ECONOMICS

Indonesia

Indonesia Economics

A Broadening Capex Boom

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Capex Engine Accelerating Despite Tighter Financial Conditions

Indonesia's investment upcycle is gathering momentum and should remain a key engine of above-5% growth in 2027 and 2028, despite tighter financial conditions and an evolving regulatory landscape. We forecast real GFCF growth strengthening to +6.5% in 2026, +6.3% in 2027 and +6.5% in 2028, from +5.1% in 2025. Real GFCF growth accelerated to +6.9% in 2Q26, while realized FDI jumped +27.4% to a record high in 3Q26. Investment lending remained robust at +21% YoY in September and capital-goods imports grew +10.6% in August. State bank credit to the education and construction sectors jumped +277% and +159% YoY respectively in Aug. The resilience of investment partly reflects a broadening capex mix: state-led programs, a widening downstreaming push, data center construction and energy infrastructure are advancing simultaneously, supported by policy priorities and foreign capital. This contrasts with earlier monetary-tightening episodes, when investment growth typically weakened as interest rates rose.

From Nickel to AI: Broadening Investment Drivers

The capex drivers are evolving beyond nickel into aluminum, digital infrastructure and energy projects. Bauxite downstream investment surged from Rp13.7tn in 1Q26 to Rp61.9tn in 3Q26, overtaking nickel. The alumina pipeline could lift refining capacity from 6.5mn tonnes in 2025 to 32.5mn tonnes by 2030. Nickel is moving further downstream to battery products, with a moratorium on new smelters under consideration. Data centers are another key growth engine due to an underpenetrated digital economy, with investment rising +400% to US$7.1bn in 1H26. Greater Jakarta's planned and under-construction capacity is nearly five times its current 356MW operational footprint. Batam could emerge as a beneficiary of tightening approval requirements in Thailand and Malaysia. Energy investment is both a capex driver and a prerequisite for the downstreaming and data centers capex to materialize. The 2025-34 RUPTL (Electricity Supply Business Plan) envisages 69.5GW of additional generation and US$118bn of investment opportunities, but implementation needs to accelerate materially with transmission a critical bottleneck. Coal and gas remain high on the agenda but solar, geothermal and hydropower could be priority RE investments.

Not Vietnam-Style FDI Industrialization: Weak Employment and Consumption Transmission

The current capex boom is unlikely to replicate Vietnam's FDI-led industrialization. Vietnam has attracted FDI into export-oriented manufacturing, whereas Indonesia's investment cycle remains skewed toward resource-seeking FDI and capital-intensive activities. Base metals FDI surged +99% in 3Q26 while other manufacturing FDI declined -1.6%. Services FDI, excluding data centers, is contracting. The employment transmission has also been weak despite faster GFCF growth. Indonesia's informal-employment share rose to 59.3% in May 2026 from 58% in August 2024 and formal employment declined by around 500,000. The investment upturn is more significant for construction, industrial estates, building materials, connectivity infrastructure, logistics, utilities and selected banks, than for consumption via second-order income effects.

Risks: Boom May Run Into Capacity Constraints

The key risk is increasingly the capacity to accommodate the investment boom rather than a shortage of projects. Fiscal pressures could constrain state investment, while an import-intensive capex cycle could widen the current-account deficit. Energy infrastructure bottlenecks could lead to slower execution of data center investments or reduce gas and other commodity exports. Policy predictability is another consideration, as shifting policies on commodity export oversight, labor protection, and other rules could increase uncertainty. For state programs, execution capacity will determine how effectively headline investment translates into productive assets.

Indonesia: A Broadening Capex Boom

"Downstream industry is the engine of transformation, while investment is the engine of growth"

Investment Minister and Danantara Chairman Rosan Roeslani at the Investor Daily Summit 2026 in Jakarta, 9 Oct 2026

Indonesia's investment cycle is gathering momentum and should remain a key engine of above-5% growth into 2027 and 2028. We forecast real GFCF growth to strengthen to +6.5% in 2026 (1H: +6.4%; 2025: +5.1%) and remain robust at +6.3% in 2027 and +6.5% in 2028. What makes the current upturn unusual is its resilience to tighter financial conditions and the breadth of its underlying drivers. State-led programs, a widening downstreaming push, data center construction and energy infrastructure are advancing simultaneously, supported by policy priorities and foreign capital.

The composition of investment matters as much as its scale. Unlike Vietnam's FDI-led industrialization, Indonesia's capex remains concentrated in relatively capital-intensive natural resource processing, digital infrastructure, and state-related projects. FDI in base metals surged +99% YoY in 3Q 2026, a sharp contrast to the -1.6% decline in other manufacturing industries'. FDI in "other services" - the category that encompasses data centers - jumped +133.9%, while the rest of the services sector saw a -11.9% contraction in realized inflows.

These investments can lift GDP, exports and productive capacity, but their employment and household income multipliers are likely to be weaker than those of labor-intensive export manufacturing. The investment boom may therefore sustain near-term GDP growth without necessarily translating into higher consumption or potential growth.

