

## Investment:

# A drop of good news

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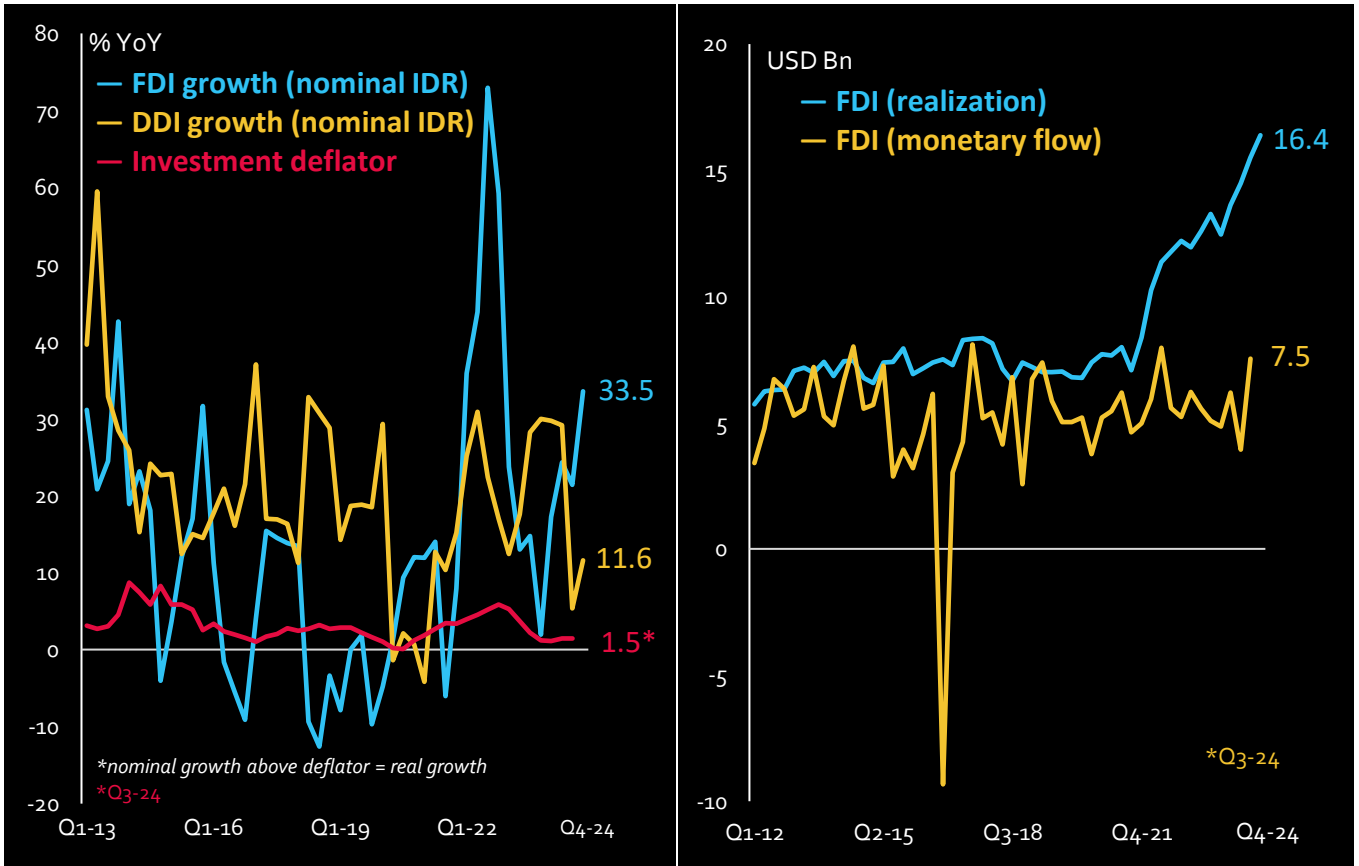
07 February 2025

