Investment:

Continuities and discontinuities

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Executive Summary

- Direct investment grew 12.6% YoY (USD 28.1 Bn) in Q3-24, with FDI growing 17.0% YoY (7.1% QoQ) while DDI slowing to 11.6% YoY (-5.81% QoQ).
- Hotels and restaurants sector stood out with 138.6% YoY (110.5% QoQ) growth in FDI, driven by significant investment across key tourism destinations. Investment in commodity-related sectors remains strong with a notable shift towards mining over metal processing, signalling shifting investor priorities amid changing commodity market dynamics.
- Government-driven investments in construction and infrastructure remain crucial for DDI but face uncertainty under the Prabowo administration's new priorities. Unresolved liquidity challenges could crowd out private investment, yet targeted incentives and strong law enforcement may help attract FDI and sustain growth.

- Direct investment grew 12.6% YoY (USD 28.1 Bn) in Q3-24, a further slowdown from Q2's 17.2% YoY and Q1's 19.5% YoY. FDI showed more resilience, growing by 17.0% YoY (7.1% QoQ) to USD 15.5 Bn. However, DDI showed signs of cooling off, slowing to 11.6% YoY (-5.81% QoQ), a significant drop from the previous quarter's 29.1% YoY.

- A standout sector in Q3-24 was hospitality (hotels and restaurants), where FDI surged by 138.6% YoY and 110.5% QoQ. This boom was largely driven by significant investment in hotels, resorts, and dive centers across key tourism destinations such as Bali, Nusa Tenggara, and the Riau Islands. Indonesia's post-pandemic tourism revival has not only re-engaged local and foreign travelers but has also attracted substantial capital investment from both domestic and global players looking to tap into the growing leisure economy.

- Investment in commodity-related sectors remains strong, contributing approximately 29.7% of total FDI in Q3-24. However, there is a clear shift in investor interest within this sector: while mining investment grew robustly at 17.6% YoY, investment in the metals industry contracted by -6.6% YoY. This shift may indicate a realignment of investment priorities toward mining extraction activities rather than metal processing, perhaps due to lower metals demand or margin compression in downstream processing.

- Contrary to the trend seen in FDI, domestic interest in the metals industry remains robust. Local companies are heavily invested in ongoing "downstreaming" projects, which is quite a safe bet for the foreseeable future given potentially positive outlook for commodities in the medium-term, plus continued support from the government.

- Government-directed investments continue to play a vital role in Indonesia's DDI landscape. Construction, infrastructure, and real estate sectors, fueled by legacy projects like the new capital city (IKN) and other national strategic projects (PSN), experienced robust growth in Q3-24 as former Pres. Jokowi pushed for faster progress before the end of his term. Nevertheless, there is now doubt if infrastructure investment will maintain their pace under the Prabowo administration, whose priorities clearly lie in agricultural and social projects while overall infrastructure spending target has been lowered.

- Slowing domestic investment in Q3 also reflects Indonesia's liquidity challenges, which has been heightened by financing demand from capital-intensive industries and government projects. Concerns over government finances may persist in the future, which is why Pres. Prabowo's decision to re-appoint Sri Mulyani as Finance Minister has been such a reassuring move to the bond market.

