

Investment:

Positive sentiment marched on despite growing clouds

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Executive Summary

- Continued economic recovery breathes an air of confidence toward the Indonesian economy. Indeed, DDI reached IDR 135.2 Tn in Q1 2022, up 25.1% YoY. Meanwhile, FDI reached IDR 147.2 Tn, outpacing that of DDI growth as it records a solid 34.1% YoY growth.
- Domestic investments in Q1 2022 seem to be spearheaded by companies in the commodity sector as windfalls from high commodity prices pad up corporations' flush savings. However, such expansion could soon be followed by companies in other sectors as recovering demand and new technologies such as in the telecommunication sector would continue to drive up investments.
- Despite the stellar growth, challenging global environment due to broader economic slowdown, global inflation, and volatile commodity prices may prove to be headwinds for Indonesia's commodity-driven FDI growth.

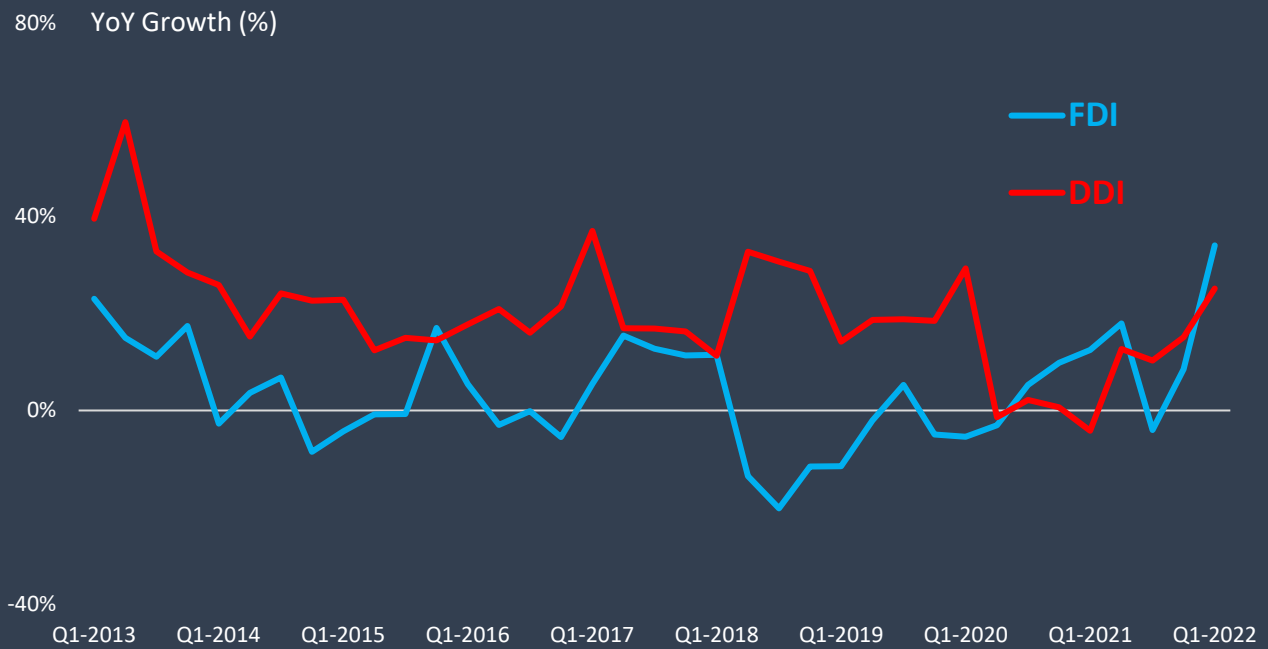
- Investment continued to pick up steam in Q1 2022, continuing the trend that began in the previous quarter 2022 despite the multifarious challenges that affected the local and global economy. Both domestic direct investment (DDI) and foreign direct investment (FDI) expanded at faster rates, at 25.1% YoY and 34.1% YoY, respectively **(Chart 1)**.
- This exuberance were in line with the solid readings of some indicators throughout the period. Imports of capital goods grew robustly, while disbursement of productive loans (both working capital and investment) also showed some acceleration. Our internal survey of BCA clients also revealed growing business confidence, which was especially notable for large businesses/corporations.
- The primary sector was the clearest driver of this trend, with spikes in agriculture and mining DDI amidst the backdrop of the ongoing commodity price rally. In the medium-term, however, it may not be the sole beneficiary of the rally, since – given the outsized role of commodities in Indonesia's export basket – the rally would also drive up domestic liquidity and demand, potentially turbocharging investment across other sectors as well as the past patterns have showed **(Chart 2)**. In fact, we have seen rising investment into the tertiary sectors, as well as consumer-driven

manufacturing sectors such as food/beverages and textiles – testament to the recovery of domestic consumption.

