

Economic Indicators	2022	2023F
Real GDP (% yoy)	5.31	5.04
Inflation (% yoy, eoy)	5.51	3.60
Inflation (% yoy, avg)	4.21	4.62
IDR/USD (eoy)	15,568	14,864
IDR/USD (avg)	14,874	15,031
CA (% of GDP)	0.99	-0.65
BI 7-day RR Rate (%)	5.50	5.75

F = OCE BMRI forecast
 yoy = year-on-year
 eoy = end of year
 avg = average

Key Rates (%)	Dec-22	Jul-23*
BI 7-day RR Rate	5.50	5.75
Deposit Facility Rate	4.75	5.00
Lending Facility Rate	6.25	6.50
IDR 10Y Bond Yield	6.92	6.26
Fed Funds Rate	4.50	5.25
ECB Rate	2.50	4.00
BoE Rate	3.50	5.00
BoJ Rate	-0.10	-0.10

*) as of 21-Jul-23

Source: Bloomberg

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Indonesia's Direct Investment: Softer Growth in 2Q23

Direct investment growth eased due to normalization effect.

- Indonesia's direct investment (DI) in 2Q23 grew softer by 15.7%yoy (vs 16.5% yoy growth in 1Q23) at IDR349.8 tn. This marks the slowest yearly growth since 1Q22. Yet on a quarter-to-quarter basis, DI growth was still faster at 6.4% qtq (vs 4.5% qtq in 1Q23).
- The lower growth was mainly attributed to normalization effect, as the growth in 1Q22 was already escalated from a surge of investment in Basic Metal Industry, Metal Goods, Non-Machinery and Its Equipment. On top of that, economic slowdown in major investment-partner countries including China and the United States, to some extent, also affected the easing growth of DI.
- DI was still mainly dominated by foreign direct investment (FDI), contributing around 53.3% of DI in 2Q23. Yet, the domination of FDI decreased compared to the previous quarters, indicating a ticking up performance of DDI.
- Most DI in 2Q23 went to Transportation, Storage & Communication sector (IDR43.0 tn), Basic Metal Industry, Metal Goods, Non-Machinery and Its Equipment (IDR42.4 tn), and Mining (IDR37.9 tn).
- Thus, during the first half this year, DI flows has reached 48.5% of its 2023 target at IDR1,400 tn, yet the growth pace recorded a notable decline from 38.8% yoy in 2H22 to 16.1% yoy in 1H23. Down-streaming industry remains the top targeted sector in line with the government policies to increase higher value-added export.

Direct investment has created positive impact to the economy in the form of jobs creation.

- Labor absorption from 2Q23 direct investment (DI) has reached 464.3 thousand people, grew significantly by 44.8% yoy (vs. 20.7% yoy in 1Q23). This marked the biggest labor absorption in the last eight years.

Investments in Non- Java continued to outperform Java.