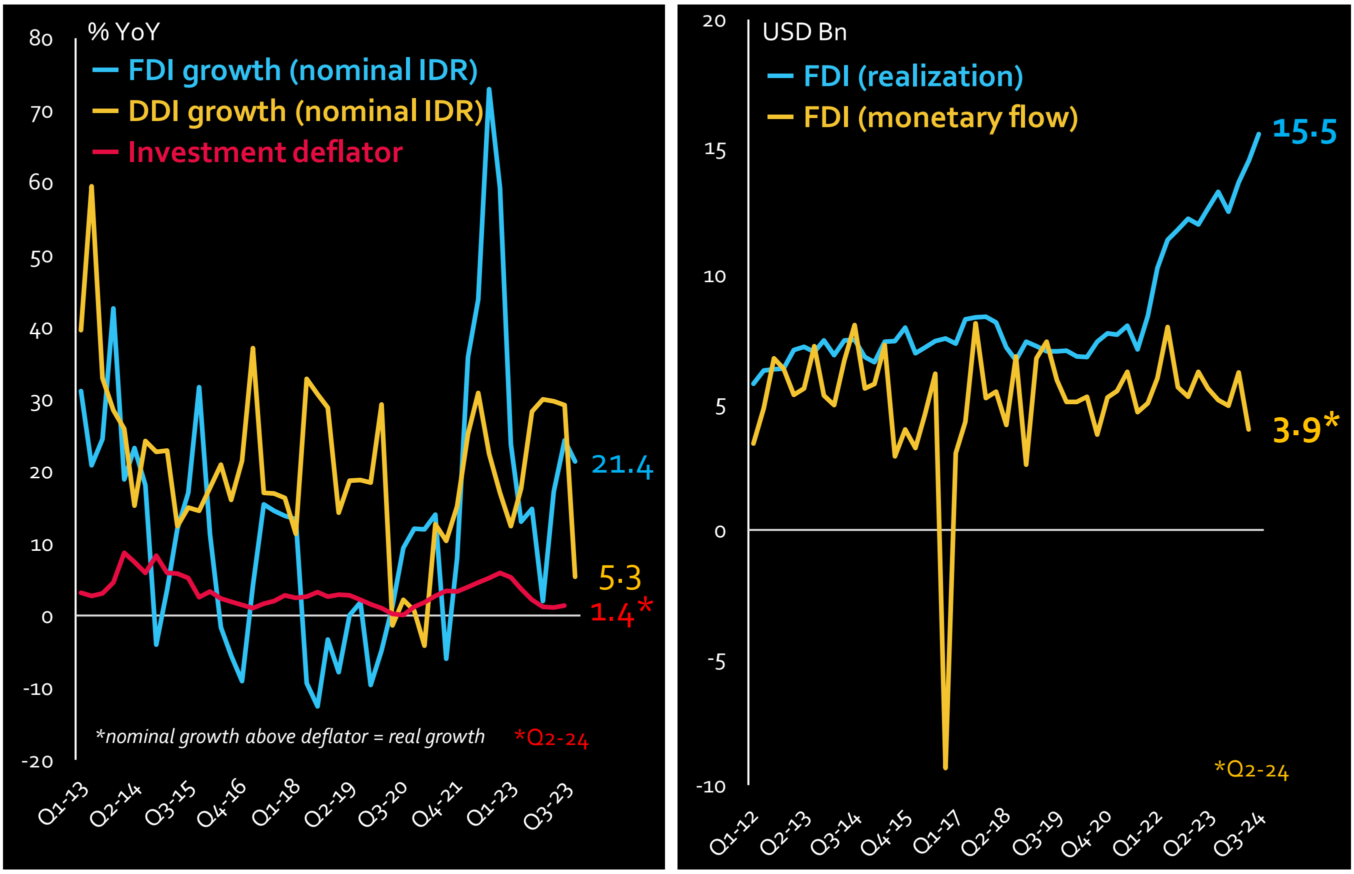
- Still, we need to note that the financing deficit is not just government vis-à-vis domestic private sector, but also the whole Indonesian economy vis-à-vis the rest of the world. With global economic outlook still hanging in the balance, rising financing demand from government projects could end up "crowding out" the private sector. The opposite of this, "crowding in" (whereby government investment attracts further private investment) can also happen, but the projects would have to either (1) generate positive externalities, or (2) generate more savings for the whole economy, i.e. current account improvement.

- Downstreaming projects, for all the misgivings about their externalities and (relative lack of) job creation, have mostly been a boon on the savings/current account front. But how about other projects by the new administration? The project to build 3 million houses annually may not attract as much crowding-in effect from private developers, whose business model has mostly been about building exclusive properties for well-off Indonesians. Nonetheless, there could be synergy/linkage with the building materials industry – provided, of course, that the materials are largely sourced domestically. The same also applies for the other big social project of the Prabowo government, the school lunch initiative.

- Meanwhile, the massive agro-industrial push under the banner of "food estate" presents an even more intriguing proposition. In theory, this project has the potential to boost the current account, mainly via import substitution. However, the remoteness of the project (focused on Papua) may increase the cost, while the risk – as with all things agriculture – are substantial, be it failed harvest or (conversely) oversupply that brings down prices.

