

Investment:

It's a brighter day tomorrow

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6 May 2024

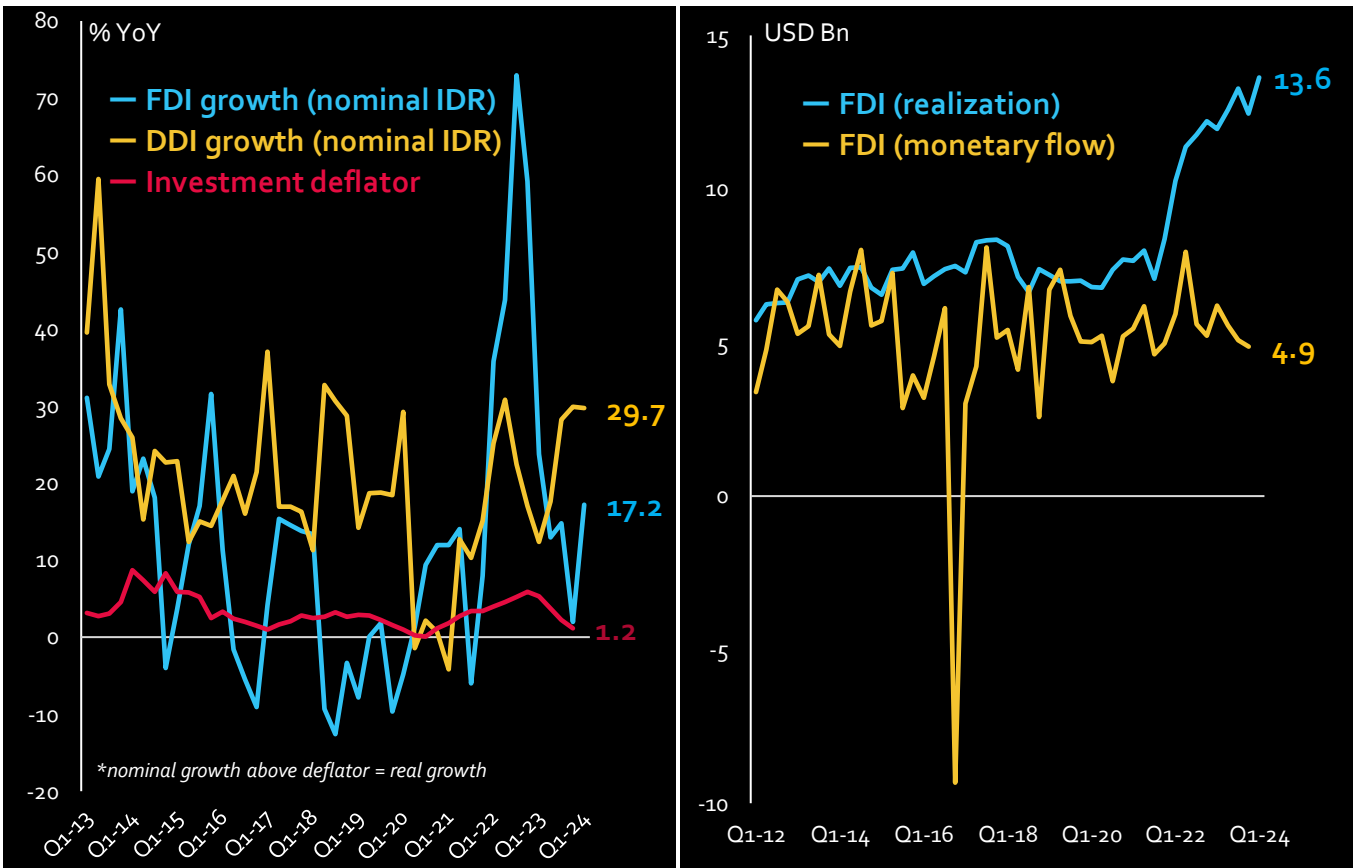
Executive Summary

- Direct investment grew by 19.5% YoY to USD 26.2 Bn, with FDI accelerating by 14.0% YoY (USD 13.6 Bn) and DDI recording double-digit growth of 29.7% YoY (IDR 197 Tn).
 - Commodity-related investment continued at a fast pace, with a more broadly-based growth compared to the 2020-22 cycle which was mostly dominated by Chinese FDI into the metal sector.
 - The transition to new government expedites the completion of infrastructure projects, while the policy continuity into the next administration should reduce uncertainty going forward.
 - Attracting manufacturing and tech investment would be the main challenge for the next admin, as Indonesia has been falling behind its Asian peers, while manufacturing investment has mostly occurred in capital-intensive sectors, which limits job creation.
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- Domestic direct investment (DDI) continued its strong growth, increasing by 29.7% YoY (IDR 197 Tn) in Q1-24, albeit at a slightly slower pace compared to the previous quarter (29.9%). On the other hand, foreign direct investment (FDI) accelerated by 14.0% YoY (USD 13.6 Bn). In total, direct investment grew 19.5% YoY to USD 26.2 Bn.
 - Investment in minerals – both the mining and processing sides – continues to record double-digit growth (10.8% YoY), albeit slower than in Q4-23 (19.8%). Interestingly, it is the US which was the biggest driver here, as Freeport invested heavily into its mining operations in Central Papua and smelter facilities in East Java. This is an interesting contrast to recent years, where Chinese companies have been the driving seat.
 - We have mentioned in the previous report that China's metal FDI has been [growing more slowly](#) in recent quarters. However, on closer inspection, metals FDI in Q1-24 was dragged down specifically by Singapore. Given that Singapore is often used as conduit to re-route domestic funds as "foreign investment", it seems that the weaker appetite mostly came from local companies, probably as they awaited the results of the Elections in Feb-24. Excluding Singapore, FDI in the metal industries still grew 28.3% YoY – robust, but a bit slower than previously.
 - The commodities that attracted the strongest investment growth, however, were not metals but rather forestry and CPO. Both of these were driven by DDI (forestry: 192% YoY, F&B: 67.2% YoY). It should be noted here that due to BKPM's classification scheme, investments are often classified based on a company's main line of business, regardless of the nature of the project. Since at least half of the investment growth on F&B was in Sumatra, it probably

reflected investment in the CPO sector instead, where recent price gains – 18.1% YTD as of Q1-24 – have revived the appetite to invest.