As investment scales up, the constraints are also changing. **The bigger risk may increasingly be Indonesia's capacity to accommodate the investment boom rather than a shortage of investment opportunities.** Power and transmission capacity, fiscal resources, the current account, policy predictability, and execution will become increasingly important determinants of how much of the investment pipeline ultimately materializes and how large its economic payoff proves to be.

Table 1: Indonesia - Key Macroeconomic Indicators

	2022	2023	2024	2025	2026F	2027F	2028F
Real GDP (%)	**5.3**	**5.0**	**5.0**	**5.1**	**5.3**	**5.2**	**5.4**
Private Consumption (%)	4.9	4.8	4.9	5.0	5.1	5.0	5.1
Government Consumption (%)	(4.4)	3.0	6.8	2.5	14.9	9.0	7.5
Gross Fixed Capital Formation (%)	**3.9**	**3.8**	**4.6**	**5.1**	**6.5**	**6.3**	**6.5**
Exports of Goods & Services (%)	16.2	1.7	6.9	7.0	3.8	4.1	6.0
Imports of Goods & Services (%)	15.0	(1.2)	8.1	4.8	8.1	6.6	7.3
Current Account Balance (% of GDP)	1.0	(0.1)	(0.6)	(0.1)	(2.0)	(1.5)	(1.6)
Fiscal Balance (% of GDP)	(2.4)	(1.7)	(2.3)	(2.9)	(2.9)	(2.6)	(2.7)
Inflation Rate (%, period average)	4.2	3.7	2.3	1.9	3.5	3.0	3.1
Unemployment Rate (%, end-period)	5.9	5.3	4.9	4.7	4.7	4.7	4.7
10Y bond yield (%, end of period)	6.92	6.45	6.97	6.05	7.50	7.00	7.00
Exchange Rate (per USD, end-period)	15,568	15,399	16,132	16,690	18,000	17,800	17,600
BI Policy Rate (% p.a., end-period)	5.5	6.0	6.0	4.75	6.0	6.0	5.75

Note: Unemployment rate is released bi-annually, in February and August.

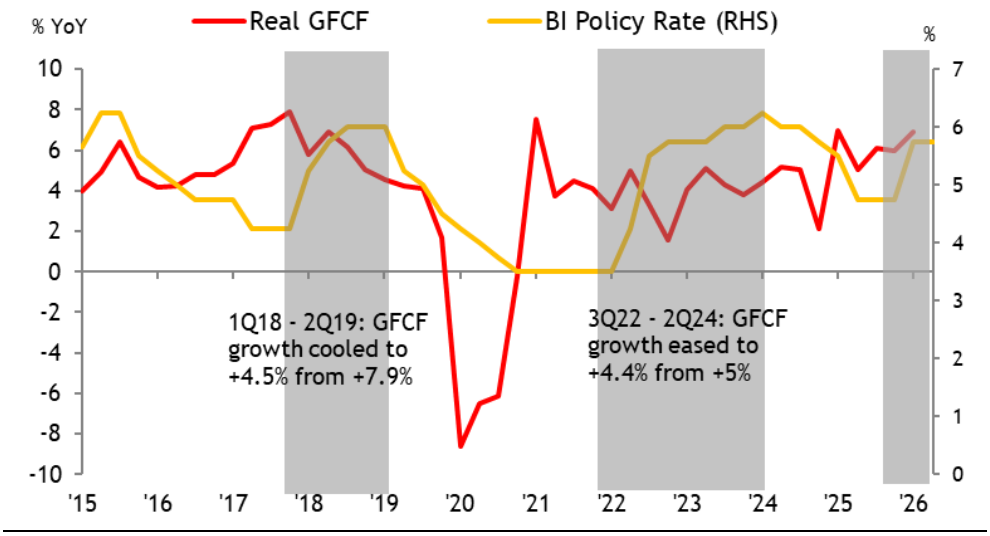
Source: CEIC, Maybank IBG Research

1. Capex Engine is Accelerating Despite Tighter Financial Conditions

Capital expenditure is rapidly becoming one of the primary growth drivers of the Indonesian economy. Real gross fixed capital formation (GFCF) rose +6.9% YoY in 2Q26, its fastest pace in a year, contributing +2.1ppt to GDP growth, the most since 2Q21. Fixed investment accounted for around 30% of real GDP in 1H26. Importantly, the upcycle has remained resilient despite tighter domestic financial conditions. Bank Indonesia raised its policy rate by a cumulative 100bps over May-June to 5.75%, while M2 growth slowed to +8.2% YoY in August from +10.8% in May. This contrasts with earlier monetary-tightening episodes, when investment growth typically weakened as interest rates increased.

Moreover, BI's surprise -200bps RRR cut in the fourth quarter could support bank lending to capex projects by releasing about Rp89tn (US$5bn) or 1% of third-party funds on net (see Indonesia Economics – BI Holds and Delivers RRR Cut, Expect +25bps Rate Hike in 2026, 21 Oct 2026).