- Elsewhere, the long-term impact of the pandemic (i.e. digitalisation of the economy) is visible from the continued strength of investment into the telecommunication sector, especially as local network providers are rushing to upgrade their infrastructure to suit the 5G network. The utilities and construction sectors were also benefiting from the return of the government's capital expenditure. However, the government's push may recede somewhat in the future as the government would have to reduce its budget deficit needs below 3% come 2023, while rising global inflation may lead to an increase in subsidies and social spending outlays.
- The 'visible hands' of the government were also conspicuous – as it has been in the past two years – from the blistering pace of investment into the metal industry. The global energy crisis, exacerbated by the Russia-Ukraine war, are strengthening the demand for copper and nickel, which feed into the renewable energy industry. Indeed, nickel export ban put in place by the government have force some foreign companies to set up shops as investments in the domestic smelter industry remain the most straightforward way to secure supply of nickel.
- There remain several obstacles, however, that could bog down investment in the short-term. First, the supply chain disruption could increase the needs of companies in the commodity sector to finance inventories, while the increasingly volatile commodity prices would require companies to free up liquidity to cover their margin in the futures market – thus limiting the capital available to finance expansion projects by foreign commodity producers. The uncertainties regarding China's economy, and the broader economic slowdown that is becoming increasingly likely for the whole globe, may also put off some investors. Finally, global inflation, including for tech-heavy capital goods, means that the sharp increase in investment commitment (in nominal terms) does not necessarily mean a similar increase in real terms. In other words, there is probably less "bang for the buck" for the investment figures.

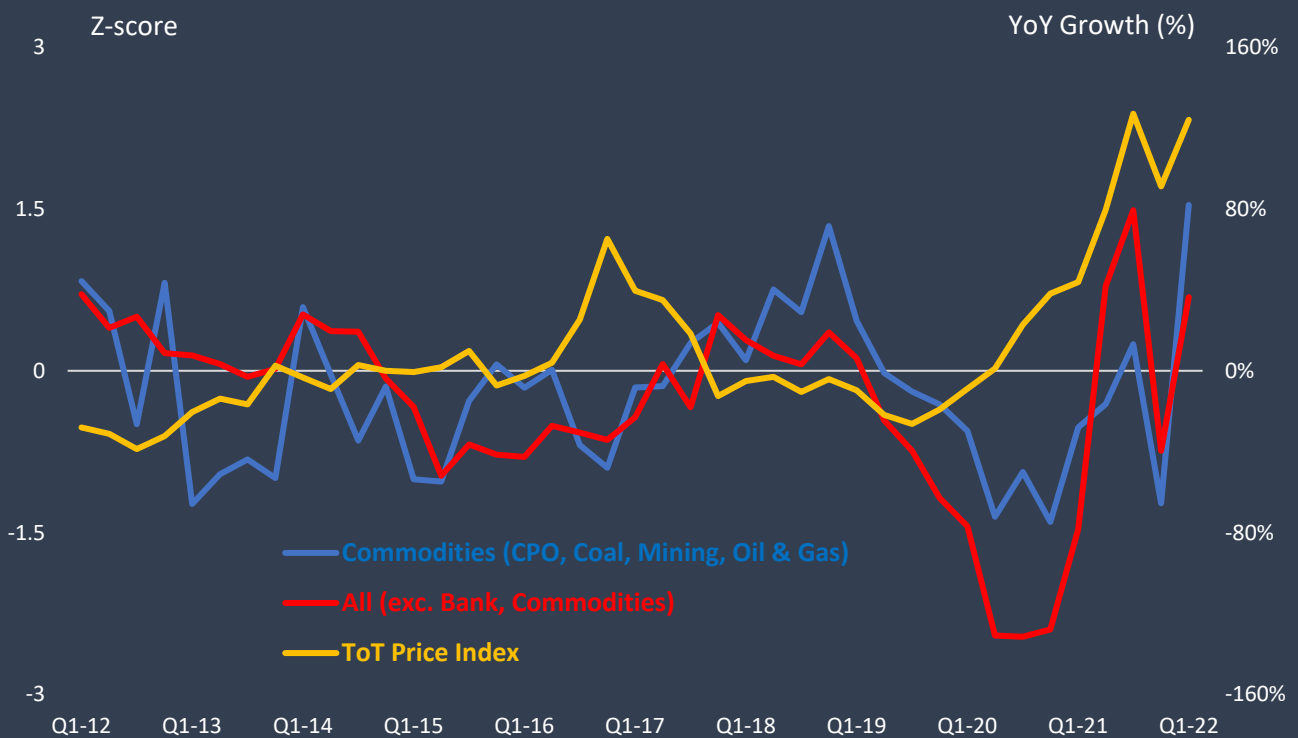
DDI has been strong in sectors related to the manufacturing of consumer products such as the food/beverages and textile, a testament to increasing optimism as domestic consumption continues to recover.

