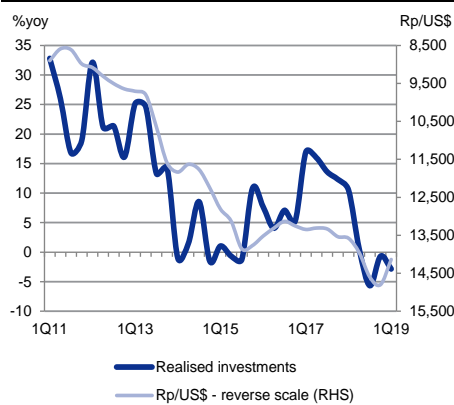


Indonesia

Economics Update

1Q19 direct investment realisation

Realised investments vs. Rp/US\$



- Total realised investments fell 2.8% yoy to US\$13.4bn in 1Q19 as the gains in the tertiary sector were insufficient to offset declines in other sectors.
- We expect investments to pick up in the following quarters on improving investor confidence with Jokowi likely to secure a second term.
- We project 1Q19 economic growth to remain steady at 5.2% yoy, supported by consumption growth.

Realised investments fell for the third straight quarter

Total direct investments (DI), which exclude the O&G and banking sectors, contracted 2.8% yoy to US\$13.4bn in 1Q19. The decline in foreign direct investments (FDI) extended into the fourth quarter, by 11.5% yoy to US\$7.2bn, which was partially mitigated by the 9.7% yoy increase in domestic direct investments (DDI) to US\$6.2bn in 1Q19.

DI in the tertiary sector continued to outperform

DI in the tertiary sector (+24% yoy in 1Q19 vs. +14% yoy in 4Q18) continued to outperform, led by sectors related to the government's infrastructure focus, such as transport, storage & communication, electricity, gas & water supply as well as construction. DI in the agriculture, mining and manufacturing sectors declined. Capital outlays in ex-Java gained 8% yoy, as opposed to a 10% yoy decline in Java.

East Asia and Asean the top contributors of FDI

Despite a 35% yoy decline, Singapore remained the largest source of FDI into Indonesia, accounting for 24% of foreign investments. This was followed by China (16% of foreign investments, +71% yoy), Japan (16% share, -17% yoy), Malaysia (9.8% share, +157% yoy), and Hong Kong (8.1% share, +13% yoy).

Policy continuity to spur confidence and investment

While base effects could be at play as realised investments reached record highs in 1Q18, we think 1Q19 readings were also affected by investors taking a wait-and-see approach ahead of the presidential election in Apr. Based on unofficial results, Jokowi is likely to be re-elected for a second term, implying that National Strategic Projects will continue and more reforms rolled out to improve the investment climate. We think this should boost business confidence and expect investments to pick up in the next quarter.

1Q19 real GDP growth projected at 5.2% yoy

While real investment growth may ease, we expect 1Q19 GDP expansion to be supported by consumption as high social spending by the government has lifted retail sales (+8.1% yoy in 1Q19 vs. +0.7% yoy in 1Q18), motorcycle sales (+19.4% yoy in 2M19 vs. +4.0% yoy in 1Q18) and consumer confidence (125.0 in 1Q19 vs. 123.4 in 1Q18). We project real GDP growth to remain stable at 5.2% yoy in 1Q19 (+5.2% yoy in 4Q18). The 1Q19 GDP data will be released on 6 May.