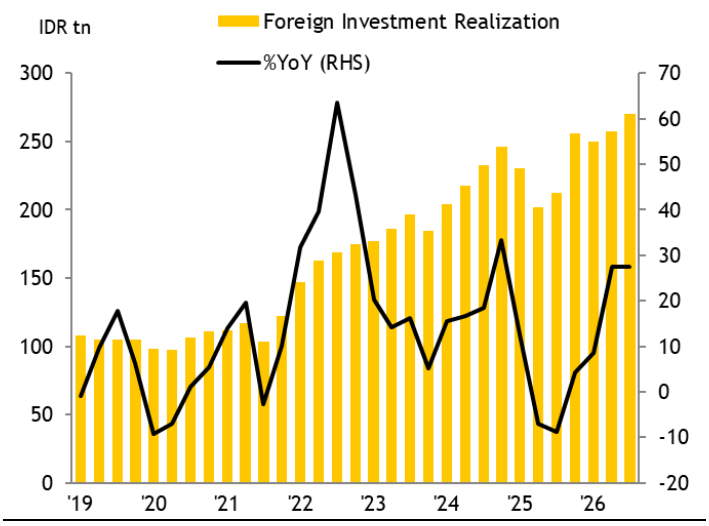
Fig 1: Capex Defies Rate Hikes: Investment Growth Has Accelerated Despite 100bps of BI Tightening



Note: Past and current BI monetary policy tightening cycles shaded
Source: CEIC, Maybank IBG Research

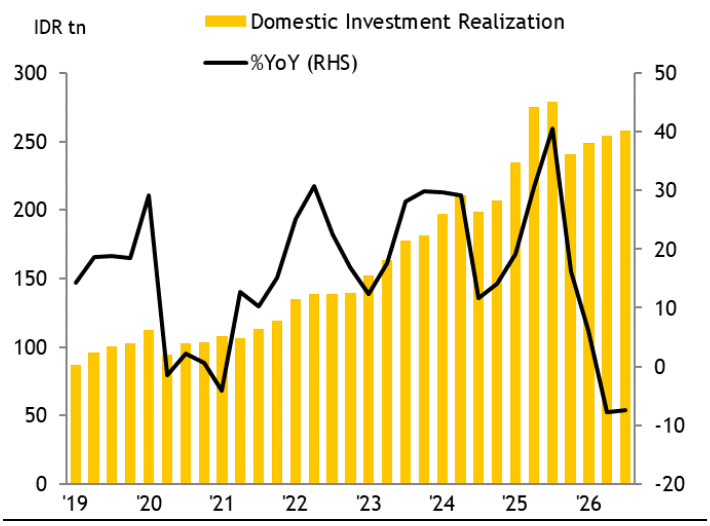
A broad set of indicators suggests investment momentum remains firm. Investment realization [1] reached Rp528.7tn in 3Q26, +7.6% YoY and higher than in the preceding two quarters. Realized FDI in rupiah terms jumped +27.4% YoY to a record high, following +27.5% in 2Q. Banks' investment lending grew +21% YoY in September, although disproportionately reflecting state-owned banks (likely to government initiatives). Capital goods imports expanded by a double-digit +10.6% in August for a fourth consecutive month.

Fig 2: Realized FDI Jumped +27.4% YoY to a Record High in 3Q 2026



Source: BKPM, CEIC

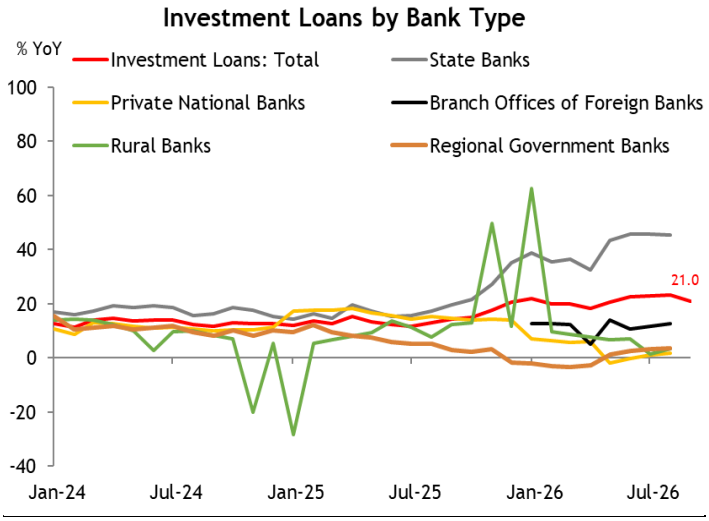
Fig 3: Realized Domestic Investment Rose Sequentially for Third Straight Quarter But Fell -7.5% from High Base in 3Q



Source: BKPM, CEIC

[1] Investment realization data, officially published by the Ministry of Investment and Downstream Industry/Investment Coordinating Board (BKPM), excludes investments in upstream oil & gas, financial institutions, insurance, and micro businesses from its headline figures.