Chart 1. Both FDI and DDI records a robust growth as the Indonesian economy have insofar remains stable amid the avalanche of global macroeconomic risks.



Source: Investment Coordinating Board
Last update: 27 April 2022

Chart 2. Windfall profits due to high commodity prices provide an impetus for commodity sectors to expand and would also encourage expansion of other sectors afterwards.



Source: Bloomberg, calculation by BCA economists
Last update: Q1-2022

Selected Macroeconomic Indicators

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

	2019	2020	2021	Q2-2021	Q3-2021	Q4-2021	Q1-2022
PRIMARY SECTORS	3,293.8	3,280.0	4,826.2	1,164.7	1,177.2	1,676.8	1,636.5
Food crops, plantations, & livestock	946.9	1,184.2	950.6	208.4	274.9	190.7	456.2
Forestry	36.3	42.6	41.4	7.1	8.4	9.0	8.0
Fishery	54.1	48.1	17.2	5.2	2.8	4.0	1.2
Mining	2,256.5	2,005.1	3,816.9	944.0	891.1	1,473.0	1,171.1
SECONDARY SECTORS	9,550.8	13,202.2	15,802.8	3,802.8	3,628.0	3,898.6	5,429.2
Food industry	1,272.2	1,592.2	2,337.4	533.9	516.0	319.2	685.9
Textile industry	238.9	279.8	312.1	65.1	81.1	67.9	126.1
Leather goods & footwear industry	188.2	214.0	484.9	112.0	97.8	200.2	96.8
Wood industry	94.9	84.7	68.1	16.9	19.2	20.8	22.6
Paper & printing industry	446.1	942.8	952.5	123.4	346.0	359.6	156.4
Chemical & pharmaceutical ind.	1,486.1	1,742.6	1,656.5	324.4	483.0	355.3	854.0
Rubber & plastic industry	291.6	291.4	262.2	99.6	65.5	38.0	67.2
Non metallic mineral ind.	475.0	248.3	327.0	135.3	34.1	72.7	101.5
Metal, machinery, electronics, & other instruments	4,058.6	6,570.5	7,653.8	1,912.1	1,657.7	2,146.4	2,716.7
Transport equipment & other transport	754.1	941.9	1,501.9	364.1	268.9	271.8	542.0
Other industries	245.3	294.0	246.3	116.0	58.7	46.6	60.0
TERTIARY SECTORS	15,364.3	12,183.8	10,464.2	3,030.3	2,266.2	2,795.9	3,193.3
Electricity, gas and water supply	5,921.2	4,613.9	2,938.6	848.0	497.0	995.8	982.5
Construction	161.6	189.5	93.3	11.6	53.7	22.7	24.5
Trade & reparation	421.3	434.1	463.8	202.0	70.3	114.4	184.5
Hotel & restaurant	625.9	441.1	432.2	112.0	107.4	136.9	155.3
Transport, warehouse & telco	4,727.8	3,580.5	3,159.1	916.4	617.2	782.1	872.1
Real estate, industrial estate & business activities	2,888.6	2,191.4	2,186.4	738.3	511.3	401.0	516.1
Other services	617.9	733.3	1,190.7	202.0	409.3	342.9	458.3
TOTAL	28,208.9	28,666.0	31,093.2	7,997.8	7,071.4	8,371.3	10,259.0

