

Investment:

Going strong amid looming challenges

Thierris Nora Kusuma

Economist/Analyst

Barra Kukuh Mamia

Senior Economist

11 Aug 2023

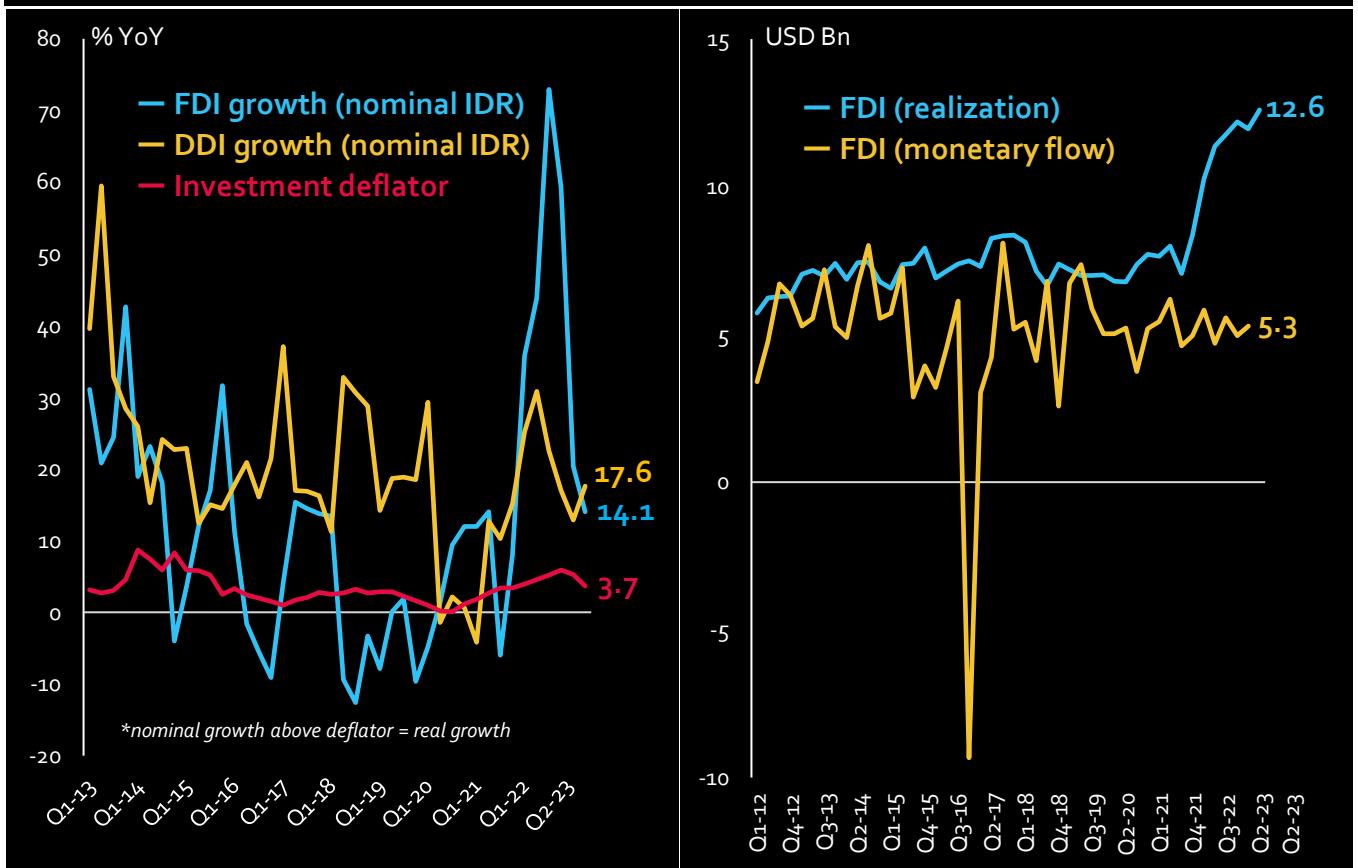
Executive Summary

- Direct investment grew by 15.7% YoY in Q2-23, with FDI growing by 10.7% YoY (to USD 12.6 Bn) and DDI growing by 17.6% YoY (to IDR 163.5 Tn).
 - The slowdown could be attributed to the high base effect from last year and the ongoing economic slowdown in major investment partner countries including China and US.
 - Metal industry sector continued to lead in FDI, propelled by the “downstreaming” policy and enduring corporate’s willingness to expand. Consumer-oriented sectors also displayed resilience, contributing to a notable job creation of 464.3 thousand. The upward trend in the tertiary sector may also offer potential support to the labor market.
 - Indonesia would be a global over-performer in the coming business cycle with its consistent direct investment momentum, although uncertainties surrounding a slowdown, volatile commodity prices, and the impending general election will be the key tests ahead.
-
- Indonesia’s surge in direct investment persists, albeit with a moderated stride of 15.7% YoY (vs to 16.5% YoY in Q1-23), for a total of IDR 349.8 Tn. FDI showcased a steady climb of 10.7% YoY to USD 12.6 Bn, while DDI grew faster at 17.6% YoY to IDR 163.5 Tn.
 - Whatever slowdown we saw could be mainly attributed to the normalization from the significant upswing we had been accustomed to last year, especially in metals and mining industry. But even amid the high base effect, the ongoing economic slowdown in major investment partner countries including China and US may have also cast a shadow over investment appetite to some extent.
 - The apex of FDI is still dominated by the metal industry, underscoring the enduring success of the “downstreaming” policy which is now being extended to bauxite (aluminium ore). But the surge in metals and mining was not limited to FDI alone; DDI has also rekindled its vigor, showcasing that corporate interest in capital expenditures (CAPEX) remains robust even in the face of declining prices and therefore revenue. This is something that we have corroborated from our Big Data, the financial statements of listed companies, and from OJK’s loan statistics – namely that commodity sectors are very much still willing to invest, spurred perhaps by the promise of another boom in a not-so-distant future.
 - Investment in consumer-oriented sectors, such as the chemical/pharmaceutical and food industries, also continued to display resilience, as did the rubber and plastic industries. These investment, as well as those in the labor-intensive plantation sectors, perhaps even more

important than the metal/mining complex from a job creation angle. And indeed, the number of jobs attributed to direct investment during Q2-23 was – at 464.3 thousand – at its highest level not witnessed in the past eight years.

