

Investment:

The tide is high, but receding

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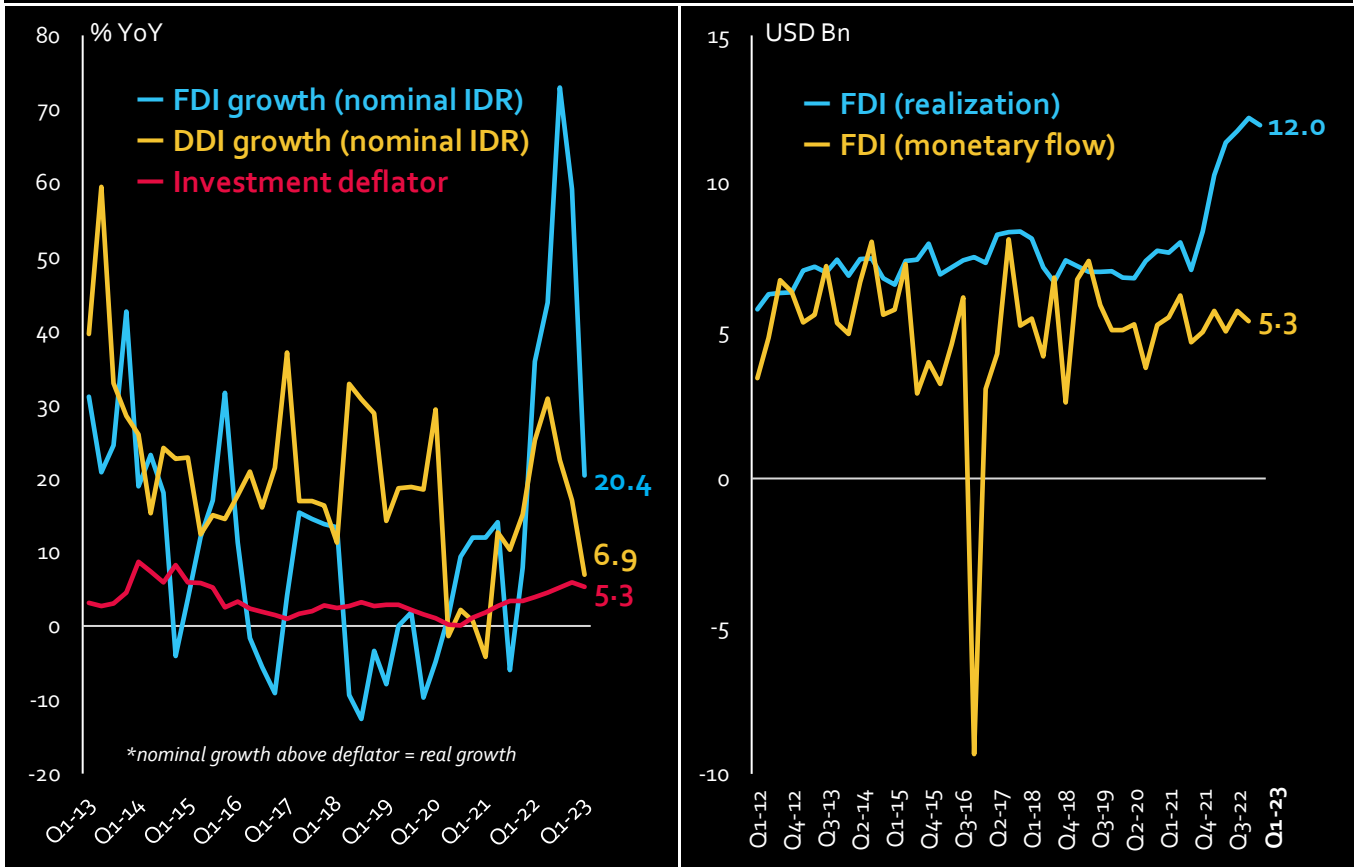
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Executive Summary