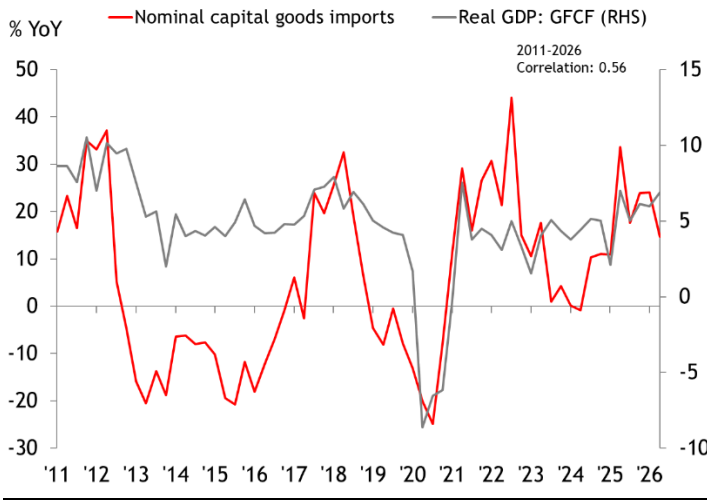
Fig 4: Investment Loans Grew +21% in Sep, Supported by State Banks and Branch Offices of Foreign Banks



Note: Latest data point is Sep for system-wide investment loans and Aug for the components

Source: BI, CEIC, Maybank IBG Research

Fig 5: Capital Goods Imports Accelerated from mid-2024 and Remains Resilient at +10.6% in August



Source: BPS, CEIC, Maybank IBG Research

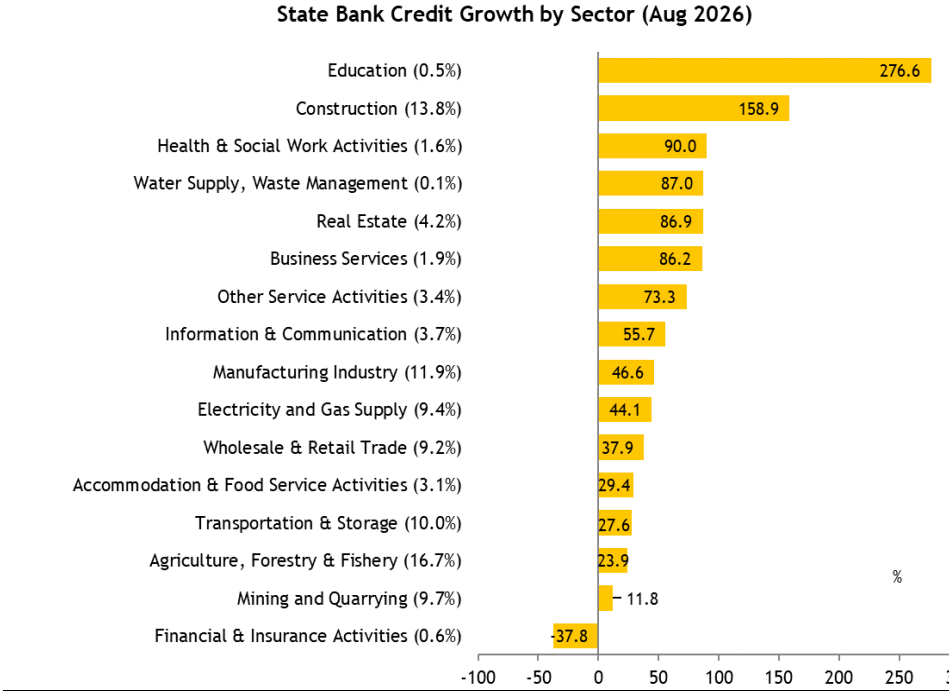
The relative insensitivity of the current cycle to monetary conditions reflects the changing composition of investment. Four engines are operating simultaneously: (1) state-related investment; (2) metals downstreaming; (3) data centers; and (4) energy infrastructure. A rising investment share to GDP is being driven by strategic policy priorities, resource-seeking FDI, and long-horizon infrastructure requirements rather than purely cyclical domestic credit conditions.

State Programs Supporting Construction Demand

State-related investment is supporting construction demand. The 2027 budget stipulates government capital spending of Rp295.2tn, +7.7% from 2026, with rural healthcare, schools and food security infrastructure among the priorities (see Indonesia Economics – Budget 2027: Growth and Prudence, 15 Aug 2026). Programs such as the Red and White Village Cooperatives (KMP) are generating demand for warehouses, retail outlets and associated facilities.

Around 23,000 KMP cooperative facilities had been constructed as of September 2026 against an eventual target of 80,000 stores. Investment lending of state banks to the construction sector surged +158.9% as of August, which could be attributed in part to the KMP and other government-related programs.

Fig 6: State Banks' Outstanding Credit to Education Sector Grew +277% in August, While Credit to Construction Sector Surged +159%



Note: Numbers in brackets refer to the share of total credit outstanding in Aug 2026.
Source: BI, CEIC

The benefits potentially extend beyond contractors and building-material suppliers. The geographically dispersed rollout of cooperative outlets, kitchens, healthcare and education facilities requires storage, transportation and distribution networks, which could create second-order demand in logistics and related infrastructure.