### Executive Summary

- Direct investment grew 21.1% YoY (to USD 29.2 Bn) in Q4-24. FDI grew by 31.5% YoY while DDI grew by 14.1% YoY.
  - Recent shake-ups in the global supply chain may benefit Indonesia's manufacturing, with the increase of FDI into textiles in particular potentially reviving the fortune of this sector.
  - FDI into metals 'downstreaming' have cooled down, but DDI remained strong amid concerns of global mineral oversupply.
  - Recent shift in governments' budget priorities could present headwinds in the tertiary sector although positive for food-related industries.
- Direct investment grew by 21.1% YoY to USD 29.2 Bn in Q4-24, a major shift up from 12.6% in Q3 and 17.2% in Q2. FDI grew by 31.5% YoY to USD 16.4 Bn, while DDI growth (in IDR terms) was slower at 14.1% YoY – albeit still higher than Q3 (11.6% YoY).
  - Nominally, the bulk of the growth occurred in manufacturing, especially paper (USD 2.26 Bn, +69.5% YoY) and food & beverages (USD 2.23 Bn, +61.3%). Percentage-wise, however, the most remarkable story was in textiles, where there had been a surge in FDI (127.1% YoY). As we know, textile was the hardest-hit sector by the influx of imports from China in the past two years, resulting in perhaps over 700k loss in formal employment.
  - Given the competitive state of Indonesia's textile industry, the primary hope of reviving the sector probably rests in FDI, especially from Chinese producers who seek to access the US market through a third country. If this influx is a sign of things to come, this could go a long way in boosting domestic employment and therefore purchasing power.
  - More broadly, the manufacturing sector as a whole may be benefiting from a shakeup in the global supply chain, as a second Trump term triggers a rush of industrial relocation. As we mentioned in our GDP report, Indonesian electronic industries enjoyed a short-term boost which may be connected to this situation. Still, there is great uncertainty as to whether this growth will continue – a lot will depend on how tariffs and rate cuts shape up global trade flows in the coming months.
  - On the flip side, FDI in mining (8.3% YoY) and metals (8.4%) were lackluster both compared to their heydays in 2020-23 and to the strong DDI growth in the respective sectors (28.6% and 17.5%). The decline in FDI seems to follow worries about oversupply in coal and nickel, which have seen both commodity prices declining in recent months.