- Direct investment continued to grow by 16.5% YoY in Q1-23, with FDI growing by 16.6% YoY (to USD 11.96 Bn) and DDI growing by 12.4% YoY.
 - The slowdown in investment growth can be attributed to a number of factors, including high base effects and declining commodity prices. However, metal industry sector still tops the FDI list and investment in consumer-oriented sectors remain robust.
 - Overall investment growth may slow due to global economic uncertainty and upcoming elections. Additionally there is a potential gap between investment and job creation, which could limit the spillover from investment into consumption.
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- Direct investment continued its run of rapid growth, with FDI growing by 16.6% YoY (to USD 11.96 Bn), while DDI grew 12.4% YoY (to IDR 151.9 Tn) in Q1-23. Taken together, total direct investment through the first quarter of the year reached IDR 328.9 Tn, a 16.5% YoY improvement over the same period in 2022.
 - These are nonetheless slower growth numbers than what we had been accustomed to last year (recall that FDI and DDI grew 46.7% and 23.6% YoY, respectively). Base effects certainly explains part of the slowdown, but it is also true that other indications of investment growth are slowing down. The fixed-asset investment (FAI) component of GDP grew only 2.1% in the last quarter, while CAPEX by listed companies peaked during Q4-22 and declined afterwards. Meanwhile, capital goods imports – barring one-off airplane imports in March – were consistently negative in YoY terms.
 - Declining commodity prices were probably a major factor, with mining sector recording negative growth as opposed to its sparkling growth last year. However, investment in the metal industry sector still tops the list of FDI, which reflects how attractive Indonesia's nickel resources – and how correct the government's "downstreaming" call – in the present environment. There may be clouds on the horizon, most crucially a disappointing recovery in China and an ensuing nickel oversupply, but FDI decline here is probably not on the cards for the foreseeable future.
 - Investment in consumer-oriented sectors, such as the chemical/pharmaceutical and food industries, remain robust. The former especially has been an underreported success story since the Covid-19 pandemic in 2021, being the 2nd largest recipient of FDI in manufacturing after metals.