But the more structural parts of the capex story increasingly lie elsewhere.

2. From Nickel to AI: Broadening Investment Opportunities

The investment boom is evolving beyond the nickel story. Downstreaming is spreading to aluminum and copper, the large and underpenetrated digital economy is attracting data center investment, and the resulting increase in power demand is creating a parallel need for energy infrastructure. These investment themes increasingly reinforce one another.

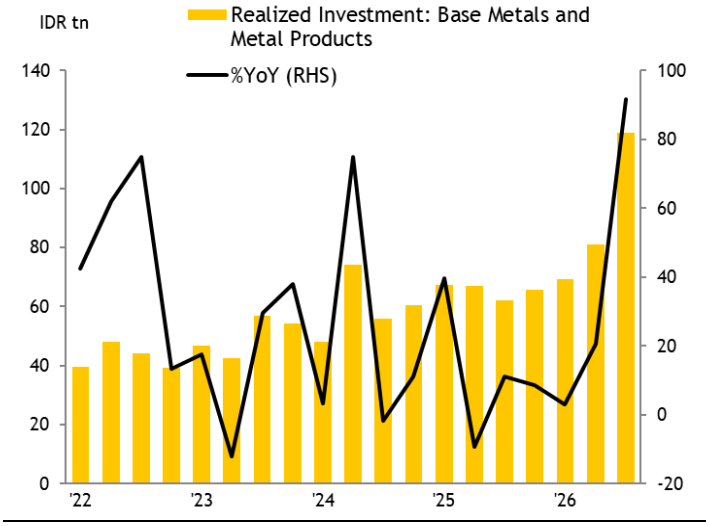
Aluminum: The Next Nickel?

Downstream investment reached Rp179.9tn (+19.4%) in 3Q 2026, equivalent to 34% of total realized investment, accelerating from +5.7% in 2Q. Mineral downstreaming accounted for Rp128.6tn (US$7bn) of the total, spanning bauxite, nickel, iron and steel, copper, gold and silver value chains. Base metals and metal product investments (encompassing bauxite, nickel, copper etc) surged +91.6% in the third quarter.

Aluminum has the makings of the next nickel. Bauxite overtook nickel to become the largest downstream investment segment in 2Q26, and bauxite investment reached Rp61.9tn in 3Q, ahead of nickel's Rp48tn (Fig 8). Chinese capital accounts for around three-quarters of announced aluminum projects.

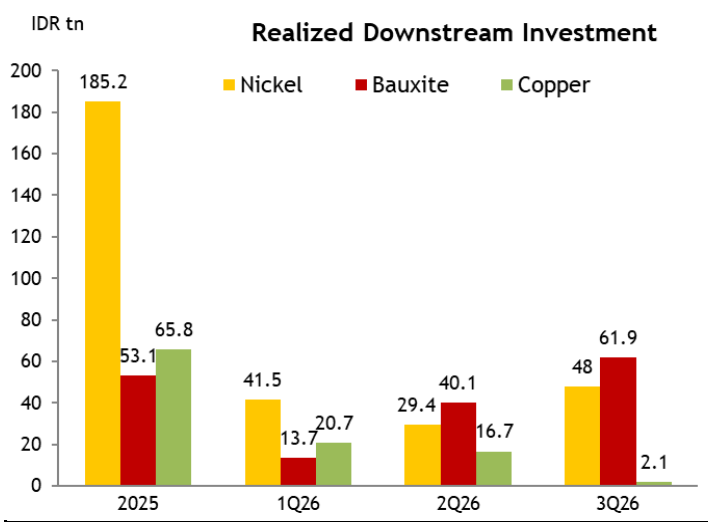
Indonesia possesses several of the advantages that catalyzed its nickel-processing boom: captive feedstock following the June 2023 bauxite export ban, competitive energy costs and existing Chinese-developed industrial park, power and logistics infrastructure. At the same time, China's primary aluminum production is approaching a government-mandated 45mn-tonne annual capacity ceiling.

Fig 7: Investment in Base Metals and Metal Products Surged +92% in 3Q 2026, Driven by Foreign Inflows



Source: BKPM, CEIC

Fig 8: Bauxite Downstream Investment Surged 4.5 Fold from 1Q 2026 to 3Q 2026, Extending Lead over Nickel



Source: BKPM, CEIC

The pipeline is substantial. There are only three operating smelter-grade alumina refineries, with around 6.5mn tonnes of production capacity (as of 2025). The full project pipeline could lift capacity to 32.5mn tonnes per annum by 2030, representing around US$25bn (Rp453tn) of investment. This compares with roughly US$40bn invested in Indonesia's nickel-processing industry over 2020-25.

Demand is tied increasingly to structural global investment themes. Aluminum is a critical input into EVs, solar power, transmission infrastructure and data centers, while copper is essential for power grids, renewables and AI-related infrastructure.