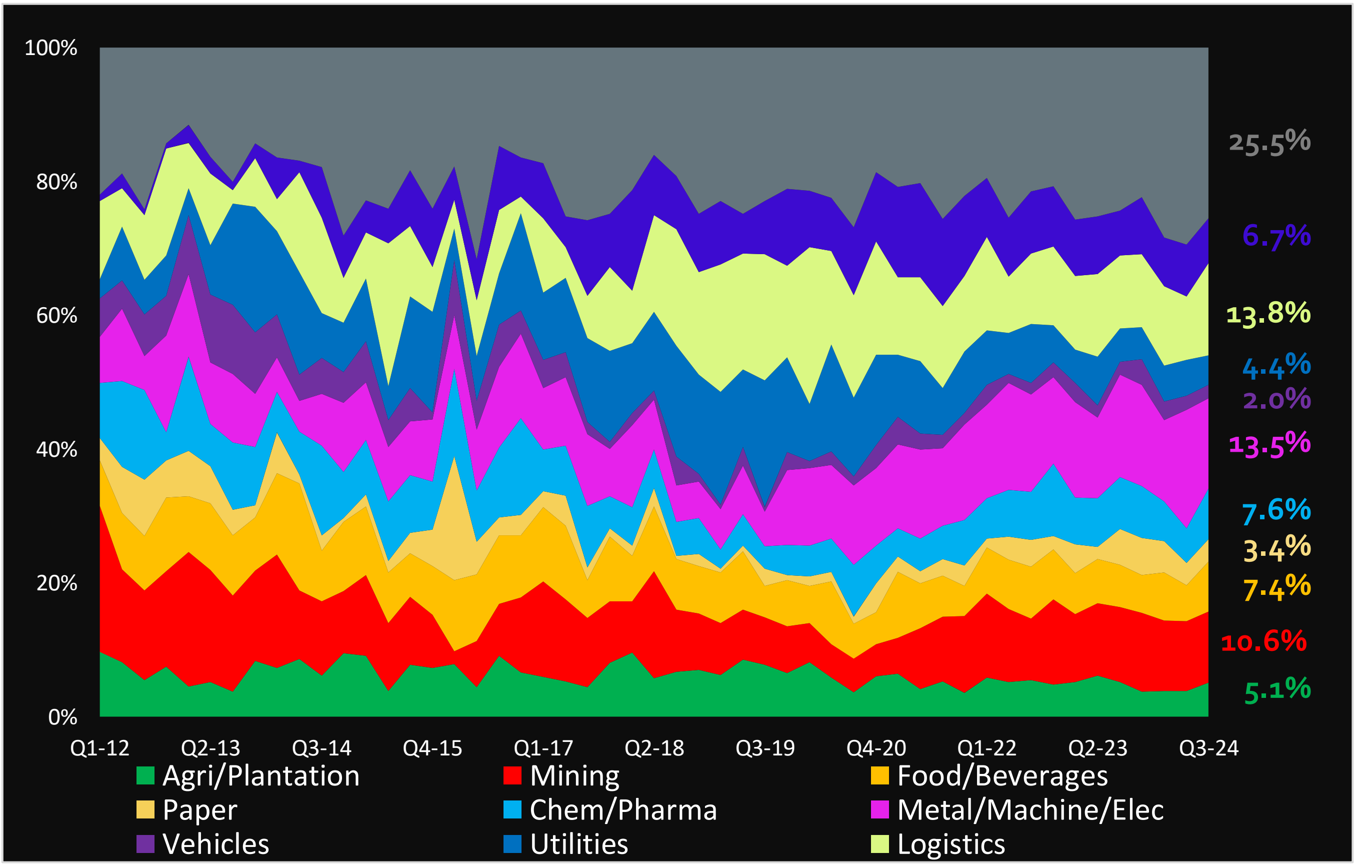
- Apart from downstreaming, then, there may actually be significant discontinuities between the Jokowi and Prabowo governments when it comes to investment outlook. And while we are quite bullish about DDI outlook next year – as recent improvement in Indonesia's terms of trade should give the private sector more money to "play" with – for FDI, the devil is in the detail. Improving law enforcement and clarity around land rights, plus giving the right incentives, will be crucial to ensure that government spending attracts, rather than displaces, private investment.