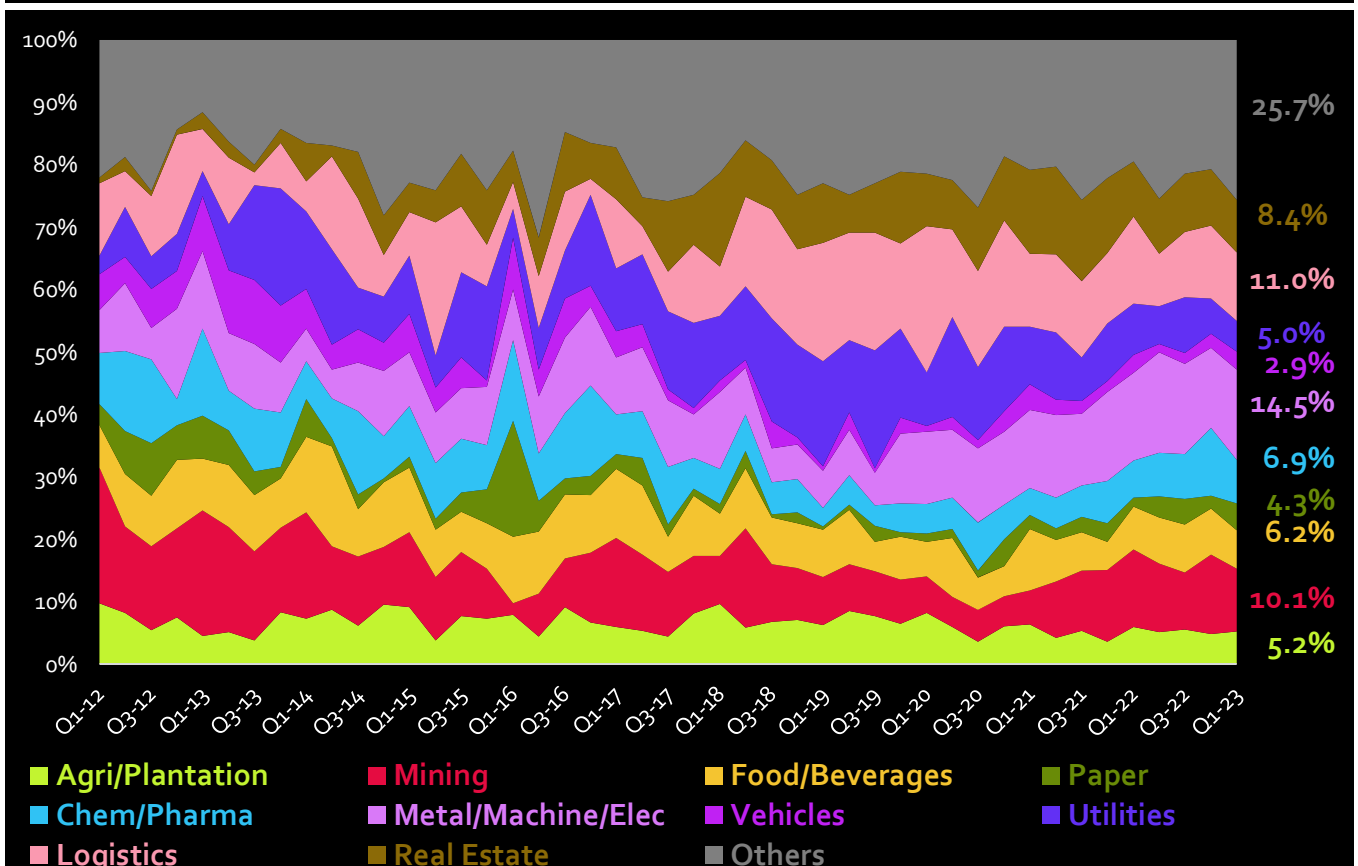
- Note, however, that both metals and chemical/pharma are capital-intensive sectors while labor-intensive ones like textiles and footwear are languishing. As we have noted in our other reports, these sectors are suffering from three successive blows: (1) the aftereffects of the pandemic; (2) declining demand from the US and Europe; and (3) competition from Chinese inventories, especially after the end of Covid lockdowns. Despite the top line numbers, then, investment may not generate commensurate job growth.
- This lack of job creation may be compounded by the decline in tertiary sector (non-commodity, non-manufacturing) investment. These have been large recipients of investment since 2017, due to President Jokowi's priorities towards infrastructure. But this trend has been reversing of late, with utilities and construction in particular showing clear declines. SOE finances could be a significant hurdle here, and renewed impetus in this area may have to await (1) new slate of projects including the new capital city (IKN) project; and (2) new financing sources especially from INA-SWF.
- Overall, Indonesia is still on track to achieve its investment target of IDR 1,400 Tn in 2023 (Q1-23 has already reached 23.5%). The metal industry will continue to be the star, with the government trying to replicate its successful nickel industry by banning exports of copper, bauxite, and tin ores. The government's very strong fiscal balance also bodes well for the realization of infrastructure spending this year.
- However, we might expect continued slowdown in investment growth further into the year given the uncertainty about global outlook, while the upcoming Elections might add another layer of uncertainty into the mix despite its generally positive impact on local consumption.
- We should also keep in mind the continued mismatch between the excellent top line FDI/DDI numbers and its rather underwhelming correlates. We have often mentioned how the FDI numbers in BoP statistics have not been as good as the BKPM numbers, which probably reflects how the money does not need to flow into Indonesia as both capital goods and the workforce are mostly imported from the investing country. The investment numbers in the GDP statistics may also decline faster than the BKPM figures, since the former refers to ongoing projects which could be delayed by the uncertain global prospects, while the latter refers to projects at the "groundbreaking" (i.e. beginning) stage. Finally, we have to re-emphasize the potential gap between investment and job creation, which may limit the spillover from investment into consumption.