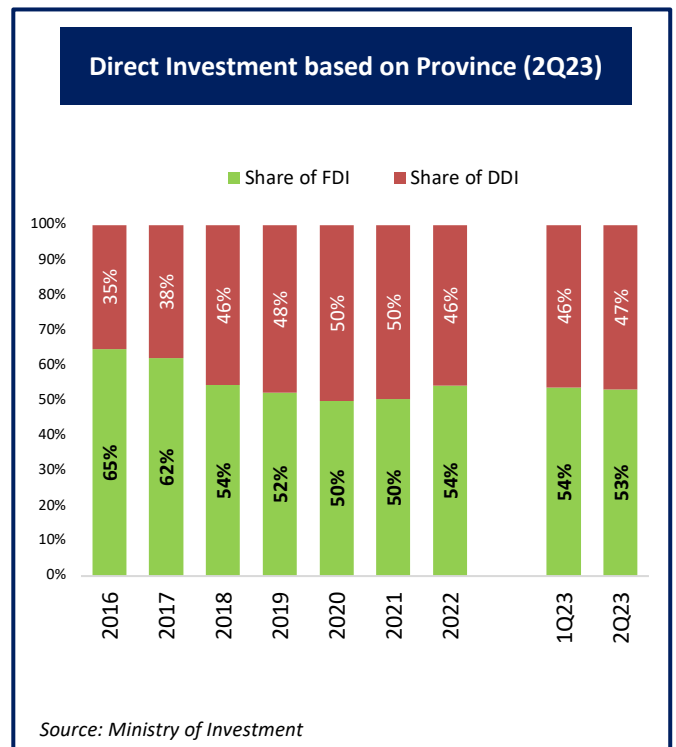
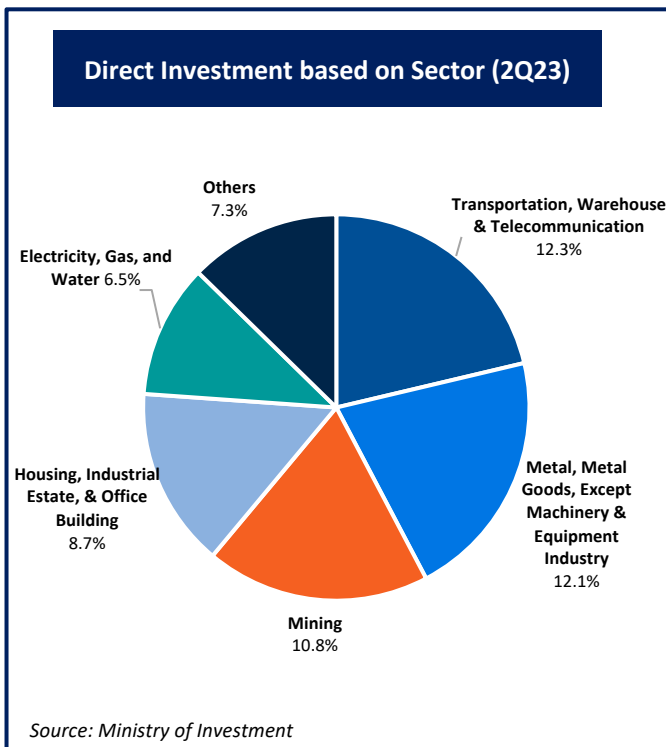
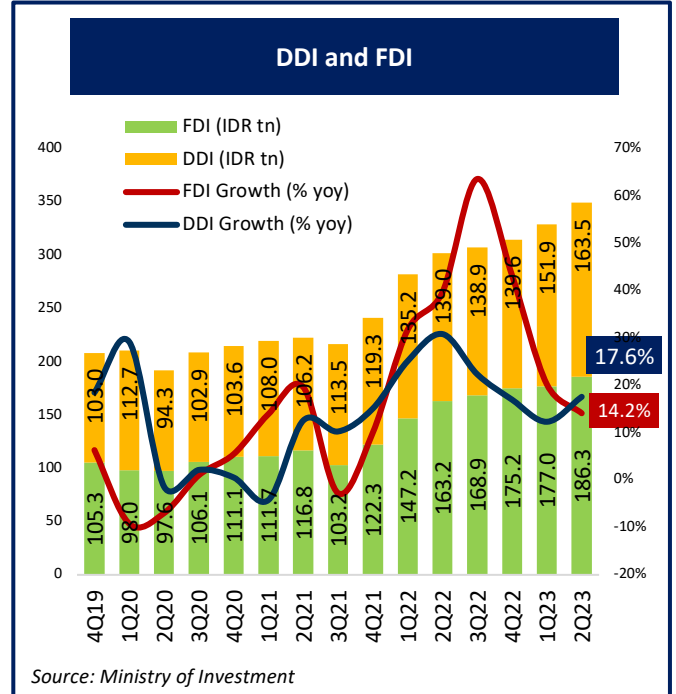
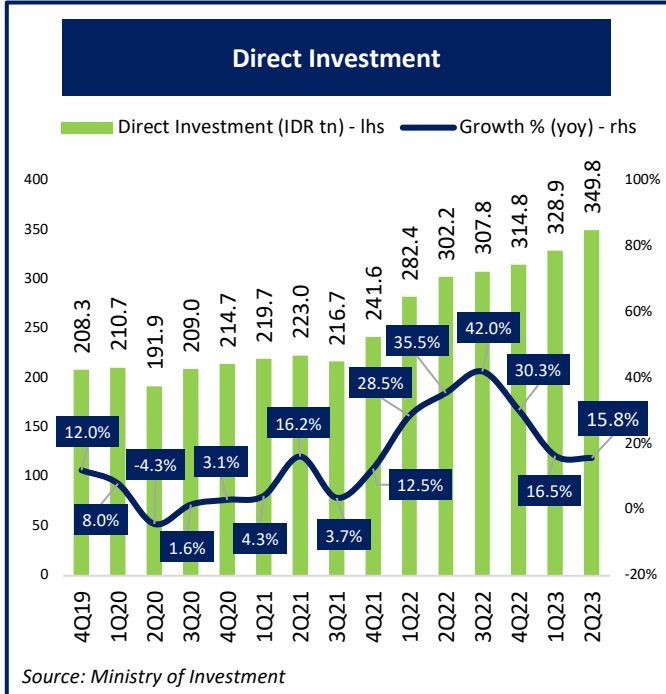
- Since 2020 up until now, investments in non-Java contributed a larger share than Java, indicating a more equitable economic development. Around IDR182.0 tn direct investment in 2Q23 (52.0% of DI) went into non-Java, while investments in Java reached IDR167.8 tn (48.0% of DI).

Domestic investment accelerates in 2Q23, and grew faster than FDI.