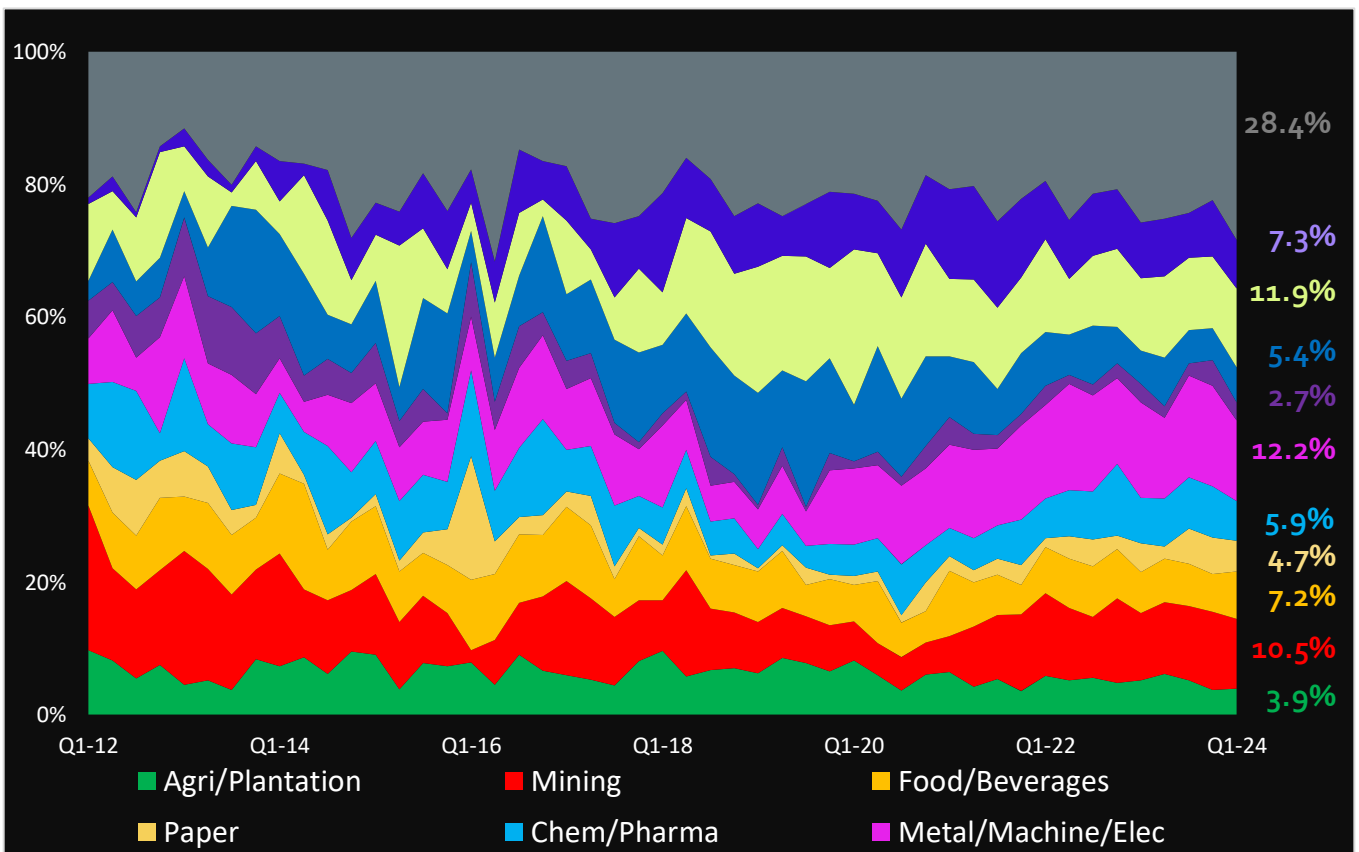
- Investment in other manufacturing sectors, like paper (30.1% YoY) and machinery (37.0% YoY), are in line with Indonesia's relative outperformance in manufacturing activities. It is worth noting, however, that much of this growth are in capital-intensive industries, whereas labor-intensive ones lagged in comparison – indeed, textiles were the only one to record negative growth. As such, the robust investment growth does not necessarily translate to employment growth.
- Tertiary sectors are the one area where DDI dominated, with sharp acceleration within the transportation sector (66.5% YoY) and electricity, gas, and water supply (92.1% YoY). This likely corresponds to the ramp-up in government projects (national strategic projects/PSN and the new capital city/IKN), as President Jokowi seeks to leave office on a high by the end of the year.
- Our wish, however, is for non-infrastructure investment to similarly “take off” at the end of the President's term. The general preconditions are in place, namely improving commodity prices and Election results that loudly affirmed policy continuity for the next five years – and thus removed any hesitation that investors might have had previously. The main headwind, of course, is the high-for-longer global rate outlook that might dampen FDI.
- Of course, the real battle – which will extend into the next administration – will be on the non-commodity investment. In general, Indonesia has been lagging behind its peers (India, Vietnam, Malaysia, Philippines, etc.) when it comes to attracting manufacturing “relocation” from China. Similarly, while investment in IT services is on a positive trend, tech giants like Microsoft, Google, and NVIDIA are seemingly less reluctant to commit to Indonesia, with recent plans being limited to tech- and data centers.

