

Investment:

Still strong amid external headwinds

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02 May 2025

Executive Summary

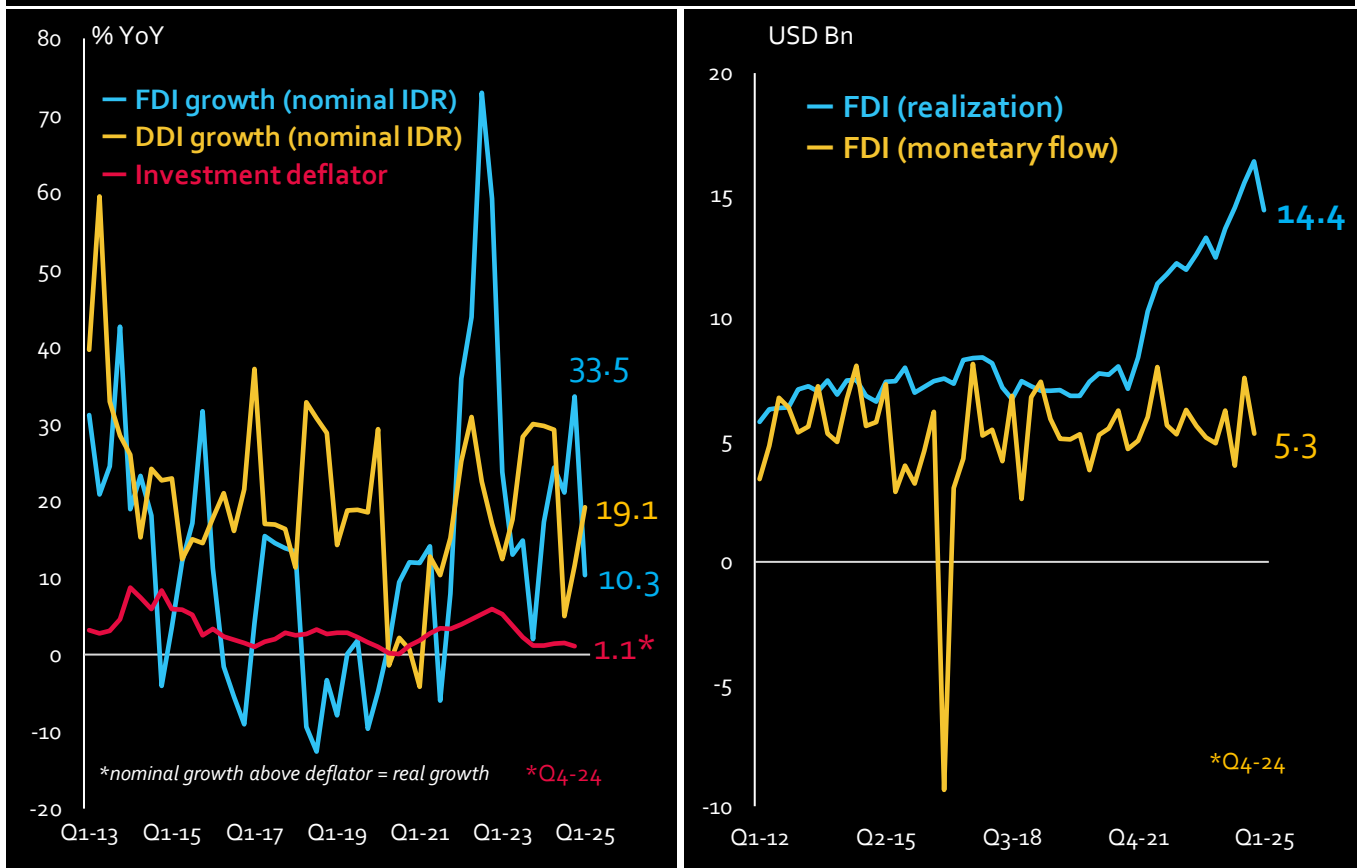
- Direct investment grew 9.7% YoY (USD 28.8 Bn) in Q1-25, slowing from 22.3% YoY in Q4, largely driven by weaker FDI growth (5.6% YoY), while DDI growth (in IDR terms) accelerated to 19.1% YoY.
- A significant portion of DDI came from the tertiary sector, particularly transportation and storage (around USD 3 Bn), likely supported by digitalization and rising e-commerce demand.
- Both FDI and DDI in commodity-related sectors (especially metal processing) remained resilient, despite long-term downside risks.
- DDI in manufacturing declined sharply, particularly in wood (-76.7% YoY), paper (-43.1% YoY), and food & beverages (-25.4% YoY). In contrast, FDI in manufacturing continued to rise, especially in the leather goods and footwear industry (189.8% YoY).
- Uncertainty around US tariff policy may dampen investment momentum until there is greater clarity on the Trump administration's long-term trade strategy.