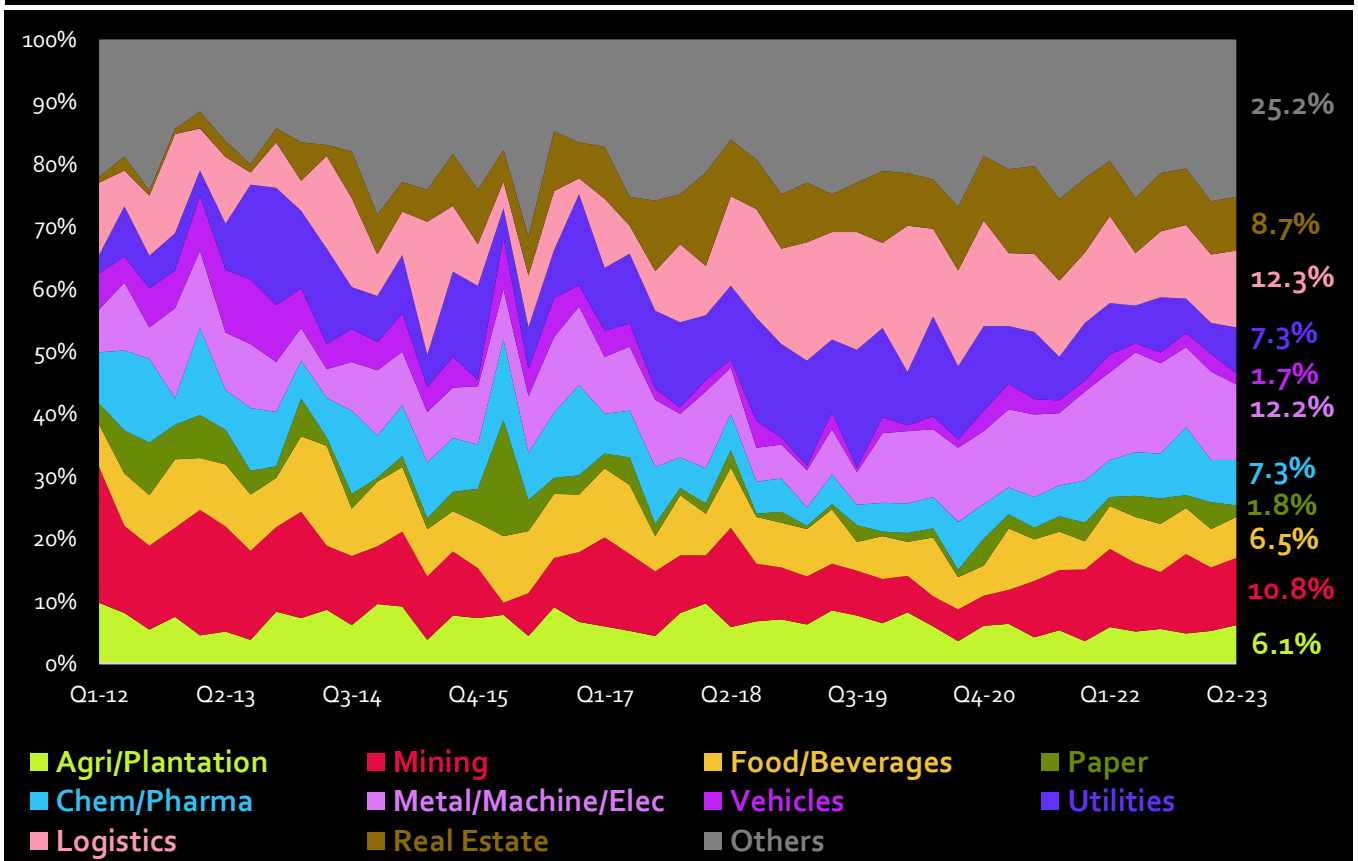
- Finally, there was also notable upswing is also evident in the tertiary sector (non-commodity, non-manufacturing), which aligned with the fixed-asset investment (FAI) component of GDP which saw a robust growth in structures (construction) in Q2-23. As previously highlighted, these GDP statistics pertain to (recently) completed projects, which included prominent public infrastructures like the Jakarta LRT project. Given that the BKPM data concerns projects at the nascent (“groundbreaking”) stage, it may give us reason to be sanguine about the prospects of more constructions in the pipeline – and more contributions from structure FAI to GDP growth in the future.
- This uptick also holds promise as a potential crutch for the labor market, offering vital support as labor-intensive industries grapple with the lingering aftermath of the pandemic, waning demand, and the pressures of Chinese inventory-driven competition. The prospect of substantial public infrastructure development further serves as a compelling catalyst, likely spurring private sector engagement in the peripheries of these projects. This, in turn, could potentially unlock a cascade of fresh investments and, crucially, lead to a heightened absorption of labor resources.
- Overall, direct investment has not really broken its stride despite the growing headwinds, which is an early positive sign that Indonesia would be a global over-performer in the coming (albeit tumultuous) business cycle. Nonetheless, the real test will be coming in the next 3-4 quarters. Not only is the global momentum likely to slow and grow more chaotic – even when some rebound in commodity prices could benefit Indonesia – but there is also the matter of the next General Election. While Pres. Jokowi has consolidated his reforms (e.g. Job Creation Law), policies (e.g. downstreaming), and projects (e.g. new capital city) into legal codes that will have to be enacted by his successor, there might be some less clear-cut areas at the margins that could still cause uncertainty for investors – at least until after the Elections.