Table 2: Global Investment Driving Demand for Indonesia's Metal Exports

Metal	End-market
Nickel	EV batteries, energy storage
Copper	Power grids, renewable energy, AI data centers
Aluminum (bauxite)	EVs, solar, transmission, aircraft, data centers
Gold	Electronics, semiconductors, precious metals refining

Source: Compiled by Maybank IBG Research

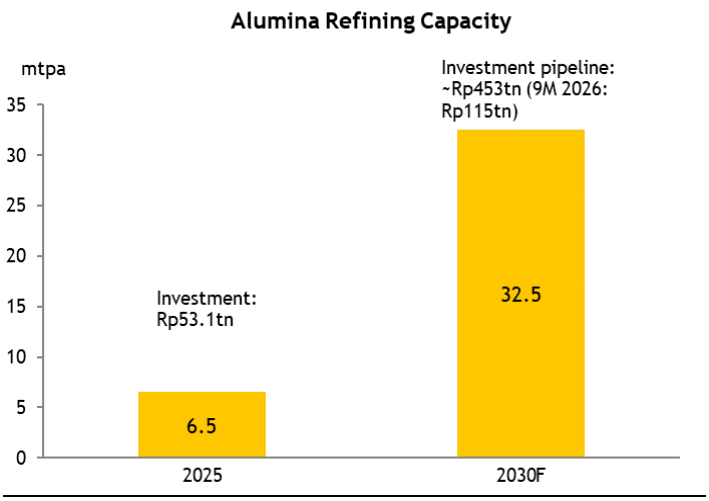
Nickel itself is moving further downstream rather than fading as an investment theme. Policy is increasingly shifting from additional lower-value smelting capacity toward higher-value battery products. Two projects anchor the next phase: the US$6bn CATL-Antam-IBC Dragon battery ecosystem in West Java, which is under construction, and the US$9.8bn Huayou Cobalt-EVE Energy Titan project, targeting 20GWh of annual battery-cell capacity.

Government policy towards nickel and aluminium reflects their different stages of downstream development. Nickel ore exports have been banned since 2020, and the government is now considering restrictions on new smelters producing semi-finished mineral products like nickel pig iron and nickel matte as it seeks to encourage higher-value processing. For aluminum, bauxite ore exports have been

banned since June 2023, supporting the buildout of domestic alumina and aluminium capacity.

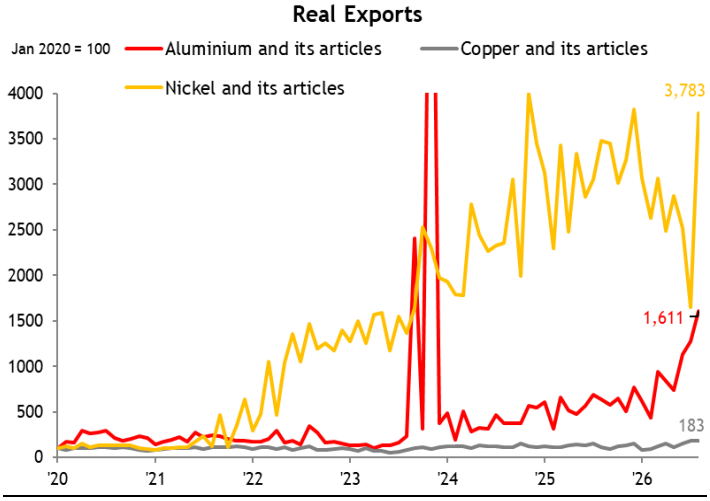
The broader implication is that **Indonesia is gradually extending downstreaming from commodity processing toward a wider industrial ecosystem.** The precedent from nickel is significant – real exports of nickel and nickel products have risen about 38-fold since January 2020. Aluminum and copper remain much earlier in this transition, having climbed just about 16-fold and +83% over the same period (Fig 9).

Fig 9: Alumina Refining Capacity Could Rise 5-Fold by 2030, ~US$25bn (Rp453tn) of Investment Required in Pipeline



Note: 2030 figures represent broad estimates
Source: Maybank IBG Research

Fig 10: Export Volume of Aluminium Have Climbed 16-Fold Since Jan 2020, Whereas Nickel Has Risen About 38-Fold



Note: Monthly data till Aug 2026. Measures how much exports in volume terms have risen since Jan 2020. E.g. 3783 = 37.8 times. Abnormally high outturn in Nov 2023 for Aluminum has been cut off from chart
Source: BPS, CEIC, Maybank IBG Research

Data Centres Emerging As New Capex Engine

Digital infrastructure is becoming another sizeable investment vertical. Data center investment reportedly jumped +400% to US$7.1bn in 1H26, equivalent to 12.7% of total realized investment.

The investment case combines a large domestic addressable market with comparatively limited existing capacity. Indonesia's 288mn population account for around 41% of ASEAN's population, yet operational data center capacity stands at only around 580MW, below Singapore's >1GW and Johor's roughly 900MW.

