Foreign Direct Investment (FDI): 16 July 2026

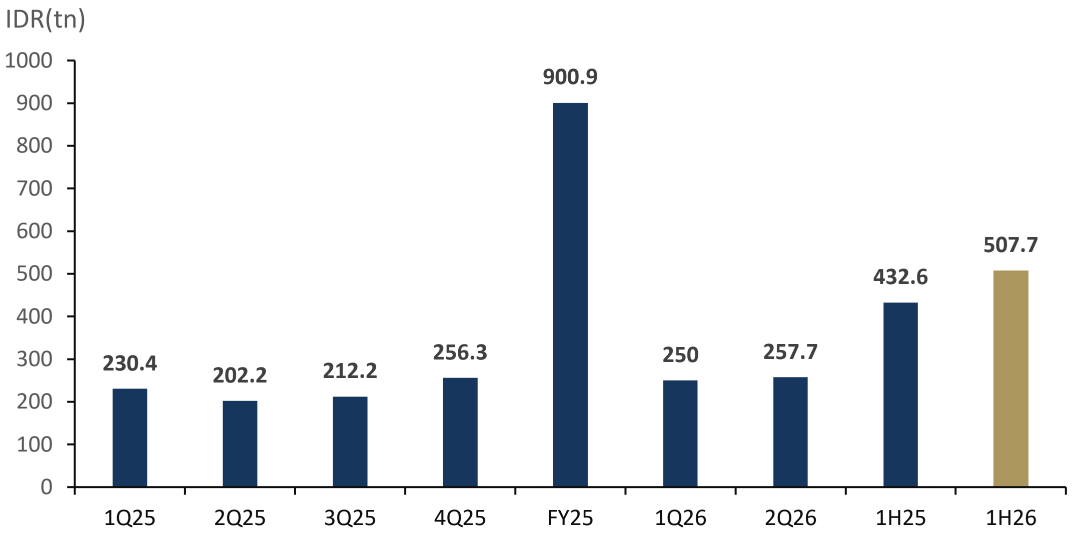
- Indonesia recorded FDI approval (excluding financial services and oil & gas) rebound of 27.4% YoY in 2Q26 to IDR257.7tn record (USD14.3bn). This represents 8.5% YoY growth acceleration from Q1, marking the strongest expansion since 4Q24. Base metals once again became the largest recipient of FDI, reflecting continued interest in Indonesia's downstream mineral processing and role in the global EV supply chain. Inflows into mining and other services further indicate Indonesia's resource status, although this leaves exposure to sudden crashes in global commodity prices. By country, Singapore maintained its position as the largest source of investment, followed by Hong Kong, China, Japan, and Malaysia.

- 1H26 FDI reached IDR432.6tn, growing 17.3% YoY, coming from a low base given last year's near-stagnant annual growth of only 0.1%. The latest figures strengthen the medium-term outlook for investment-led growth and partially offset concerns arising from softer exports and more volatile global capital flows. However, we see several external headwinds ahead: 1) higher for longer global interest rates to strain capital flows and increase financing costs for large scale industrial projects; 2) weak global manufacturing activities dampening foreign demand for Indonesia's exports; 3) the exceptional 27.4% YoY growth in 2Q26 is unsustainable and should drop in 2H26 and beyond.