Panel 1. FDI is picking up its pace



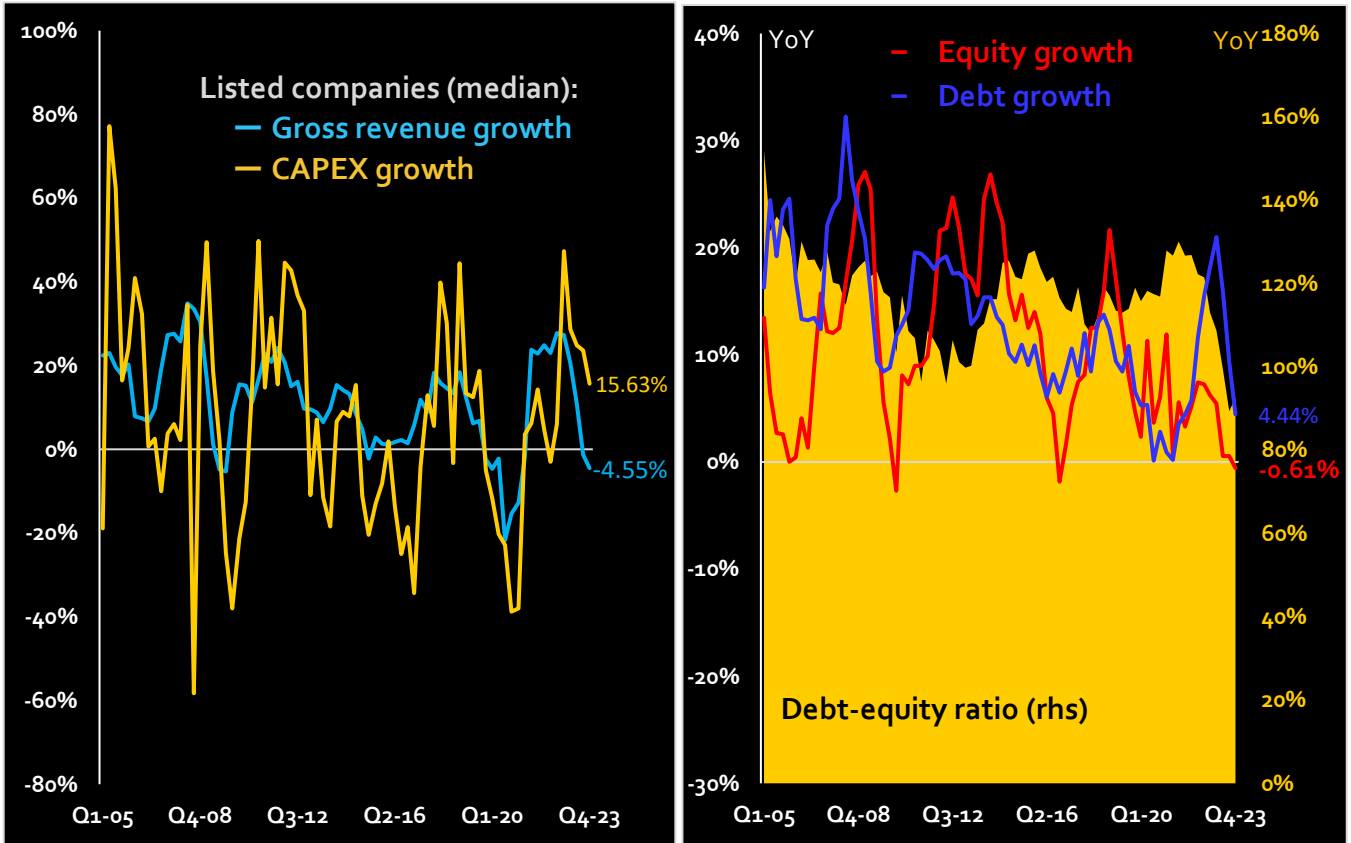
Source: BKPM, BPS, BI, calculation by BCA Economic Research