The digital economy is growing in the double-digits according to Google's E Conomy SEA 2025 report, led particularly by video commerce, digital financial services, digital media and AI-featured apps. Revenue of apps with marketed AI features jumped +127% YoY from 1H 2024 to 1H 2025[2].

The project pipeline points to rapid convergence. Greater Jakarta's development pipeline stood at 1,699MW in 1H 2026, nearly five times its existing operational capacity of 356MW. Batam is developing into a second hub, with operating capacity rising +89% in 1H26 to 82MW, supported by its proximity and fiber connectivity to Singapore.

Batam could emerge as a beneficiary of tightening data center approval requirements pertaining to power, water and sustainability in Thailand and Malaysia, as developers seek alternative sites close to Singapore.

[2] Google, Temasek and Bain & Company, "e-Conomy SEA 2026: Building the intelligent economy", (link)

Table 3: Data Center Investments: Current Capacity vs. Planned

City	Capacity (MW)			Remarks
	In Operation	Under Construction	Planned	
Singapore	1068	25	207	Market remained tight in 1H 2026, with expansion proceeding under a highly selective, sustainability-focused framework.
Johor	1110	602	2486	Operation capacity rose 24% from 2H 2025 Under-construction capacity nearly doubled to 602MW from 315MW in 2H25 Planned capacity grew 19%
Greater Jakarta	356	395	1304	Operational capacity grew +11% from 2H25 Under-construction capacity more than doubled Planned capacity rose 45%
Bangkok	134	859	1225	Operational capacity rose 18% from 2H25 Under-construction capacity surged 148% Planned capacity grew 74%
Manila	90	5	92	Operational capacity rose 22% from 2H25 Under-construction capacity declined from 22MW Planned capacity increased marginally to 92MW
Ho Chi Minh City	33	14	54	DC development was unchanged from 2H25

Source: Cushman & Wakefield, "Asia Pacific Data Center H1 2026 Update"[3]

Table 4: Some Data Center Investments in the Pipeline

Developer / project	Location	Announced capacity	Status / timing
Princeton Digital Group (PDG) - JC3	Bekasi, Greater Jakarta	120 MW	Construction started Nov 2025; Phase 1 targeted **Q4 2026**
DayOne Kabil Industrial Tech Park	Batam	roughly 450 MW power requirement	Signed **511 MVA (~450 MW)** PPA with PLN Batam; electricity to be supplied in phases in **2026-27**
Firmus Technologies / DayOne	Batam	360 MW	Firmus/Nvidia GPU deployment expected in phases from **Q1 2027 to early 2028**
Telkom Indonesia's NeutraDC/Singtel's Nxera	Batam	>50 MW	Construction started Jun 2024; facility became operational in **2026**
NeutraDC/Nxera - BTM-2	Batam	Not yet disclosed	Development of second building being prepared following full commitment of BTM-1
BDx - CGK4	Jatiluhur, West Java	788 MVA contracted grid power	Major AI-campus development; PLN power secured
BDx - CGK5	Suryacipta, West Java	Up to 385 MVA secured power	High-voltage grid infrastructure being advanced
DCI Indonesia - H5 Sky Bintan	Bintan	>1GW	Targeted initial occupations around **2027**, planned phased power supply rollout with initial grid power, transitioning toward renewable energy infrastructure including 2GW solar farm and 900MW gas-fired plants

Source: Compiled by Maybank IBG Research

The immediate spillovers extend to industrial estates, interconnection providers, utilities, construction companies, cooling systems and cable manufacturers (see Indonesia Telcos - Data Centers: Indonesia's AI Infrastructure Opportunity, 11 Sep 2026). But the larger macro implication is its interaction with Indonesia's energy system.

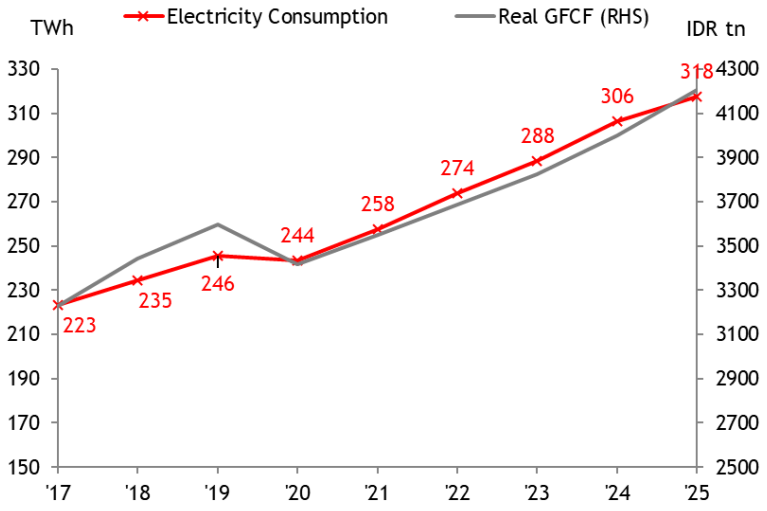
[3] Cushman & Wakefield, "APAC Data Center Update, H1 2026", (link)

Energy: Both Capex Driver And Condition For Boom to Continue

Energy investment is unusual because it is both an investment theme in its own right and an enabling condition for almost every other capex theme. Indonesia already has several major energy projects in the pipeline, including the roughly US$21bn Abadi Masela LNG development, while metals processing and data centers are increasing demand for reliable baseload power.