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



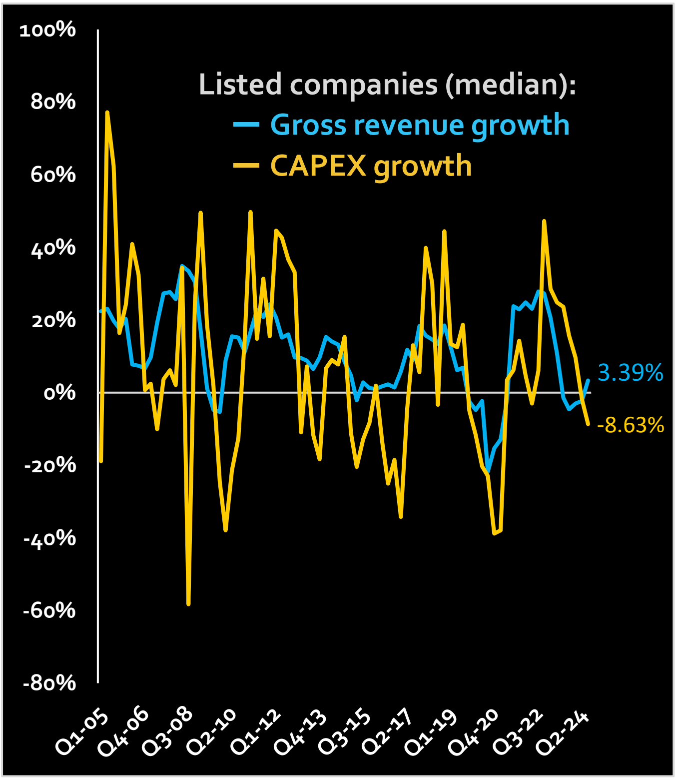
Source: BKPM, BPS, BI, calculation by BCA Economic Research

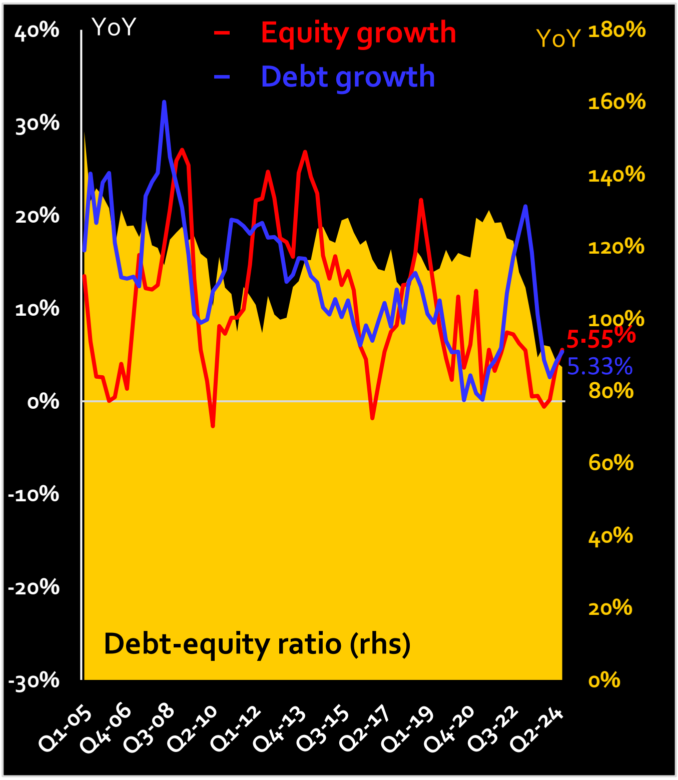
Chart 1. **Investment in commodity-related sectors remains strong**



Source: BKPM, calculation by BCA Economic Research

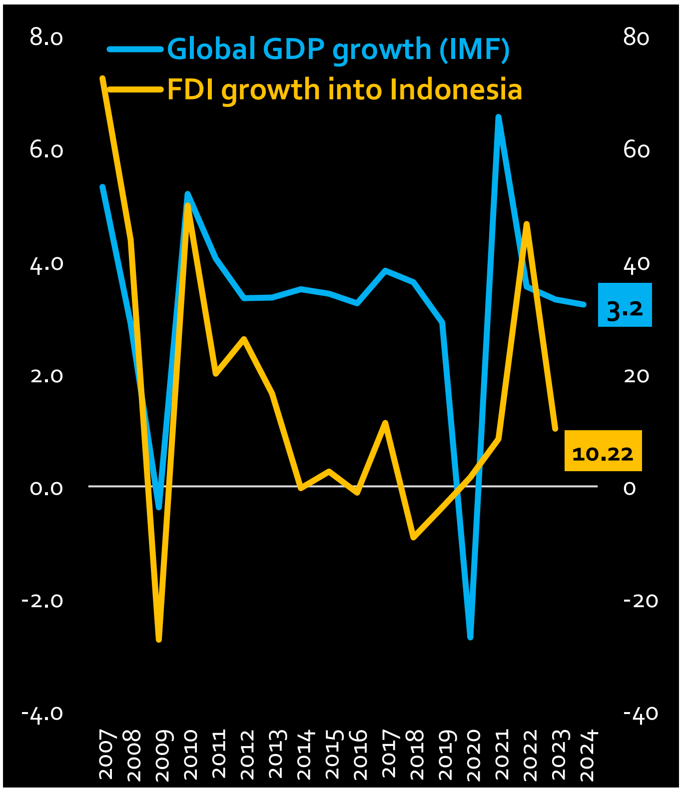
Panel 2. CAPEX of listed companies fell sharply amid recovering revenue growth