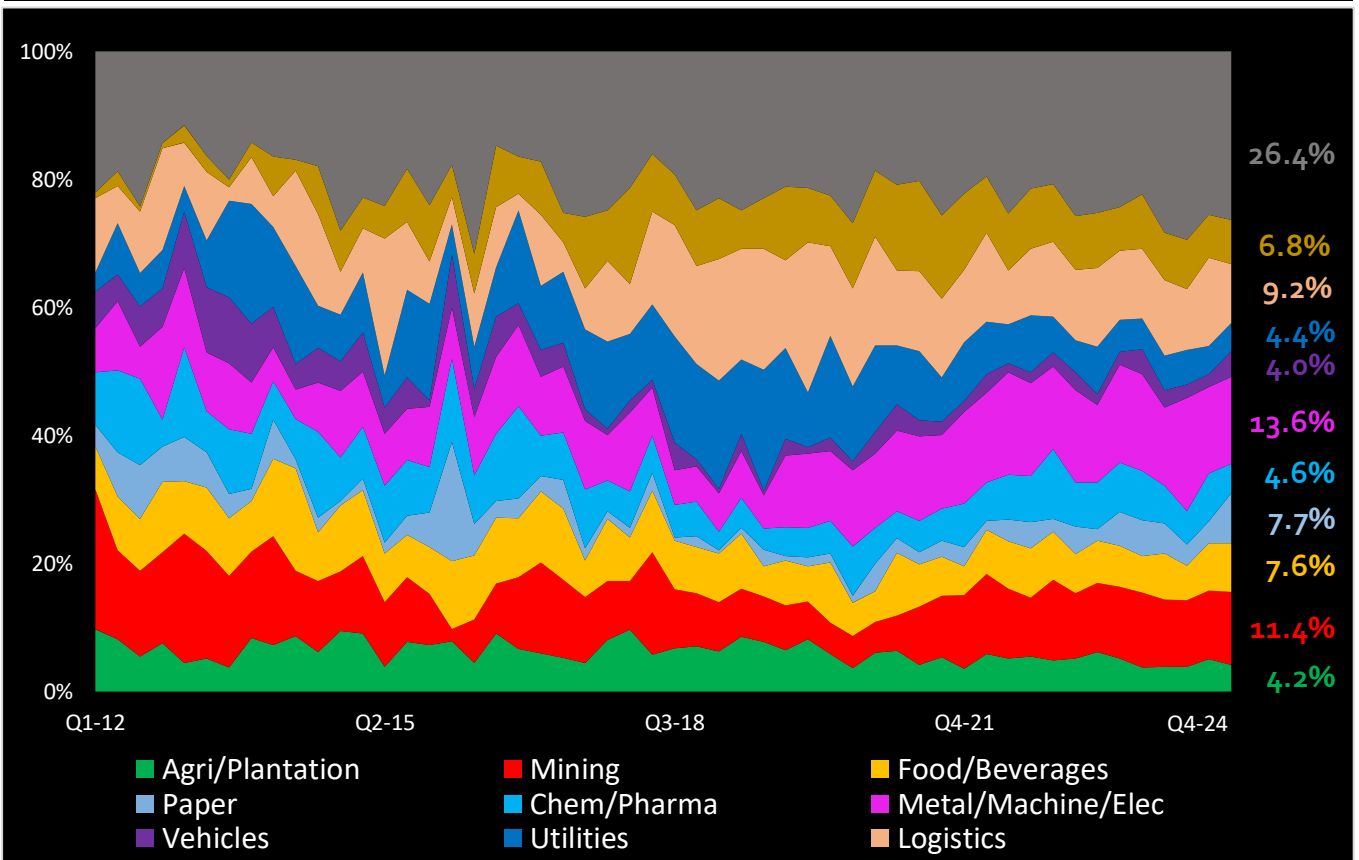
- But if FDI was waning, why are domestic investors jumping wholeheartedly? Domestic players seem to have a tendency to be latecomers in booming sectors, after foreign investors have blazed the trail. Furthermore, there is also a push by the government, intent on replicating the success of nickel 'downstreaming' into other commodities, as well as granting new mining concessions for various business and NGO groups.
- Still, the fact that these new entrants arrive at a time of falling prices could exacerbate the problem of global oversupply. Short-term profitability, then, will depend on the success of China's stimulus to revive demand for fossil energy and industrial metals.
- It is also important to note that the 'downstreaming' also involves non-metal commodities, which means that we have to count in the success of F&B and also pulp & paper industries as part of the story. Several long-term catalysts – reduction in plastic packaging, free school meal (MBG) program – likely work in favor of these industries.
- The tertiary sector (non-extractive, non-manufacturing) may be in a relative flux as the government's priorities shift from utilities and connectivity under Pres. Jokowi to welfare and self-sufficiency programs under Pres. Prabowo. This does include a promise to build 3 Mn houses/year (a substantial ramp-up from 1 Mn/year under the old administration), but with the latest budget revisions there appear to be cuts to construction projects in general.
- Based on country of origin, Chinese investments (both from mainland and Hongkong) seem to rebound from a slump in 2023, growing by 42.9% YoY. We think that further increase is quite likely, given cozy relations – China has pledged USD 10.7 Bn to support the President's programs, while Indonesia has joined BRICS – and given Indonesia's growing "Yuan deficit". Also interesting was the increase in Dutch FDI, which might have to do with F&B and other industries.
- Overall, these investment numbers represent a much welcome rebound from Q3-24, and manage to defy the declining fixed asset investment (FAI) growth in Q4-24. However, it is important to note that discrepancy against monetary flow (BoP) data pertaining to FDI has persisted and even widened. In this regard, this calls for more thorough monitoring by the government to make sure that investors make good on their commitment to invest.