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



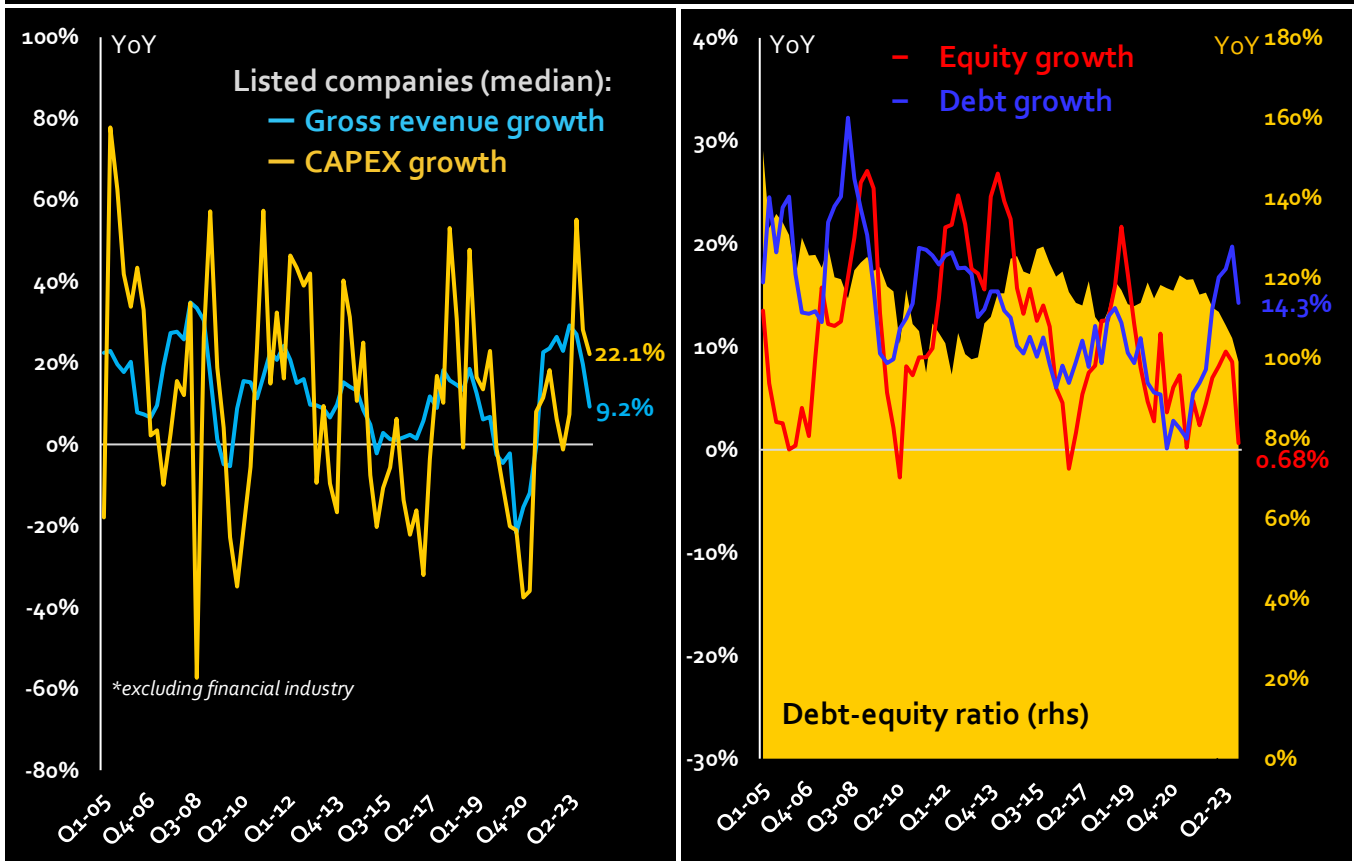
Source: BKPM, BPS, BI, calculation by BCA Economic Research