- Direct investment grew 9.7% YoY (USD 28.8 Bn) in Q1-25, slowing from 22.3% YoY in Q4. Much of this deceleration was due to slower FDI growth, which rose just 5.6% YoY (USD 14.4 Bn), a sharp drop from the double-digit growth seen throughout 2024. Meanwhile, DDI growth (in IDR terms) accelerated to 19.1% YoY (USD 14.4 Bn), continuing its upward trend from Q3 (11.6% YoY) and Q4 (14.1% YoY).
- Much of the DDI growth came from the tertiary sector, particularly transportation and storage (around USD 3 Bn), which has seen steady investment since the pandemic, supported by ongoing digitalization and rising e-commerce demand. DDI in real estate also remained strong, likely fueled by developer optimism around the government's VAT incentives and subsidized housing programs.
- Commodity-related sectors continued to attract significant investment from both FDI and DDI, with mining and metal processing accounting for roughly 33.6% of FDI and 16.4% of DDI. However, there appears to be a shift within the sector: while metal processing investment surged by 31.5% YoY (5.0% QoQ), mining rose by only 8.6% YoY (-11.0% QoQ). This suggests a reallocation of capital toward processing activities—still largely driven by nickel—amid a decline in metal prices in general.
- Despite still-robust appetite to invest in nickel processing, nickel's dominance in the EV supply chain is being challenged by global oversupply and a growing preference for nickel-free lithium-iron-phosphate (LFP) batteries. Adding to the pressure, the Philippine government is

considering a ban on raw nickel ore exports in an effort to replicate Indonesia's downstream success. If enacted, this could intensify competition for foreign investment in the sector.

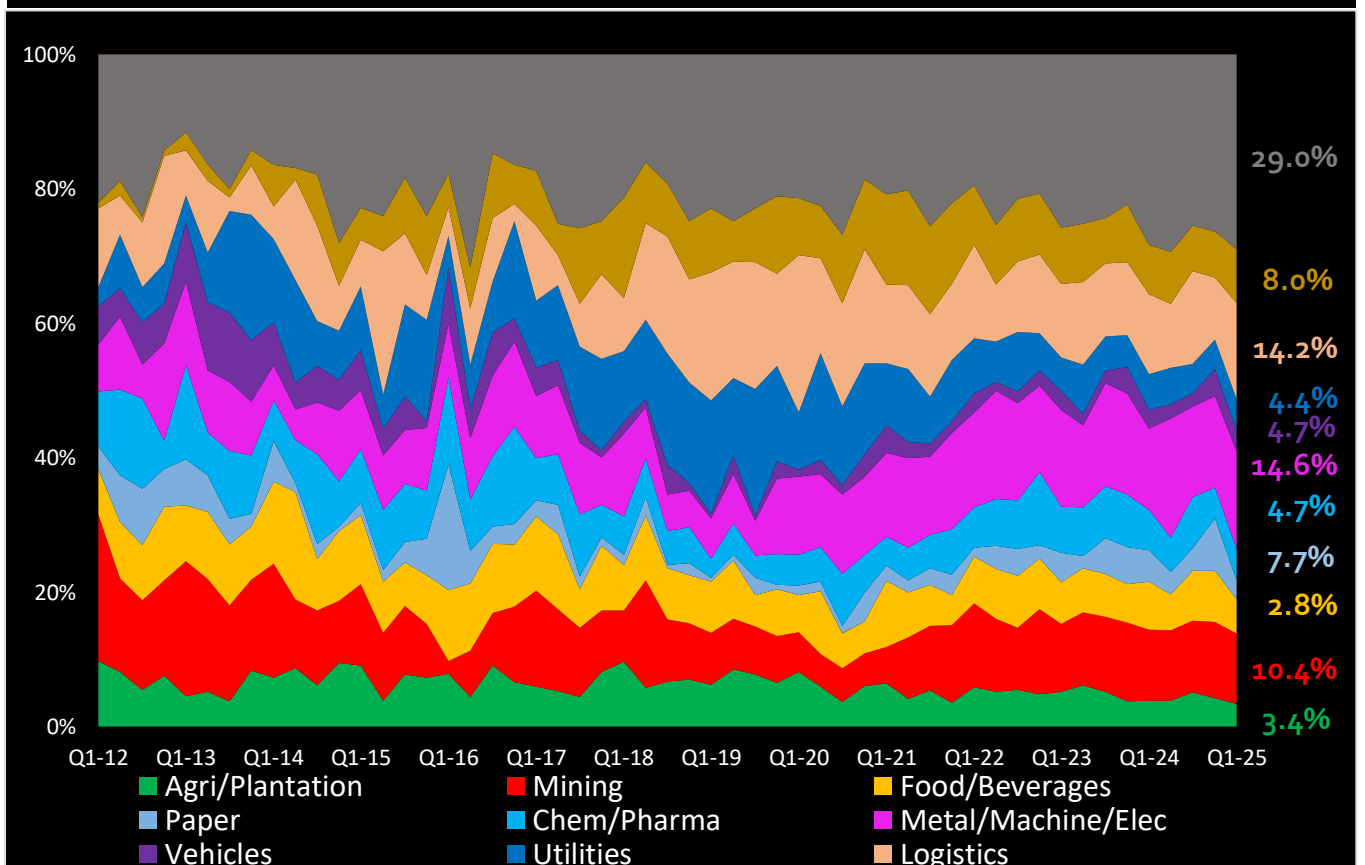
- Conversely, DDI in manufacturing declined, especially in wood (-76.7% YoY), paper (-43.1% YoY), and food & beverages (-25.4% YoY). Although these sectors have long-term catalysts—such as the 3 million houses project (wood for construction/furniture), a shift away from plastic packaging (paper), and the Free Nutritious Meals (MBG) program (F&B)—they have not yet translated into investment.
- In general, businesses seem to adopt wait-and-see stance over these programs, which has yet only been partially implemented. For instance, the government has disbursed IDR 2.3 Tn for MBG by the end of April, which is relatively slow compared to the IDR 171 Tn budget earmarked for the whole of 2025. This may have left some producers grappling with oversupply—evident in the poultry industry, where live chicken prices have dropped below production costs. Delays in program rollout, along with concerns that these initiatives may rely on imports rather than local producers, remain a significant roadblock in the short-term.
- On the other hand, FDI in leather goods & footwear industry surged in Q1-25, up 189.8% YoY and 76.4% QoQ. This was likely driven by Western brands (including Adidas and Nike) seeking to diversify production away from China. The trend aligns with the 15.3% YoY rise in footwear exports in Mar-25, especially to the US, as suppliers built up inventory ahead of potential Trump tariffs.
- However, this momentum may slow after Q1 following Trump's "liberation day" reciprocal tariff announcement on April 2nd, where Indonesia was hit with one of the highest rates at 32%. Although the tariffs were postponed by 90 days from April 9th, investors are expected to hold back until there is more clarity on the Trump's administration's long-term plans.
- There remains a small chance that US and China could reach a deal. However, in the absence of one, we expect the re-route of Chinese exports to the US via third countries—which has been a big theme since 2018—to continue apace, given the difficulties (impossibility, even) for either the US or China to adjust their respective current accounts in the short-term. This would create opportunities for FDI, especially from China, to countries like Indonesia. Unfortunately, trade data in the past few years suggests that such re-routing and associated FDI Indonesia has been rather limited, mainly towards footwear and other labor-intensive industries, when compared to other countries notably Vietnam and Mexico.