**Panel 1. Investment is slowing due to the dropping growth of DDI**



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

**Chart 1. Investment in commodity-related sectors remains strong**



Source: BKPM, calculation by BCA Economic Research

## Selected Macroeconomic Indicator

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

	2022	2023	2024	Q1-2024	Q2-2024	Q3-2024	Q4-2024
<b>PRIMARY SECTORS</b>	<b>7,064.9</b>	<b>6,782.4</b>	<b>7,319.0</b>	<b>1,811.4</b>	<b>1,468.9</b>	<b>2,093.1</b>	<b>1,945.6</b>
Food crops, plantations, & livestock	1,789.5	1,945.6	1,827.2	306.2	560.0	400.9	560.1
Forestry	98.9	96.0	85.4	50.9	11.4	17.6	5.6
Fishery	31.6	25.7	218.0	49.4	3.2	114.2	51.2
Mining	5,145.0	4,715.0	5,188.4	1,405.0	894.4	1,560.4	1,328.7
<b>SECONDARY SECTORS</b>	<b>24,679.4</b>	<b>28,689.7</b>	<b>35,131.7</b>	<b>7,503.8</b>	<b>8,644.5</b>	<b>8,405.9</b>	<b>10,577.6</b>
Food industry	2,424.5	2,262.6	3,462.5	679.6	595.2	921.4	1,266.4
Textile industry	658.3	457.5	947.8	194.3	206.1	248.3	299.1
Leather goods & footwear industry	630.5	782.5	903.5	143.6	193.5	330.7	235.8
Wood industry	243.2	157.8	143.6	23.7	21.3	24.4	74.2
Paper & printing industry	1,630.0	3,430.8	4,777.1	983.8	833.2	833.1	2,127.0
Chemical & pharmaceutical ind.	4,505.5	4,805.2	4,126.0	1,076.4	848.0	1,301.0	900.6
Rubber & plastic industry	362.7	575.8	927.0	183.2	241.1	251.6	251.0
Non metallic mineral ind.	537.3	523.4	1,142.0	151.5	162.5	363.1	464.9
Metal, machinery, electronics, & other instruments	11,749.4	13,265.6	15,646.9	3,274.0	5,004.9	3,599.9	1,600.8
Transport equipment & other transport	1,522.8	2,046.2	2,503.0	670.5	384.0	418.2	1,030.3
Other industries	415.0	382.5	552.3	123.2	154.7	114.2	160.2
<b>TERTIARY SECTORS</b>	<b>13,860.8</b>	<b>14,795.4</b>	<b>17,564.2</b>	<b>4,313.9</b>	<b>4,374.7</b>	<b>5,011.8</b>	<b>3,863.8</b>
Electricity, gas and water supply	3,762.7	2,742.1	2,469.1	525.4	871.4	444.5	627.8
Construction	165.3	281.8	767.4	182.1	282.7	184.5	118.1
Trade & reparation	736.7	943.8	2,007.1	334.7	493.5	771.3	407.7
Hotel & restaurant	498.0	811.1	944.2	367.5	137.0	288.5	151.1
Transport, warehouse & telco	4,125.1	5,615.5	4,654.2	1,182.1	773.9	2,020.9	677.3
Real estate, industrial estate & business activities	3,014.6	2,574.5	3,089.7	946.4	805.8	584.5	753.0
Other services	1,558.4	1,826.5	3,632.4	775.7	1,010.3	717.6	1,128.8
<b>TOTAL</b>	<b>45,605.0</b>	<b>50,267.5</b>	<b>60,015.0</b>	<b>13,629.1</b>	<b>14,488.1</b>	<b>15,510.8</b>	<b>16,387.0</b>