*Gold = Top 5 sectors for the year

Source: BKPM

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

	2019	2020	2021	Q2-2021	Q3-2021	Q4-2021	Q1-2022
PRIMARY SECTORS	78,884.9	47,580.1	62,766.7	13,304.3	17,764.2	16,905.2	31,125.0
Food crops, plantations, & livestock	43,598.9	32,096.6	29,374.7	6,196.8	7,494.6	5,793.4	10,073.3
Forestry	9,366.5	1,163.6	6,862.7	170.8	2,166.0	4,392.4	2,526.0
Fishery	247.5	564.9	1,012.1	415.9	153.1	251.7	140.1
Mining	25,672.0	13,755.0	25,517.1	6,520.8	7,950.5	6,467.6	18,385.6
SECONDARY SECTORS	72,673.8	82,817.9	94,698.7	23,331.0	16,672.4	31,724.1	25,575.7
Food industry	36,602.6	27,872.7	26,517.5	7,076.6	5,736.6	6,089.8	9,715.9
Textile industry	1,312.6	2,103.3	1,972.4	345.4	376.8	436.9	587.9
Leather goods & footwear industry	77.3	394.7	700.4	28.5	318.0	238.9	61.1
Wood industry	1,585.5	1,263.4	1,143.7	347.4	321.7	418.1	733.3
Paper & printing industry	2,950.2	3,745.9	7,833.6	2,298.3	288.8	2,144.9	1,584.1
Chemical & pharmaceutical ind.	9,484.2	22,526.1	23,363.6	6,137.3	3,864.4	11,123.6	4,657.1
Rubber & plastic industry	3,069.1	4,428.7	7,803.1	1,998.1	624.8	3,953.4	1,062.2
Non metallic mineral ind.	3,572.9	5,861.9	6,522.2	516.3	707.3	1,082.1	1,231.3
Metal, machinery, electronics, & other instruments	9,334.8	10,013.6	16,190.9	4,035.0	3,732.5	5,511.2	3,652.9
Transport equipment & other transport	2,608.2	2,556.6	1,459.3	206.0	504.9	276.4	385.7
Other industries	2,076.5	2,051.0	1,192.0	342.1	196.6	448.8	1,904.2
TERTIARY SECTORS	234,933.2	283,137.7	289,598.5	69,617.6	79,019.7	70,708.0	78,481.1
Electricity, gas and water supply	37,164.2	35,518.8	38,727.7	11,677.2	7,864.5	7,715.5	8,970.7
Construction	55,090.7	68,289.2	39,569.4	9,924.3	10,339.8	9,742.5	6,229.7
Trade & reparation	13,662.9	16,748.4	22,432.3	6,090.7	5,402.8	6,051.0	6,840.7
Hotel & restaurant	16,163.6	10,203.1	17,819.3	3,170.0	3,851.1	5,064.6	5,000.4
Transport, warehouse & telco	68,082.5	93,282.8	61,241.6	14,478.5	17,548.6	15,915.3	26,966.7
Real estate, industrial estate & business activities	27,796.5	44,852.8	85,497.8	20,537.7	20,625.9	22,724.4	17,467.4
Other services	16,972.7	14,242.6	24,310.4	3,739.2	13,387.0	3,494.7	7,005.5
TOTAL	386,491.9	413,535.7	447,064.0	106,252.9	113,456.30	119,337.35	135,181.80

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

Source: BKPM

Indonesia – Economic Projections Table

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	4.0*	4.8
GDP per Capita (US\$)	3877	3927	4175	3912	4350*	4615
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	4.2
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.0
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	14,660
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	48.5
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.6*	1.4

* Provisional numbers for 2021

** Estimation of Rupiah's fundamental exchange rate

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