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



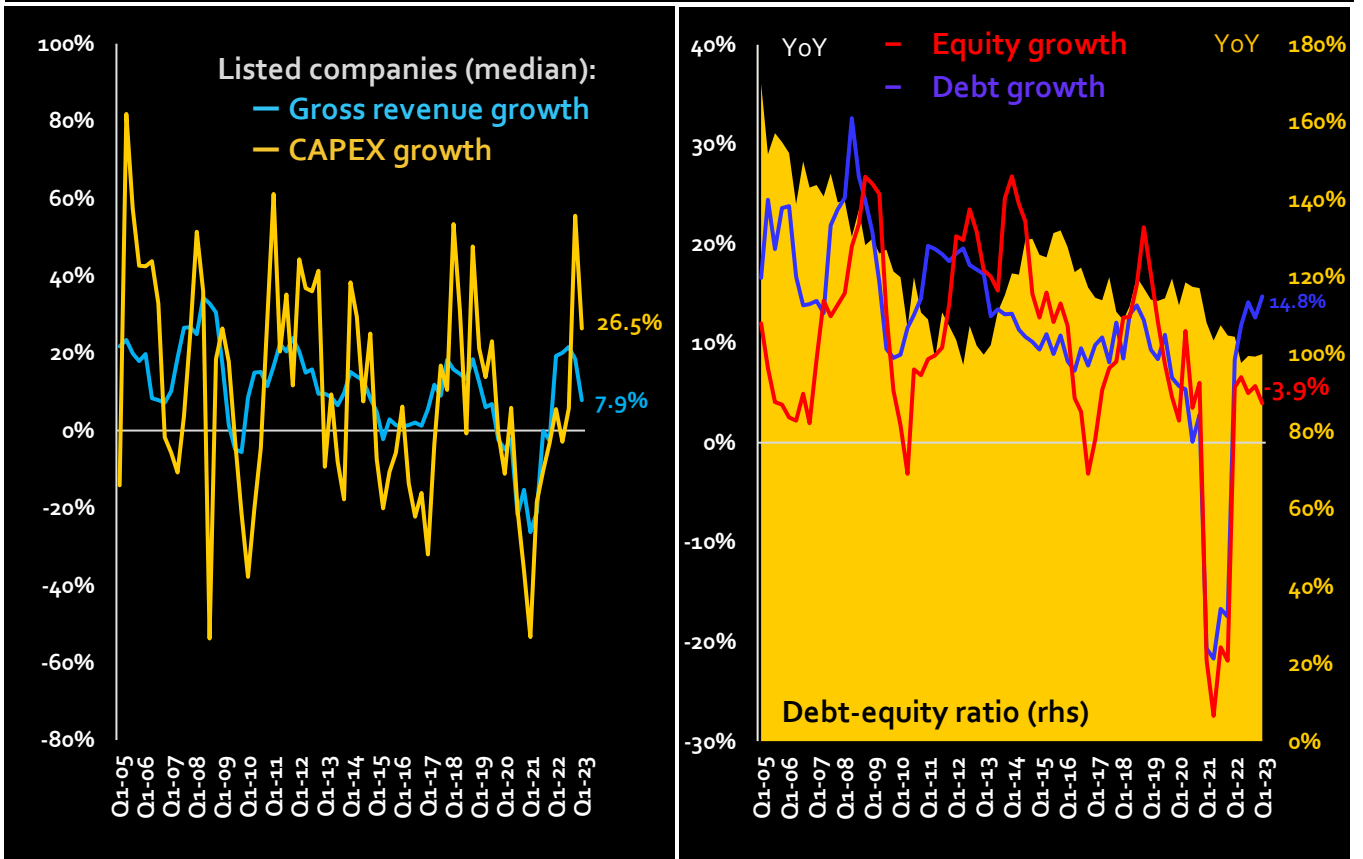
Source: BKPM, BPS, BI, calculation by BCA Economic Research