Chart 1. Metals have been the big one for a long time



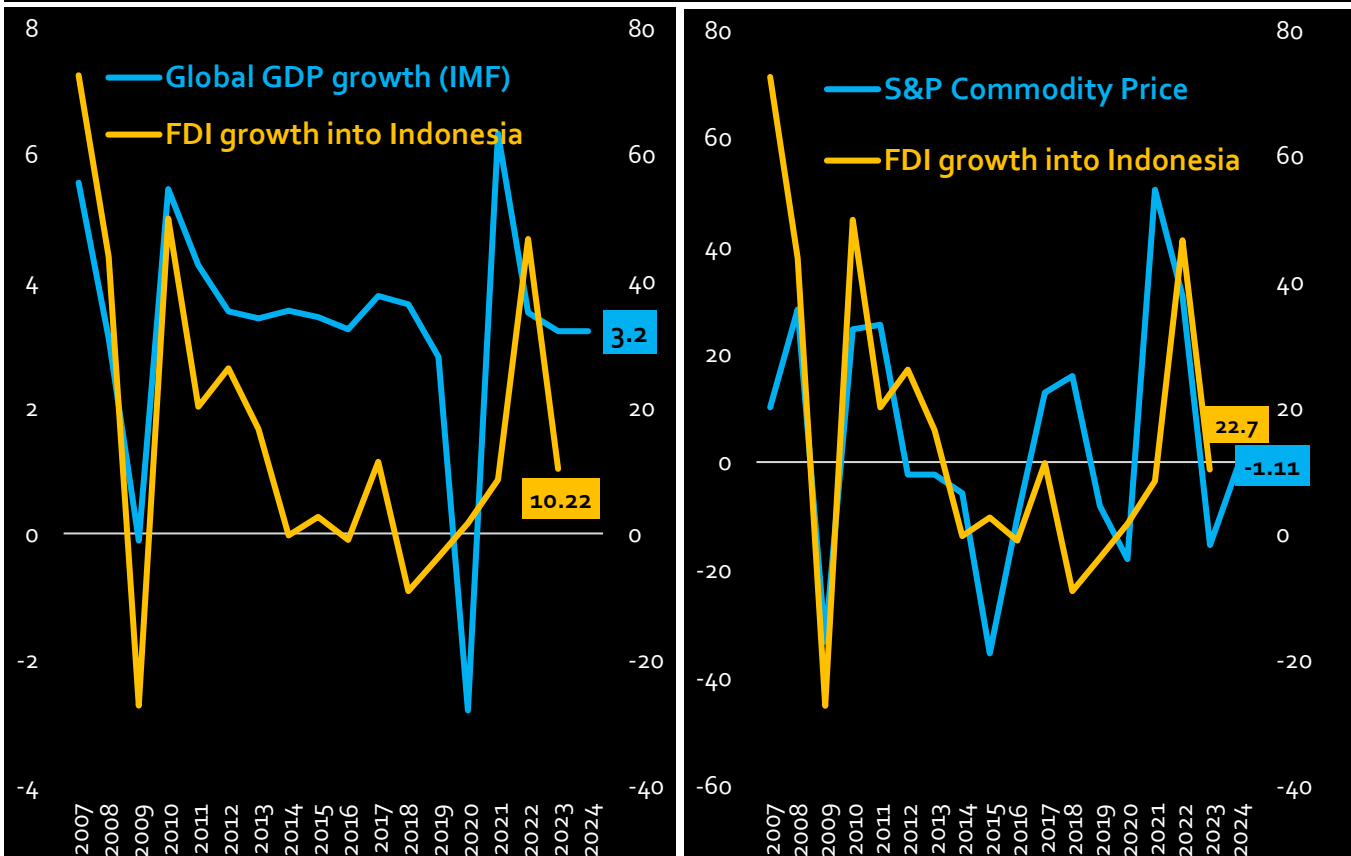
Source: BKPM, BCA Economic Research

Panel 2. CAPEX is slowing down in Q4-23 as revenue of listed companies slumped



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

Panel 3. Acceleration in commodity prices may become a boost to Indonesia's FDI



Source: BKPM, IMF, Bloomberg

Selected Macroeconomic Indicator

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

	2021	2022	2023	Q2-2023	Q3-2023	Q4-2023	Q1-2024
PRIMARY SECTORS	4,826.2	7,064.9	6,782.4	1,898.6	1,913.8	1,558.2	1,811.4
Food crops, plantations, & livestock	950.6	1,789.5	1,945.6	635.6	566.8	308.0	306.2
Forestry	41.4	98.9	96.0	17.3	15.6	18.7	50.9
Fishery	17.2	31.6	25.7	4.3	4.6	4.4	49.4
Mining	3,816.9	5,145.0	4,715.0	1,241.4	1,326.8	1,227.1	1,405.0
SECONDARY SECTORS	15,802.8	24,679.4	28,689.7	6,027.2	7,916.9	7,719.1	7,503.8
Food industry	2,337.4	2,424.5	2,262.6	501.9	638.3	507.1	679.6
Textile industry	312.1	658.3	457.5	130.0	81.6	131.7	194.3
Leather goods & footwear industry	484.9	630.5	782.5	178.4	205.7	208.2	143.6
Wood industry	68.1	243.2	157.8	25.2	45.8	32.3	23.7