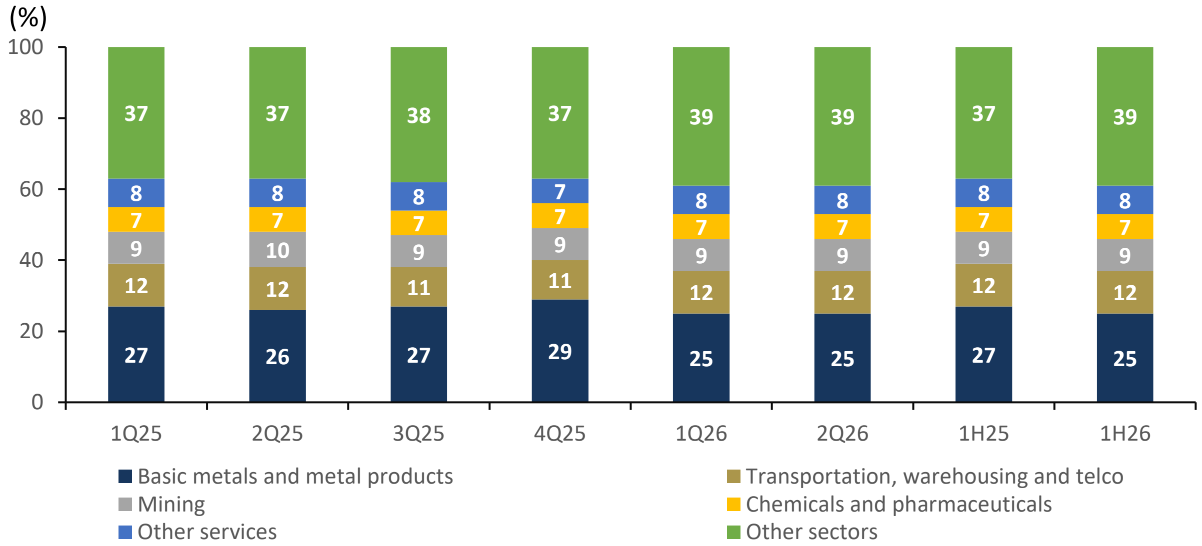
- On the domestic side, we see the following threats: 1) sudden policy shifts and unpredictable revisions to downstream rules may scare long-term investors; 2) red tape and slow-admin execution to delay actual FDI realization; 3) major disruptions and hidden costs of doing business in Indonesia from hoodlums (preman) and radical mass/religious groups. Nevertheless, solid investment realization is broadly consistent with SSI's outlook on Indonesia's long-term prospects.

- We expect Indonesia's investment momentum to slow in 2H26, inline with quarterly growth normalization following exceptionally strong Q2 performance. However, several factors should support the investment outlook, including ongoing downstream industrialization, improving infrastructure connectivity, relatively stable macroeconomic conditions, and Indonesia's strategic position within global supply chain diversification efforts. Nevertheless, investors will continue to monitor several downside risks. These include prolonged geopolitical tensions in Mid-East, higher-for-longer global interest rates, and slower global manufacturing activity, all of which could delay investment decisions in export-oriented sectors. Domestically, maintaining regulatory consistency, accelerating licensing reforms, and improving legal certainty will remain essential to sustaining investor confidence.

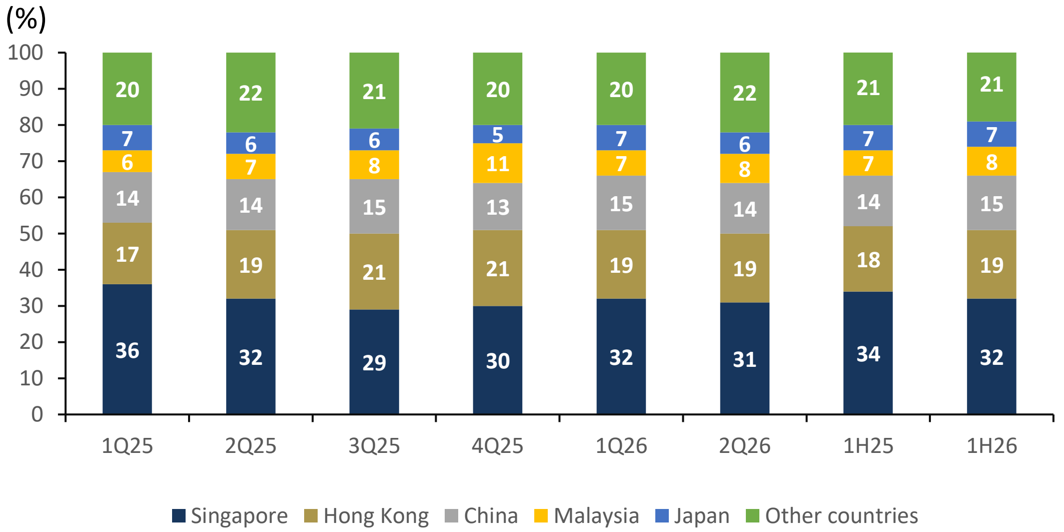
FDI approvals, 1Q25-1H26



FDI by Sector, 1Q25-1H26



FDI by Country, 1Q25-1H26



Sources: Bloomberg, SSI Research