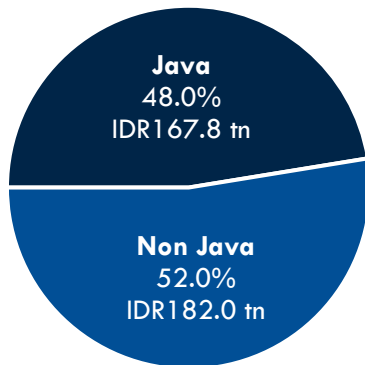
- Domestic direct investment (DDI) grew by 17.6% yoy in 1Q23, higher than 12.4% yoy growth in 1Q23. Seasonally higher domestic economic activities in Q2 seemed to contribute to the faster growth.
- Meanwhile, Indonesia's foreign direct investment (FDI) grew softer by 14.2% yoy (vs. 20.2% yoy in 1Q23). Softer growth may indicate early impact of the global economic slowdown.
- Main origin countries of FDI were Singapore, accounted for 27.0% to total FDI. China and Hong Kong come next, each accounted for 20.7% and 15.9% of the FDI.

OUR VIEW: Investment may be more supported by domestic drivers for the rest of the year.

- We see that direct investment could continue to perform well in 2023, driven by both FDI and DDI, as Indonesia has managed to gain trust from investors both from domestic and abroad.
- Yet, we still had to be cautious of the possibility of external shocks as major countries started to show disappointing economic performance, which may mostly impact the FDI.
- On the other hand, domestic factor would be the main boosters for direct investment as the economy continue to recover. Yet, we are watchful on the impact of the upcoming political year and national election. Investors may tend to be cautious awaiting for more certainty particularly on the next government's economic policy direction.

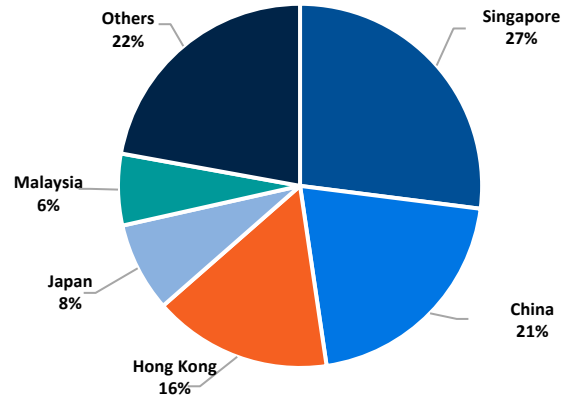


Direct Investment Java vs. Non Java (2Q23)



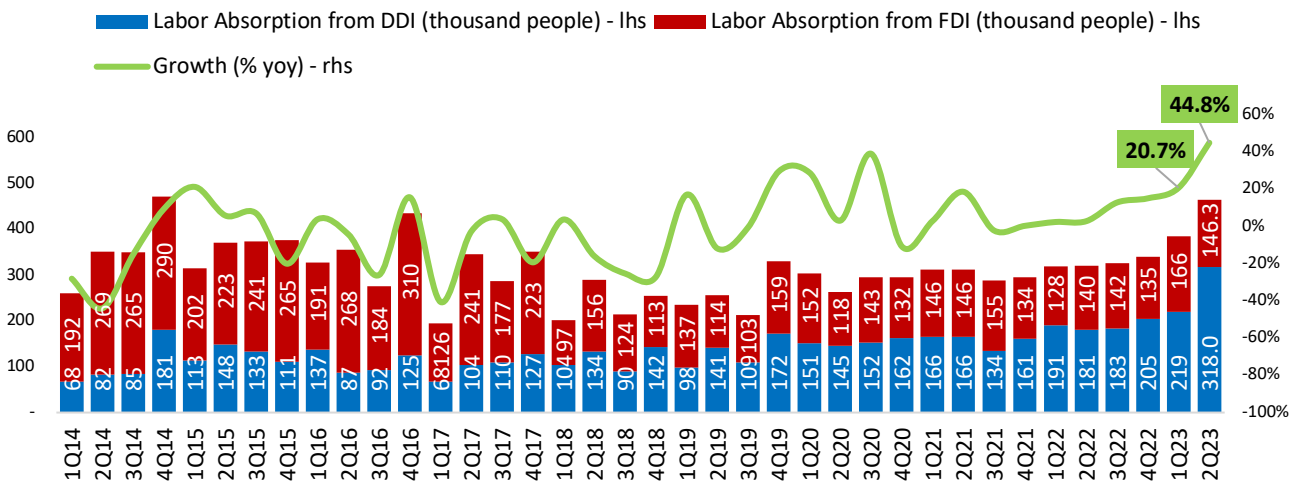
Source: Ministry of Investment

FDI by Origin Country (2Q23)



Source: Ministry of Investment

Labor Absorption from DDI and FDI



Source: Ministry of Investment

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