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Figure 1: Investment realisations fell 2.8% yoy to US\$13.4bn in 1Q19

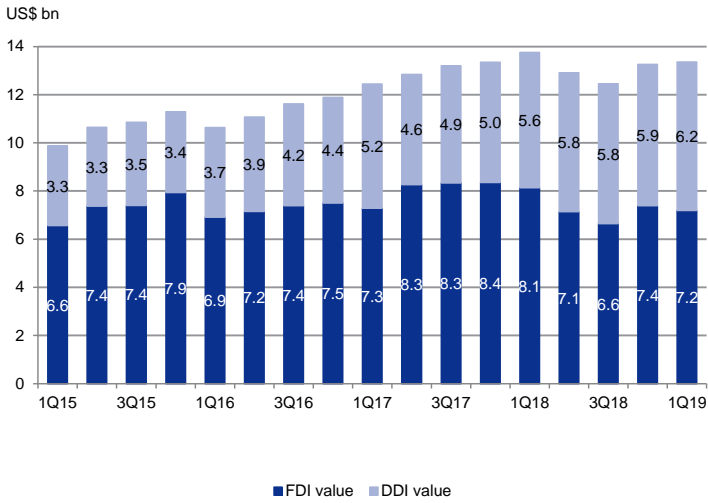
	1Q19		3Q18	4Q18	1Q19	3M19	3Q18	4Q18	1Q19
	US\$ bn	%share	%yoy	%yoy	%yoy	%yoy	%qoq	%qoq	%qoq
Direct investments	13.4	100.0	-5.7	-0.7	-2.8	-2.8	-3.6	6.5	0.8
Primary sector	2.1	15.9	1.5	-8.2	-12.6	-12.6	-26.9	2.9	-1.6
Secondary sector	3.0	22.5	-30.3	-17.7	-35.4	-35.4	-19.4	8.9	-20.4
Tertiary sector	8.2	61.5	11.9	14.4	23.6	23.6	20.1	6.4	12.5
Foreign direct investments	7.2	100.0	-20.2	-11.6	-11.5	-11.5	-6.9	11.1	-2.6
Primary sector	0.8	11.6	-29.5	-22.2	-32.4	-32.4	-31.2	23.4	-30.4
Secondary sector	1.9	26.0	-32.5	-9.8	-39.4	-39.4	-9.2	4.2	-22.2
Tertiary sector	4.5	62.3	-4.6	-8.8	17.9	17.9	5.7	12.2	18.7
Domestic direct investments	6.2	100.0	19.2	17.5	9.7	9.7	0.5	1.2	5.0
Primary sector	1.3	21.0	63.3	18.3	7.8	7.8	-22.7	-14.7	34.4
Secondary sector	1.1	18.5	-25.4	-28.7	-27.8	-27.8	-34.1	18.0	-17.4
Tertiary sector	3.7	60.6	34.2	57.0	31.2	31.2	38.1	0.8	5.8

Note: The data differs from official figures due to quarterly exchange rate transformations. Actual Rp/US\$ is used to calculate direct investment realisation figures here, whereas the official figure uses state budget assumption for Rp/US\$

Average Rp/US\$: 14,137 for 1Q19 / 14,799 for 4Q18 / 14,603 for 3Q18 / 13,956 for 2Q18 / 13,578 for 1Q18