Panel 1. Investment is slowing due to the weaker growth of FDI



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	Q2-2024	Q3-2024	Q4-2024	Q1-2025
PRIMARY SECTORS	7,064.9	6,782.4	7,319.0	1,468.9	2,093.1	1,945.6	1,516.4
Food crops, plantations, & livestock	1,789.5	1,945.6	1,827.2	560.0	400.9	560.1	284.8
Forestry	98.9	96.0	85.4	11.4	17.6	5.6	34.8
Fishery	31.6	25.7	218.0	3.2	114.2	51.2	4.7
Mining	5,145.0	4,715.0	5,188.4	894.4	1,560.4	1,328.7	1,192.0
SECONDARY SECTORS	24,679.4	28,689.7	35,131.7	8,644.5	8,405.9	10,577.6	8,400.9
Food industry	2,424.5	2,262.6	3,462.5	595.2	921.4	1,266.4	611.5
Textile industry	658.3	457.5	947.8	206.1	248.3	299.1	225.2
Leather goods & footwear industry	630.5	782.5	903.5	193.5	330.7	235.8	416.0
Wood industry	243.2	157.8	143.6	21.3	24.4	74.2	41.0
Paper & printing industry	1,630.0	3,430.8	4,777.1	833.2	833.1	2,127.0	669.0
Chemical & pharmaceutical ind.	4,505.5	4,805.2	4,126.0	848.0	1,301.0	900.6	913.7
Rubber & plastic industry	362.7	575.8	927.0	241.1	251.6	251.0	322.0
Non metallic mineral ind.	537.3	523.4	1,142.0	162.5	363.1	464.9	182.2
Metal, machinery, electronics, & other instruments	11,749.4	13,265.6	15,646.9	5,004.9	3,599.9	3,768.1	4,238.7
Transport equipment & other transport	1,522.8	2,046.2	2,503.0	384.0	418.2	1,030.3	666.2
Other industries	415.0	382.5	552.3	154.7	114.2	160.2	115.3
TERTIARY SECTORS	13,860.8	14,795.4	17,564.2	4,374.7	5,011.8	3,863.8	4,481.6
Electricity, gas and water supply	3,762.7	2,742.1	2,469.1	871.4	444.5	627.8	522.7
Construction	165.3	281.8	767.4	282.7	184.5	118.1	124.0
Trade & reparation	736.7	943.8	2,007.1	493.5	771.3	407.7	652.3
Hotel & restaurant	498.0	811.1	944.2	137.0	288.5	151.1	204.9
Transport, warehouse & telco	4,125.1	5,615.5	4,654.2	773.9	2,020.9	677.3	1,134.0
Real estate, industrial estate & business activities	3,014.6	2,574.5	3,089.7	805.8	584.5	753.0	763.0
Other services	1,558.4	1,826.5	3,632.4	1,010.3	717.6	1,128.8	1,080.8
TOTAL	45,605.0	50,267.5	60,015.0	14,488.1	15,510.8	16,387.0	14,398.8