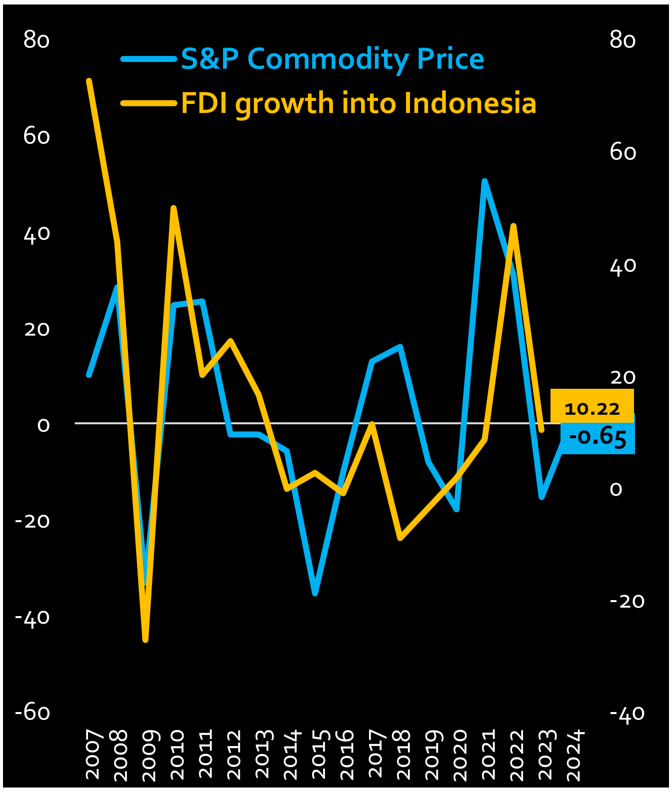




Source: Listed companies data from Bloomberg, calculations by BCA Economic Research

Panel 3. Commodity catalyst has been lacking for FDI





Source: BKPM, IMF, Bloomberg

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

	2021	2022	2023	Q4-2023	Q1-2024	Q2-2024	Q3-2024
PRIMARY SECTORS	**4,826.2**	**7,064.9**	**6,782.4**	**1,558.2**	**1,811.4**	**1,468.9**	**2,093.1**
Food crops, plantations, & livestock	950.6	1,789.5	1,945.6	308.0	306.2	560.0	400.9
Forestry	41.4	98.9	96.0	18.7	50.9	11.4	17.6
Fishery	17.2	31.6	25.7	4.4	49.4	3.2	114.2
Mining	3,816.9	5,145.0	4,715.0	1,227.1	1,405.0	894.4	1,560.4
SECONDARY SECTORS	**15,802.8**	**24,679.4**	**28,689.7**	**7,719.1**	**7,503.8**	**8,644.5**	**8,405.9**
Food industry	2,337.4	2,424.5	2,262.6	507.1	679.6	595.2	921.4
Textile industry	312.1	658.3	457.5	131.7	194.3	206.1	248.3
Leather goods & footwear industry	484.9	630.5	782.5	208.2	143.6	193.5	330.7
Wood industry	68.1	243.2	157.8	32.3	23.7	21.3	24.4
Paper & printing industry	952.5	1,630.0	3,430.8	1,164.4	983.8	833.2	833.1
Chemical & pharmaceutical ind.	1,656.5	4,505.5	4,805.2	1,143.3	1,076.4	848.0	1,301.0
Rubber & plastic industry	262.2	362.7	575.8	154.6	183.2	241.1	251.6
Non metallic mineral ind.	327.0	537.3	523.4	167.2	151.5	162.5	363.1
Metal, machinery, electronics, & other instruments	7,653.8	11,749.4	13,265.6	3,373.4	3,274.0	5,004.9	3,599.9
Transport equipment & other transport	1,501.9	1,522.8	2,046.2	766.5	670.5	384.0	418.2
Other industries	246.3	415.0	382.5	70.3	123.2	154.7	114.2
TERTIARY SECTORS	**10,464.2**	**13,860.8**	**14,795.4**	**3,181.7**	**4,313.9**	**4,374.7**	**5,011.8**
Electricity, gas and water supply	2,938.6	3,762.7	2,742.1	500.2	525.4	871.4	444.5
Construction	93.3	165.3	281.8	35.9	182.1	282.7	184.5
Trade & reparation	463.8	736.7	943.8	132.1	334.7	493.5	771.3
Hotel & restaurant	432.2	498.0	811.1	182.9	367.5	137.0	288.5
Transport, warehouse & telco	3,159.1	4,125.1	5,615.5	1,375.8	1,182.1	773.9	2,020.9
Real estate, industrial estate & business activities	2,186.4	3,014.6	2,574.5	601.7	946.4	805.8	584.5
Other services	1,190.7	1,558.4	1,826.5	353.0	775.7	1,010.3	717.6
TOTAL	**31,093.2**	**45,605.0**	**50,267.5**	**12,459.0**	**13,629.1**	**14,488.1**	**15,510.8**