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



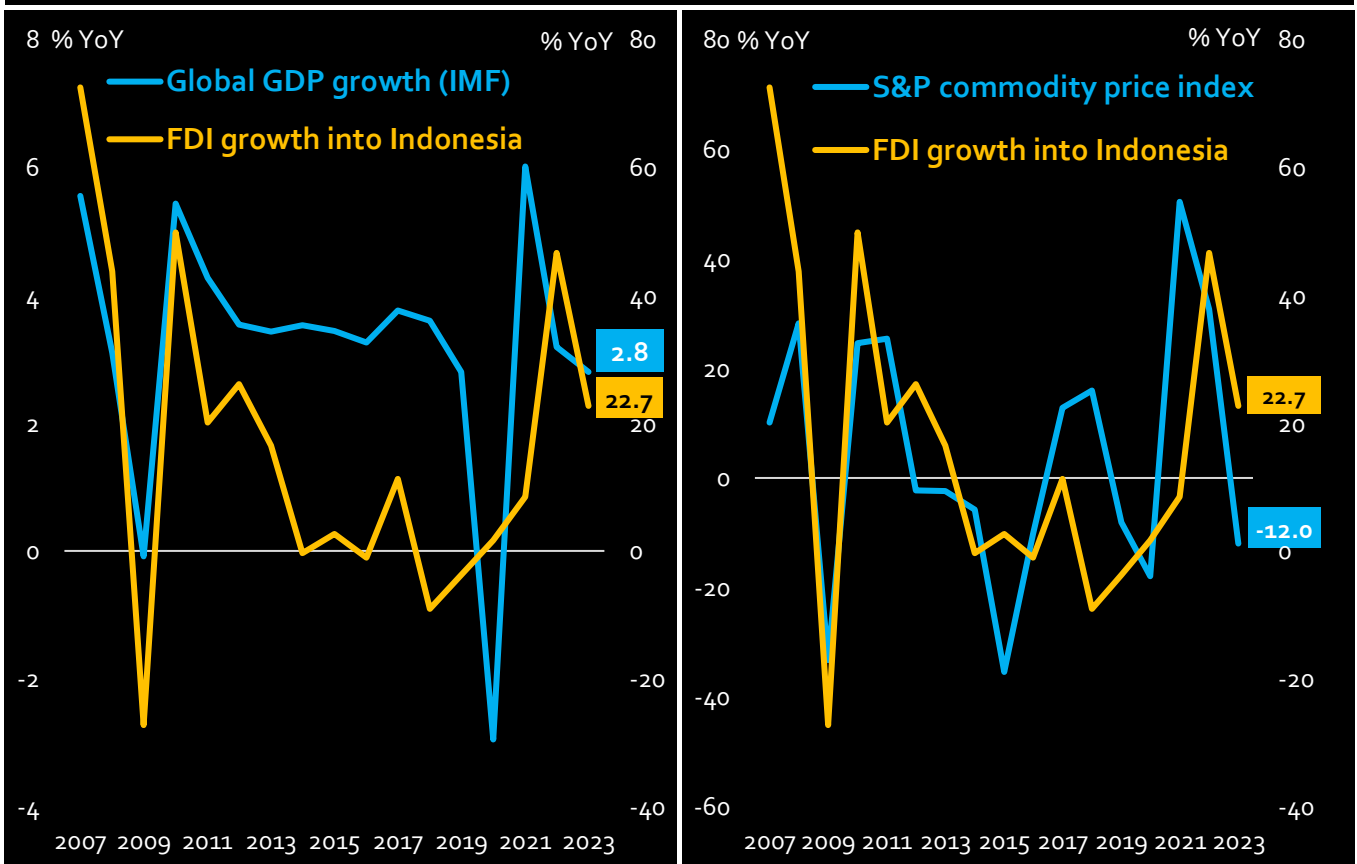
Source: BKPM, BCA Economic Research

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	Q3-2022	Q4-2022	Q1-2023	Q2-2023
PRIMARY SECTORS	3,280.0	4,826.2	7,064.9	1,602.0	2,131.3	1,411.8	1,898.6
Food crops, plantations, & livestock	1,184.2	950.6	1,789.5	503.1	429.1	435.2	635.6
Forestry	42.6	41.4	98.9	39.9	27.2	44.3	17.3
Fishery	48.1	17.2	31.6	6.7	11.8	12.4	4.3
Mining	2,005.1	3,816.9	5,145.0	1,052.4	1,663.3	919.9	1,241.4
SECONDARY SECTORS	13,202.2	15,802.8	24,679.4	6,595.1	6,540.8	7,026.6	6,027.2
Food industry	1,592.2	2,337.4	2,424.5	698.7	487.2	615.4	501.9
Textile industry	279.8	312.1	658.3	285.1	137.6	114.2	130.0
Leather goods & footwear industry	214.0	484.9	630.5	241.2	129.4	190.2	178.4
Wood industry	84.7	68.1	243.2	71.9	36.8	54.5	25.2
Paper & printing industry	942.8	952.5	1,630.0	648.2	320.6	830.6	276.2
Chemical & pharmaceutical ind.	1,742.6	1,656.5	4,505.5	958.4	1,796.6	1,068.4	1,258.4