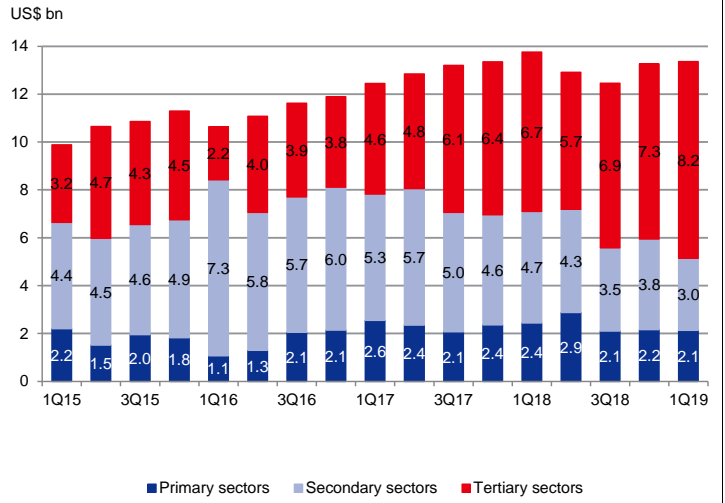
SOURCES: BKPM, CEIC, CGS-CIMB RESEARCH

Figure 2: Domestic and foreign direct investments



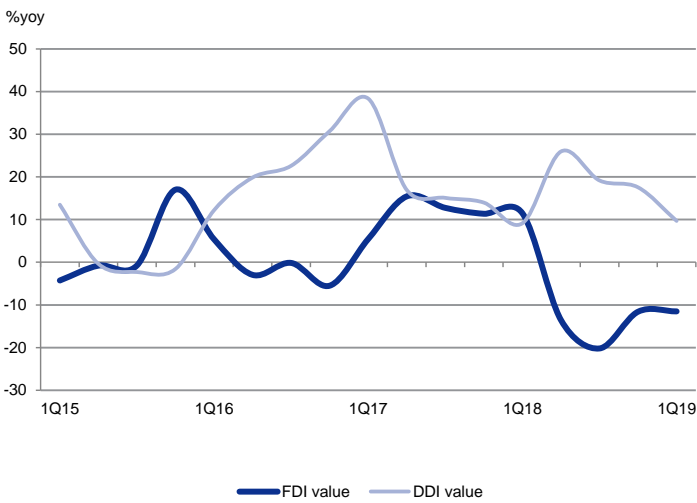
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 3: Total direct investments by sector



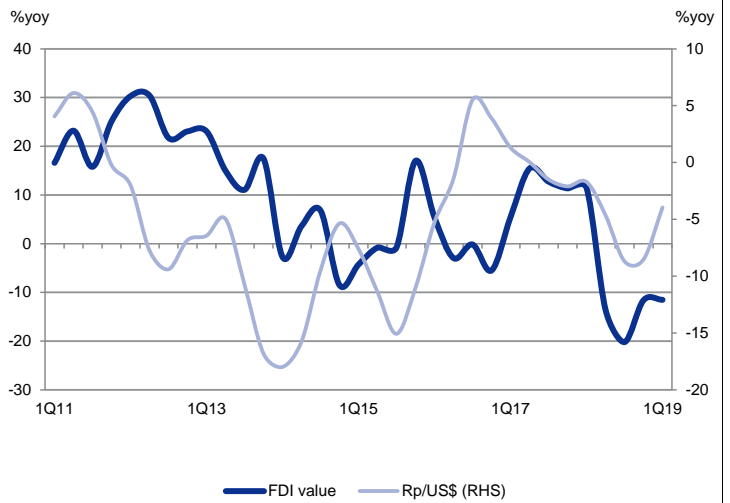
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 4: FDI fell for the fourth consecutive quarter in 1Q19



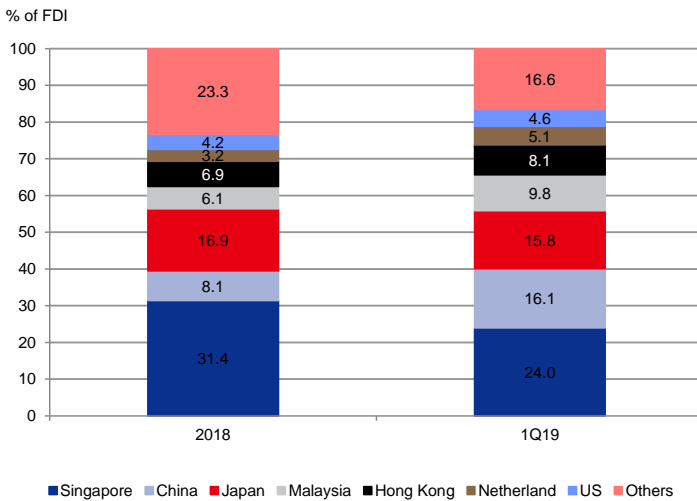
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 5: FDI vs. Rp/US\$



SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 6: FDI by source country



SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 7: Direct investments in Java and ex-Java



SOURCES: CEIC, CGS-CIMB RESEARCH

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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