food industry	1,592.2	2,337.4	2,424.5	487.2	615.4	501.9	638.3
Textile industry	279.8	312.1	658.3	137.6	114.2	130.0	81.6
Leather goods & footwear industry	214.0	484.9	630.5	129.4	190.2	178.4	205.7
Wood industry	84.7	68.1	243.2	36.8	54.5	25.2	45.8
Paper & printing industry	942.8	952.5	1,630.0	320.6	830.6	276.2	1,159.6
Chemical & pharmaceutical ind.	1,742.6	1,656.5	4,505.5	1,796.6	1,068.4	1,258.4	1,335.0
Rubber & plastic industry	291.4	262.2	362.7	103.6	173.5	160.0	87.7
Non metallic mineral ind.	248.3	327.0	537.3	238.8	119.6	75.6	161.1
Metal, machinery, electronics, & other instruments	6,570.5	7,653.8	11,749.4	2,756.5	3,259.2	2,949.8	3,683.2
Transport equipment & other transport	941.9	1,501.9	1,522.8	428.3	531.7	322.9	425.1
Other industries	294.0	246.3	415.0	105.3	69.2	149.1	93.9
TERTIARY SECTORS	12,183.8	10,464.2	13,860.8	3,534.5	3,522.1	4,662.5	3,429.0
Electricity, gas and water supply	4,613.9	2,938.6	3,762.7	718.1	615.5	806.9	819.5
Construction	189.5	93.3	165.3	42.1	71.9	53.2	120.8
Trade & reparation	434.1	463.8	736.7	87.0	293.4	211.7	306.6
Hotel & restaurant	441.1	432.2	498.0	135.2	189.1	318.2	120.9
Transport, warehouse & telco	3,580.5	3,159.1	4,125.1	1,512.3	1,213.5	1,941.0	1,085.1
Real estate, industrial estate & business activities	2,191.4	2,186.4	3,014.6	735.6	569.5	807.8	595.5
Other services	733.3	1,190.7	1,558.4	304.2	569.2	523.6	380.6
TOTAL	28,666.0	31,093.2	45,605.0	12,206.6	11,960.5	12,588.3	13,259.7

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

Source: BKPM

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

	2020	2021	2022	Q4-2022	Q1-2023	Q2-2023	Q3-2023
PRIMARY SECTORS	47,580.1	62,766.7	111,217.3	29,239.1	34,991.6	40,304.8	39,364.5
Food crops, plantations, & livestock	32,096.6	29,374.7	38,878.5	9,181.5	10,687.1	12,075.5	10,997.5
Forestry	1,163.6	6,862.7	8,603.1	3,797.6	3,845.1	8,168.4	5,135.9
Fishery	564.9	1,012.1	1,214.1	308.9	620.7	525.4	968.4
Mining	13,755.0	25,517.1	62,521.6	15,951.1	19,838.6	19,535.6	22,262.7
SECONDARY SECTORS	82,817.9	94,698.7	143,564.3	38,699.1	35,907.7	41,179.5	46,485.2
Food industry	27,872.7	26,517.5	54,937.0	16,972.9	11,268.6	15,455.1	14,532.4
Textile industry	2,103.3	1,972.4	5,614.7	1,606.1	2,947.0	1,702.2	1,854.3
Leather goods & footwear industry	394.7	700.4	483.4	204.2	344.5	586.8	242.3
Wood industry	1,263.4	1,143.7	3,587.9	820.8	1,419.5	734.3	1,330.3
Paper & printing industry	3,745.9	7,833.6	9,508.2	1,777.3	1,752.3	2,292.5	2,608.4
Chemical & pharmaceutical ind.	22,526.1	23,363.6	28,905.2	7,743.2	6,777.6	6,837.0	8,988.4
Rubber & plastic industry	4,428.7	7,803.1	7,369.7	2,360.6	1,935.9	2,624.3	1,900.6
Non metallic mineral ind.	5,861.9	6,522.2	6,367.9	1,464.6	1,865.4	2,596.8	1,793.4
Metal, machinery, electronics, & other instruments	10,013.6	16,190.9	17,643.8	4,352.0	4,793.0	5,980.6	10,339.2
Transport equipment & other transport	2,556.6	1,459.3	2,425.2	712.1	1,467.7	1,301.0	784.0
Other industries	2,051.0	1,192.0	6,721.3	685.5	1,336.1	1,068.8	2,111.7
TERTIARY SECTORS	283,137.7	289,598.5	297,987.3	71,678.7	81,050.6	81,965.6	92,285.0
Electricity, gas and water supply	35,518.8	38,727.7	32,107.5	7,162.5	7,221.7	13,689.7	6,539.1
Construction	68,289.2	39,569.4	33,846.5	12,356.9	7,772.6	6,923.9	9,000.6
Trade & reparation	16,748.4	22,432.3	31,051.3	4,973.1	9,951.1	11,572.1	16,204.3
Hotel & restaurant	10,203.1	17,819.3	21,579.1	5,469.7	5,188.1	5,830.0	5,799.7
Transport, warehouse & telco	93,282.8	61,241.6	75,138.4	15,059.9	18,148.3	14,291.6	24,816.5
Real estate, industrial estate & business activities	44,852.8	85,497.8	66,167.9	18,377.9	19,469.3	18,400.2	16,647.1
Other services	14,242.6	24,310.4	38,096.7	8,278.6	13,299.6	11,258.0	13,277.6
TOTAL	413,535.7	447,064.0	552,768.8	139,616.97	151,949.92	163,449.90	178,134.64

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

Source: BKPM



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Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.1
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.6
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.25
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	16,114
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	32.8
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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