Rubber & plastic industry	291.4	262.2	362.7	119.6	103.6	173.5	160.0
Non metallic mineral ind.	248.3	327.0	537.3	102.8	238.8	119.6	75.6
Metal, machinery, electronics, & other instruments	6,570.5	7,653.8	11,749.4	2,993.1	2,756.5	3,259.2	2,949.8
Transport equipment & other transport	941.9	1,501.9	1,522.8	316.5	428.3	531.7	322.9
Other industries	294.0	246.3	415.0	159.6	105.3	69.2	149.1
TERTIARY SECTORS	12,183.8	10,464.2	13,860.8	3,572.0	3,534.5	3,522.1	4,662.5
Electricity, gas and water supply	4,613.9	2,938.6	3,762.7	1,225.8	718.1	615.5	806.9
Construction	189.5	93.3	165.3	67.8	42.1	71.9	53.2
Trade & reparation	434.1	463.8	736.7	222.4	87.0	293.4	211.7
Hotel & restaurant	441.1	432.2	498.0	111.9	135.2	189.1	318.2
Transport, warehouse & telco	3,580.5	3,159.1	4,125.1	859.2	1,512.3	1,213.5	1,941.0
Real estate, industrial estate & business activities	2,191.4	2,186.4	3,014.6	765.5	735.6	569.5	807.8
Other services	733.3	1,190.7	1,558.4	319.4	304.2	569.2	523.6
TOTAL	28,666.0	31,093.2	45,605.0	11,769.1	12,206.6	11,960.5	12,588.3