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



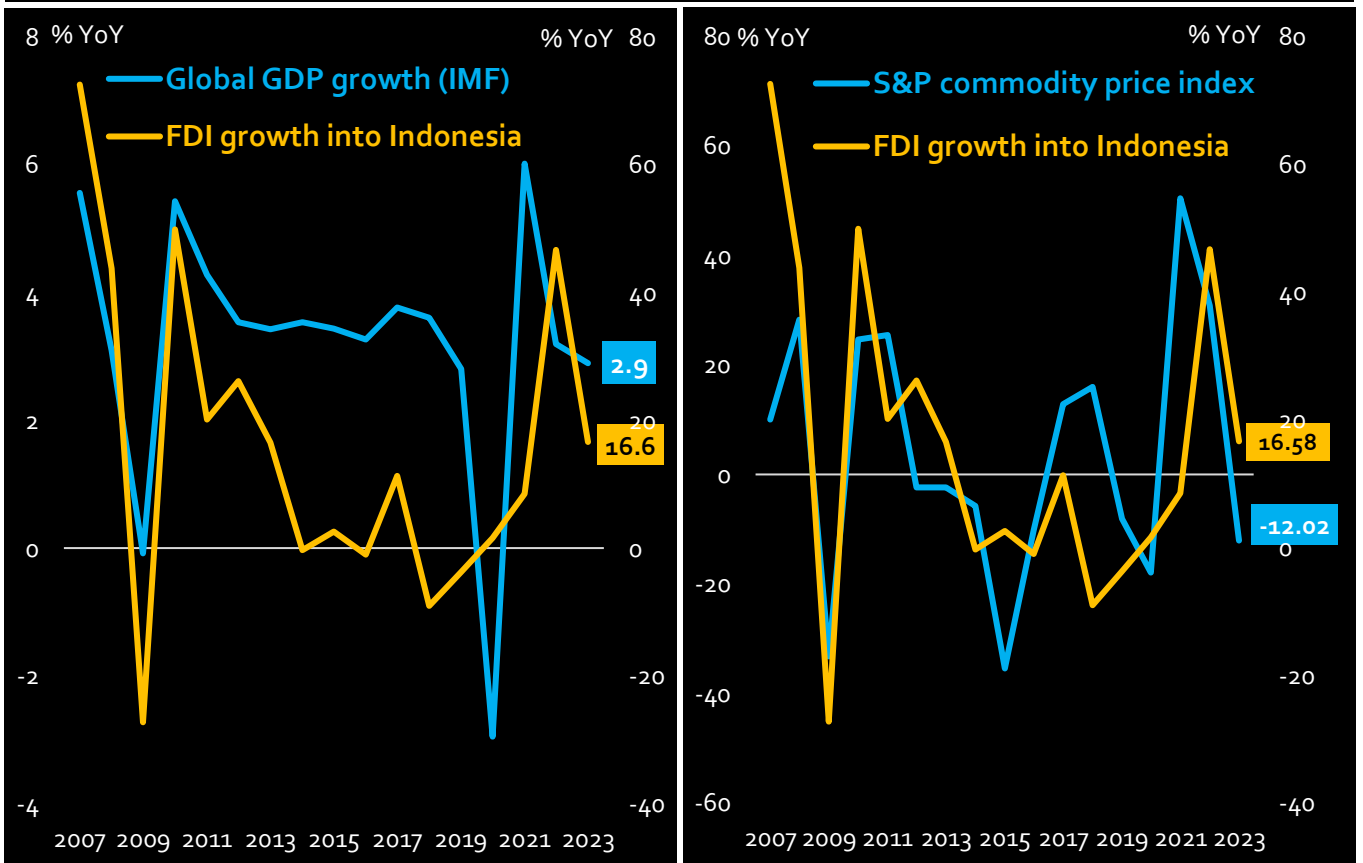
Source: BKPM, BCA Economic Research

Panel 2. Slower growth in investment is also indicated by the declining CAPEX growth by listed companies



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

Selected Macroeconomic Indicator

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

	2020	2021	2022	Q2-2022	Q3-2022	Q4-2022	Q1-2023
PRIMARY SECTORS	3,280.0	4,826.2	7,064.9	1,695.1	1,602.0	2,131.3	1,411.8
Food crops, plantations, & livestock	1,184.2	950.6	1,789.5	401.1	503.1	429.1	435.2
Forestry	42.6	41.4	98.9	23.8	39.9	27.2	44.3
Fishery	48.1	17.2	31.6	12.0	6.7	11.8	12.4
Mining	2,005.1	3,816.9	5,145.0	1,258.2	1,052.4	1,663.3	919.9
SECONDARY SECTORS	13,202.2	15,802.8	24,679.4	6,114.3	6,595.1	6,540.8	7,026.6
Food industry	1,592.2	2,337.4	2,424.5	552.7	698.7	487.2	615.4
Textile industry	279.8	312.1	658.3	109.5	285.1	137.6	114.2
Leather goods & footwear industry	214.0	484.9	630.5	163.1	241.2	129.4	190.2
Wood industry	84.7	68.1	243.2	112.0	71.9	36.8	54.5
Paper & printing industry	942.8	952.5	1,630.0	504.8	648.2	320.6	830.6
Chemical & pharmaceutical ind.	1,742.6	1,656.5	4,505.5	896.5	958.4	1,796.6	1,068.4
Rubber & plastic industry	291.4	262.2	362.7	72.4	119.6	103.6	173.5
Non metallic mineral ind.	248.3	327.0	537.3	94.1	102.8	238.8	119.6
Metal, machinery, electronics, & other instruments	6,570.5	7,653.8	11,749.4	3,283.1	2,993.1	2,756.5	3,259.2
Transport equipment & other transport	941.9	1,501.9	1,522.8	236.0	316.5	428.3	531.7
Other industries	294.0	246.3	415.0	90.1	159.6	105.3	69.2
TERTIARY SECTORS	12,183.8	10,464.2	13,860.8	3,560.9	3,572.0	3,534.5	3,522.1
Electricity, gas and water supply	4,613.9	2,938.6	3,762.7	836.3	1,225.8	718.1	615.5
Construction	189.5	93.3	165.3	31.0	67.8	42.1	71.9
Trade & reparation	434.1	463.8	736.7	242.8	222.4	87.0	293.4
Hotel & restaurant	441.1	432.2	498.0	95.6	111.9	135.2	189.1
Transport, warehouse & telco	3,580.5	3,159.1	4,125.1	881.4	859.2	1,512.3	1,213.5
Real estate, industrial estate & business activities	2,191.4	2,186.4	3,014.6	997.4	765.5	735.6	569.5
Other services	733.3	1,190.7	1,558.4	476.4	319.4	304.2	569.2
TOTAL	28,666.0	31,093.2	45,605.0	11,370.3	11,769.1	12,206.6	11,960.5