Paper & printing industry	952.5	1,630.0	3,430.8	276.2	1,159.6	1,164.4	983.8
Chemical & pharmaceutical ind.	1,656.5	4,505.5	4,805.2	1,258.4	1,335.0	1,143.3	1,076.4
Rubber & plastic industry	262.2	362.7	575.8	160.0	87.7	154.6	183.2
Non metallic mineral ind.	327.0	537.3	523.4	75.6	161.1	167.2	151.5
Metal, machinery, electronics, & other instruments	7,653.8	11,749.4	13,265.6	2,949.8	3,683.2	3,373.4	3,274.0
Transport equipment & other transport	1,501.9	1,522.8	2,046.2	322.9	425.1	766.5	670.5
Other industries	246.3	415.0	382.5	149.1	93.9	70.3	123.2
TERTIARY SECTORS	10,464.2	13,860.8	14,795.4	4,662.5	3,429.0	3,181.7	4,313.9
Electricity, gas and water supply	2,938.6	3,762.7	2,742.1	806.9	819.5	500.2	525.4
Construction	93.3	165.3	281.8	53.2	120.8	35.9	182.1
Trade & reparation	463.8	736.7	943.8	211.7	306.6	132.1	334.7
Hotel & restaurant	432.2	498.0	811.1	318.2	120.9	182.9	367.5
Transport, warehouse & telco	3,159.1	4,125.1	5,615.5	1,941.0	1,085.1	1,375.8	1,182.1
Real estate, industrial estate & business activities	2,186.4	3,014.6	2,574.5	807.8	595.5	601.7	946.4
Other services	1,190.7	1,558.4	1,826.5	523.6	380.6	353.0	775.7
TOTAL	31,093.2	45,605.0	50,267.5	12,588.3	13,259.7	12,459.0	13,629.1