*Gold = Top 5 sectors for the year

Source: BKPM

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

	2020	2021	2022	Q3-2022	Q4-2022	Q1-2023	Q2-2023
PRIMARY SECTORS	47,580.1	62,766.7	111,217.3	24,139.8	29,239.1	34,991.6	40,304.8
Food crops, plantations, & livestock	32,096.6	29,374.7	38,878.5	9,808.8	9,181.5	10,687.1	12,075.5
Forestry	1,163.6	6,862.7	8,603.1	607.3	3,797.6	3,845.1	8,168.4
Fishery	564.9	1,012.1	1,214.1	522.6	308.9	620.7	525.4
Mining	13,755.0	25,517.1	62,521.6	13,201.1	15,951.1	19,838.6	19,535.6
SECONDARY SECTORS	82,817.9	94,698.7	143,564.3	39,714.4	38,699.1	35,907.7	41,179.5
Food industry	27,872.7	26,517.5	54,937.0	13,762.5	16,972.9	11,268.6	15,455.1
Textile industry	2,103.3	1,972.4	5,614.7	1,412.3	1,606.1	2,947.0	1,702.2
Leather goods & footwear industry	394.7	700.4	483.4	90.4	204.2	344.5	586.8
Wood industry	1,263.4	1,143.7	3,587.9	1,178.8	820.8	1,419.5	734.3
Paper & printing industry	3,745.9	7,833.6	9,508.2	3,137.0	1,777.3	1,752.3	2,292.5
Chemical & pharmaceutical ind.	22,526.1	23,363.6	28,905.2	8,279.0	7,743.2	6,777.6	6,837.0
Rubber & plastic industry	4,428.7	7,803.1	7,369.7	2,005.6	2,360.6	1,935.9	2,624.3
Non metallic mineral ind.	5,861.9	6,522.2	6,367.9	1,889.0	1,464.6	1,865.4	2,596.8
Metal, machinery, electronics, & other instruments	10,013.6	16,190.9	17,643.8	5,218.9	4,352.0	4,793.0	5,980.6
Transport equipment & other transport	2,556.6	1,459.3	2,425.2	650.4	712.1	1,467.7	1,301.0
Other industries	2,051.0	1,192.0	6,721.3	2,090.4	685.5	1,336.1	1,068.8
TERTIARY SECTORS	283,137.7	289,598.5	297,987.3	75,098.7	71,678.7	81,050.6	81,965.6
Electricity, gas and water supply	35,518.8	38,727.7	32,107.5	9,676.4	7,162.5	7,221.7	13,689.7
Construction	68,289.2	39,569.4	33,846.5	4,132.7	12,356.9	7,772.6	6,923.9
Trade & reparation	16,748.4	22,432.3	31,051.3	8,591.4	4,973.1	9,951.1	11,572.1
Hotel & restaurant	10,203.1	17,819.3	21,579.1	3,875.6	5,469.7	5,188.1	5,830.0
Transport, warehouse & telco	93,282.8	61,241.6	75,138.4	20,179.8	15,059.9	18,148.3	14,291.6
Real estate, industrial estate & business activities	44,852.8	85,497.8	66,167.9	17,894.1	18,377.9	19,469.3	18,400.2
Other services	14,242.6	24,310.4	38,096.7	10,748.6	8,278.6	13,299.6	11,258.0
TOTAL	413,535.7	447,064.0	552,768.8	138,952.88	139,616.97	151,949.92	163,449.90

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

Source: BKPM



Scan for the link to our report depository or click:

https://s.id/BCA_REI

Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.2
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	2.7
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	35.3
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

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

Keely Julia Hasim

Economist / Analyst

keely_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

Agus Salim Hardjodinoto

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

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

Barra Kukuh Mamia

Senior Economist

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

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: 1071930

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th 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: firman_tember@bca.co.id