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

Source: BKPM

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

	2021	2022	2023	Q4-2023	Q1-2024	Q2-2024	Q3-2024
PRIMARY SECTORS	**62,766.7**	**111,217.3**	**155,140.2**	**40,479.3**	**44,021.5**	**56,902.9**	**40,369.1**
Food crops, plantations, & livestock	29,374.7	38,878.5	42,912.0	9,151.9	11,054.9	7,961.0	15,707.9
Forestry	6,862.7	8,603.1	23,032.5	5,883.0	11,243.8	16,347.1	3,018.5
Fishery	1,012.1	1,214.1	2,506.5	392.0	496.2	428.9	405.6
Mining	25,517.1	62,521.6	86,689.2	25,052.3	21,226.6	32,165.9	21,237.1
SECONDARY SECTORS	**94,698.7**	**143,564.3**	**171,657.3**	**48,085.0**	**48,605.1**	**46,219.0**	**52,589.6**
Food industry	26,517.5	54,937.0	54,827.9	13,571.8	18,835.6	14,141.5	17,483.6
Textile industry	1,972.4	5,614.7	7,949.8	1,446.2	1,713.6	1,777.2	2,001.8
Leather goods & footwear industry	700.4	483.4	1,641.5	467.9	140.3	466.6	472.7
Wood industry	1,143.7	3,587.9	4,610.7	1,126.7	2,263.4	862.8	945.9
Paper & printing industry	7,833.6	9,508.2	9,295.0	2,641.8	3,859.3	1,455.3	1,517.7
Chemical & pharmaceutical ind.	23,363.6	28,905.2	33,869.9	11,266.8	7,505.4	9,273.0	12,091.6
Rubber & plastic industry	7,803.1	7,369.7	9,256.1	2,795.2	2,340.3	1,609.7	1,965.1
Non metallic mineral ind.	6,522.2	6,367.9	7,770.4	1,514.7	2,054.8	2,728.1	1,451.8
Metal, machinery, electronics, & other instruments	16,190.9	17,643.8	30,149.5	9,036.6	7,867.2	9,559.0	11,356.3
Transport equipment & other transport	1,459.3	2,425.2	6,172.7	2,620.0	571.9	3,077.3	2,131.6
Other industries	1,192.0	6,721.3	6,113.8	1,597.2	1,453.4	1,268.5	1,171.5
TERTIARY SECTORS	**289,598.5**	**297,987.3**	**348,125.9**	**92,824.7**	**104,482.8**	**107,966.2**	**105,872.6**
Electricity, gas and water supply	38,727.7	32,107.5	37,584.9	10,134.4	13,871.3	9,986.4	11,829.9
Construction	39,569.4	33,846.5	32,813.4	9,116.3	5,296.8	7,511.7	9,937.4
Trade & reparation	22,432.3	31,051.3	48,557.8	10,830.4	16,473.7	18,490.0	14,800.4
Hotel & restaurant	17,819.3	21,579.1	23,362.9	6,545.1	6,172.5	5,403.4	5,394.6
Transport, warehouse & telco	61,241.6	75,138.4	76,659.4	19,403.0	30,218.4	29,648.0	27,724.8
Real estate, industrial estate & business activities	85,497.8	66,167.9	77,099.2	22,582.5	15,192.9	21,438.7	19,877.8
Other services	24,310.4	38,096.7	52,048.2	14,213.0	17,257.3	15,488.1	16,307.7
TOTAL	**447,064.0**	**552,768.8**	**674,923.4**	**181,388.98**	**197,109.36**	**211,088.15**	**198,831.30**

***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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.9
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	15,650
Trade Balance (US$ 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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