*Gold = Top 5 sectors for the year

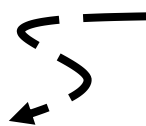
Source: BKPM

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

	2020	2021	2022	Q2-2022	Q3-2022	Q4-2022	Q1-2023
PRIMARY SECTORS	47,580.1	62,766.7	111,217.3	26,713.3	24,139.8	29,239.1	34,991.6
Food crops, plantations, & livestock	32,096.6	29,374.7	38,878.5	9,814.8	9,808.8	9,181.5	10,687.1
Forestry	1,163.6	6,862.7	8,603.1	1,672.1	607.3	3,797.6	3,845.1
Fishery	564.9	1,012.1	1,214.1	242.5	522.6	308.9	620.7
Mining	13,755.0	25,517.1	62,521.6	14,983.9	13,201.1	15,951.1	19,838.6
SECONDARY SECTORS	82,817.9	94,698.7	143,564.3	39,575.1	39,714.4	38,699.1	35,907.7
Food industry	27,872.7	26,517.5	54,937.0	14,485.7	13,762.5	16,972.9	11,268.6
Textile industry	2,103.3	1,972.4	5,614.7	2,008.4	1,412.3	1,606.1	2,947.0
Leather goods & footwear industry	394.7	700.4	483.4	127.8	90.4	204.2	344.5
Wood industry	1,263.4	1,143.7	3,587.9	855.1	1,178.8	820.8	1,419.5
Paper & printing industry	3,745.9	7,833.6	9,508.2	3,009.7	3,137.0	1,777.3	1,752.3
Chemical & pharmaceutical ind.	22,526.1	23,363.6	28,905.2	8,226.0	8,279.0	7,743.2	6,777.6
Rubber & plastic industry	4,428.7	7,803.1	7,369.7	1,941.3	2,005.6	2,360.6	1,935.9
Non metallic mineral ind.	5,861.9	6,522.2	6,367.9	1,783.0	1,889.0	1,464.6	1,865.4
Metal, machinery, electronics, & other instruments	10,013.6	16,190.9	17,643.8	4,419.9	5,218.9	4,352.0	4,793.0
Transport equipment & other transport	2,556.6	1,459.3	2,425.2	677.0	650.4	712.1	1,467.7
Other industries	2,051.0	1,192.0	6,721.3	2,041.2	2,090.4	685.5	1,336.1
TERTIARY SECTORS	283,137.7	289,598.5	297,987.3	72,728.8	75,098.7	71,678.7	81,050.6
Electricity, gas and water supply	35,518.8	38,727.7	32,107.5	6,297.9	9,676.4	7,162.5	7,221.7
Construction	68,289.2	39,569.4	33,846.5	11,127.2	4,132.7	12,356.9	7,772.6
Trade & reparation	16,748.4	22,432.3	31,051.3	10,646.0	8,591.4	4,973.1	9,951.1
Hotel & restaurant	10,203.1	17,819.3	21,579.1	7,233.3	3,875.6	5,469.7	5,188.1
Transport, warehouse & telco	93,282.8	61,241.6	75,138.4	12,932.0	20,179.8	15,059.9	18,148.3
Real estate, industrial estate & business activities	44,852.8	85,497.8	66,167.9	12,428.4	17,894.1	18,377.9	19,469.3
Other services	14,242.6	24,310.4	38,096.7	12,064.0	10,748.6	8,278.6	13,299.6
TOTAL	413,535.7	447,064.0	552,768.8	139,017.20	138,952.88	139,616.97	151,949.92

*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	5.0
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	3.4
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,173
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	28.4
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-1.02

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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