\*Gold = Top 5 sectors for the year

Source: BKPM

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

	2022	2023	2024	Q1-2024	Q2-2024	Q3-2024	Q4-2024
<b>PRIMARY SECTORS</b>	<b>111,217.3</b>	<b>155,140.2</b>	<b>187,639.7</b>	<b>44,021.5</b>	<b>56,902.9</b>	<b>40,369.1</b>	<b>46,346.1</b>
Food crops, plantations, & livestock	38,878.5	42,912.0	45,501.5	11,054.9	7,961.0	15,707.9	10,777.7
Forestry	8,603.1	23,032.5	33,463.8	11,243.8	16,347.1	3,018.5	2,854.4
Fishery	1,214.1	2,506.5	1,815.7	496.2	428.9	405.6	485.0
Mining	62,521.6	86,689.2	106,858.7	21,226.6	32,165.9	21,237.1	32,229.0
<b>SECONDARY SECTORS</b>	<b>143,564.3</b>	<b>171,657.3</b>	<b>194,293.1</b>	<b>48,605.1</b>	<b>46,219.0</b>	<b>52,589.6</b>	<b>46,879.4</b>
Food industry	54,937.0	54,827.9	65,941.3	18,835.6	14,141.5	17,483.6	15,480.6
Textile industry	5,614.7	7,949.8	7,217.7	1,713.6	1,777.2	2,001.8	1,725.1
Leather goods & footwear industry	483.4	1,641.5	1,643.8	140.3	466.6	472.7	564.2
Wood industry	3,587.9	4,610.7	4,712.8	2,263.4	862.8	945.9	640.7
Paper & printing industry	9,508.2	9,295.0	9,002.8	3,859.3	1,455.3	1,517.7	2,170.5
Chemical & pharmaceutical ind.	28,905.2	33,869.9	35,915.7	7,505.4	9,273.0	12,091.6	7,045.7
Rubber & plastic industry	7,369.7	9,256.1	8,692.5	2,340.3	1,609.7	1,965.1	2,777.5
Non metallic mineral ind.	6,367.9	7,770.4	8,045.4	2,054.8	2,728.1	1,451.8	1,810.8
Metal, machinery, electronics, & other instruments	17,643.8	30,149.5	40,021.2	7,867.2	9,559.0	11,356.3	3,257.7
Transport equipment & other transport	2,425.2	6,172.7	8,189.9	571.9	3,077.3	2,131.6	2,409.1
Other industries	6,721.3	6,113.8	4,909.9	1,453.4	1,268.5	1,171.5	1,016.5
<b>TERTIARY SECTORS</b>	<b>297,987.3</b>	<b>348,125.9</b>	<b>432,084.8</b>	<b>104,482.8</b>	<b>107,966.2</b>	<b>105,872.6</b>	<b>113,763.2</b>
Electricity, gas and water supply	32,107.5	37,584.9	46,311.8	13,871.3	9,986.4	11,829.9	10,624.3
Construction	33,846.5	32,813.4	33,398.8	5,296.8	7,511.7	9,937.4	10,652.9
Trade & reparation	31,051.3	48,557.8	65,299.6	16,473.7	18,490.0	14,800.4	15,535.5
Hotel & restaurant	21,579.1	23,362.9	24,137.7	6,172.5	5,403.4	5,394.6	7,167.2
Transport, warehouse & telco	75,138.4	76,659.4	120,082.6	30,218.4	29,648.0	27,724.8	32,491.4
Real estate, industrial estate & business activities	66,167.9	77,099.2	76,517.4	15,192.9	21,438.7	19,877.8	20,008.0
Other services	38,096.7	52,048.2	66,337.0	17,257.3	15,488.1	16,307.7	17,283.9
<b>TOTAL</b>	<b>552,768.8</b>	<b>674,923.4</b>	<b>814,017.5</b>	<b>197,109.36</b>	<b>211,088.15</b>	<b>198,831.30</b>	<b>206,988.70</b>

\*Gold = Top 5 sectors for the year

Source: BKPM



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## Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.6
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6*	-0.9

**Notes:**

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time
- Numbers marked with (\*) for 2024 are our projections; other numbers for 2024 are final

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