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

Source: BKPM

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

	2022	2023	2024	Q2-2024	Q3-2024	Q4-2024	Q1-2025
PRIMARY SECTORS	111,217.3	155,140.2	187,639.7	56,902.9	40,369.1	46,346.1	44,247.7
Food crops, plantations, & livestock	38,878.5	42,912.0	45,501.5	7,961.0	15,707.9	10,777.7	11,317.9
Forestry	8,603.1	23,032.5	33,463.8	16,347.1	3,018.5	2,854.4	2,463.6
Fishery	1,214.1	2,506.5	1,815.7	428.9	405.6	485.0	935.0
Mining	62,521.6	86,689.2	106,858.7	32,165.9	21,237.1	32,229.0	29,531.3
SECONDARY SECTORS	143,564.3	171,657.3	194,293.1	46,219.0	52,589.6	46,879.4	45,290.7
Food industry	54,937.0	54,827.9	65,941.3	14,141.5	17,483.6	15,480.6	14,055.8
Textile industry	5,614.7	7,949.8	7,217.7	1,777.2	2,001.8	1,725.1	1,793.6
Leather goods & footwear industry	483.4	1,641.5	1,643.8	466.6	472.7	564.2	371.0
Wood industry	3,587.9	4,610.7	4,712.8	862.8	945.9	640.7	527.0
Paper & printing industry	9,508.2	9,295.0	9,002.8	1,455.3	1,517.7	2,170.5	2,195.4
Chemical & pharmaceutical ind.	28,905.2	33,869.9	35,915.7	9,273.0	12,091.6	7,045.7	7,130.6
Rubber & plastic industry	7,369.7	9,256.1	8,692.5	1,609.7	1,965.1	2,777.5	2,002.3
Non metallic mineral ind.	6,367.9	7,770.4	8,045.4	2,728.1	1,451.8	1,810.8	1,915.4
Metal, machinery, electronics, & other instruments	17,643.8	30,149.5	40,021.2	9,559.0	11,356.3	3,257.7	11,329.6
Transport equipment & other transport	2,425.2	6,172.7	8,189.9	3,077.3	2,131.6	2,409.1	3,488.1
Other industries	6,721.3	6,113.8	4,909.9	1,268.5	1,171.5	1,016.5	1,327.3
TERTIARY SECTORS	297,987.3	348,125.9	432,084.8	107,966.2	105,872.6	113,763.2	145,294.4
Electricity, gas and water supply	32,107.5	37,584.9	46,311.8	9,986.4	11,829.9	10,624.3	13,406.9
Construction	33,846.5	32,813.4	33,398.8	7,511.7	9,937.4	10,652.9	8,085.4
Trade & reparation	31,051.3	48,557.8	65,299.6	18,490.0	14,800.4	15,535.5	18,912.8
Hotel & restaurant	21,579.1	23,362.9	24,137.7	5,403.4	5,394.6	7,167.2	7,576.7
Transport, warehouse & telco	75,138.4	76,659.4	120,082.6	29,648.0	27,724.8	32,491.4	48,359.7
Real estate, industrial estate & business activities	66,167.9	77,099.2	76,517.4	21,438.7	19,877.8	20,008.0	25,293.5
Other services	38,096.7	52,048.2	66,337.0	15,488.1	16,307.7	17,283.9	23,659.5
TOTAL	552,768.8	674,923.4	814,017.5	211,088.15	198,831.30	206,988.70	234,832.83

***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	4.8
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	5.7
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	4996
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.1
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	7.68
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,943
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-1.0

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time

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