*Gold = Top 5 sectors for the year

Source: BKPM

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

	2021	2022	2023	Q2-2023	Q3-2023	Q4-2023	Q1-2024
PRIMARY SECTORS	62,766.7	111,217.3	155,140.2	40,304.8	39,364.5	40,479.3	44,021.5
Food crops, plantations, & livestock	29,374.7	38,878.5	42,912.0	12,075.5	10,997.5	9,151.9	11,054.9
Forestry	6,862.7	8,603.1	23,032.5	8,168.4	5,135.9	5,883.0	11,243.8
Fishery	1,012.1	1,214.1	2,506.5	525.4	968.4	392.0	496.2
Mining	25,517.1	62,521.6	86,689.2	19,535.6	22,262.7	25,052.3	21,226.6
SECONDARY SECTORS	94,698.7	143,564.3	171,657.3	41,179.5	46,485.2	48,085.0	48,605.1
Food industry	26,517.5	54,937.0	54,827.9	15,455.1	14,532.4	13,571.8	18,835.6
Textile industry	1,972.4	5,614.7	7,949.8	1,702.2	1,854.3	1,446.2	1,713.6
Leather goods & footwear industry	700.4	483.4	1,641.5	586.8	242.3	467.9	140.3
Wood industry	1,143.7	3,587.9	4,610.7	734.3	1,330.3	1,126.7	2,263.4
Paper & printing industry	7,833.6	9,508.2	9,295.0	2,292.5	2,608.4	2,641.8	3,859.3
Chemical & pharmaceutical ind.	23,363.6	28,905.2	33,869.9	6,837.0	8,988.4	11,266.8	7,505.4
Rubber & plastic industry	7,803.1	7,369.7	9,256.1	2,624.3	1,900.6	2,795.2	2,340.3
Non metallic mineral ind.	6,522.2	6,367.9	7,770.4	2,596.8	1,793.4	1,514.7	2,054.8
Metal, machinery, electronics, & other instruments	16,190.9	17,643.8	30,149.5	5,980.6	10,339.2	9,036.6	7,867.2
Transport equipment & other transport	1,459.3	2,425.2	6,172.7	1,301.0	784.0	2,620.0	571.9
Other industries	1,192.0	6,721.3	6,113.8	1,068.8	2,111.7	1,597.2	1,453.4
TERTIARY SECTORS	289,598.5	297,987.3	348,125.9	81,965.6	92,285.0	92,824.7	104,482.8
Electricity, gas and water supply	38,727.7	32,107.5	37,584.9	13,689.7	6,539.1	10,134.4	13,871.3
Construction	39,569.4	33,846.5	32,813.4	6,923.9	9,000.6	9,116.3	5,296.8
Trade & reparation	22,432.3	31,051.3	48,557.8	11,572.1	16,204.3	10,830.4	16,473.7
Hotel & restaurant	17,819.3	21,579.1	23,362.9	5,830.0	5,799.7	6,545.1	6,172.5
Transport, warehouse & telco	61,241.6	75,138.4	76,659.4	14,291.6	24,816.5	19,403.0	30,218.4
Real estate, industrial estate & business activities	85,497.8	66,167.9	77,099.2	18,400.2	16,647.1	22,582.5	15,192.9
Other services	24,310.4	38,096.7	52,048.2	11,258.0	13,277.6	14,213.0	17,257.3
TOTAL	447,064.0	552,768.8	674,923.4	163,449.90	178,134.64	181,388.98	197,109.36

*Gold = Top 5 sectors for the year

Source: BKPM



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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	16,119
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

*Estimated number

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