Coal and gas power remains high on the agenda, with 16.6GW of capacity additions planned through 2034. During the nickel boom, coal's share of primary energy supply rose to 40.4% in 2024, from 37.4% in 2019. In terms of renewable technologies, solar with energy storage, geothermal and hydropower could be prioritized (see Indonesia Renewable Energy – Unlocking Value through Effective Execution, 19 May 2026: Fig 34 for an analysis of RE technologies and their suitability for Indonesia). Indonesia ranks second globally in geothermal energy installed capacity with about 2.74GW, holding about 40% of the world's geothermal resources. Geothermal is positioned as a round-the-clock and high baseload source. Solar is more scalable with lower installation costs, with the 100GWp long-term target a flagship state initiative. Nuclear energy is at an early stage, with Russia's state nuclear corporation Rosatom supplying two floating nuclear power units to power nickel processing hubs in North Maluku within five years.[4]

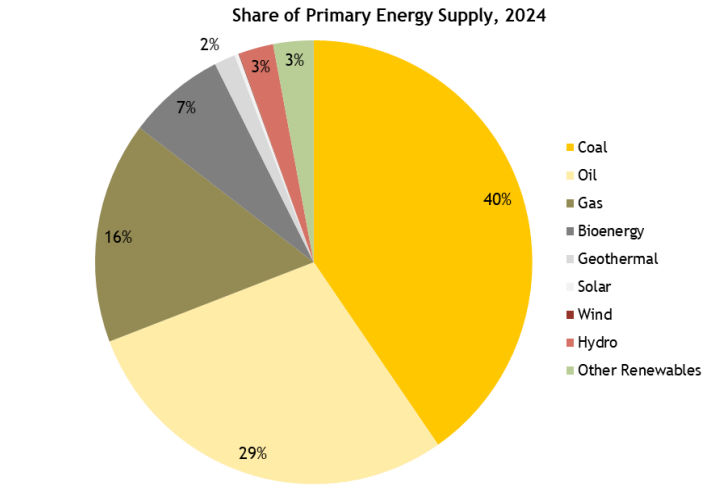
Fig 11: Electricity Consumption Registered +4.5% CAGR over 2017-2025, Faster Than +3.4% CAGR of Gross Fixed Capital Formation



Source: World Bank, CEIC, Maybank IBG Research

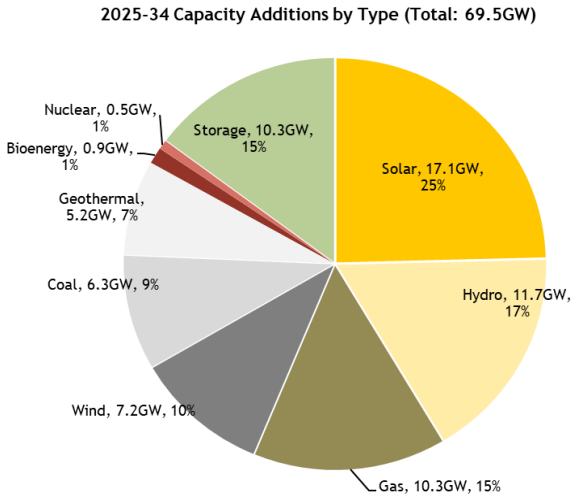
[4] World Nuclear News, "Rosatom signs floating nuclear power deal for Indonesia", 19 Oct 2026.

Fig 12: Coal Made Up 40.4% of Energy Supply in 2024, Renewables Made up 14.7% of Total



Source: Ministry of Energy and Downstreaming

Fig 13: 2025-34 Planned Capacity Additions Under RUPTL By Energy Type



Source: Ministry of Energy and Downstreaming, RUPTL

Under the 2025-34 electricity plan (RUPTL), electricity demand is projected to grow by a 5.2% CAGR to 511TWh by 2034. Indonesia aims to add 69.5GW of generation capacity (Fig 13), compared with installed capacity of around 107GW as of late 2025. The expansion could create Rp2,133.7tn, or around US$118bn, of investment opportunities through 2034[5]. Renewables are intended to account for 61% of additions, alongside fossil-fuel generation (24%) and energy storage (15%). To promote private energy investments, regulatory improvements have been made (Table 5).

Table 5: Some Regulatory Changes made to Cut Red Tape on Energy Investments

Category	Details
Streamlining licensing processes for upstream oil and gas investments	Consolidates all business license applications through Online Single Submission portal, cutting red tape and bureaucratic delays
Paid-up Capital requirement for foreign-owned companies	Under Government Regulation No. 28/2025, reduced from Rp10bn to Rp2.5bn
100% Foreign Ownership	Now permitted for power plants above 1MW, versus previous threshold of 10MW
Local content requirements for renewable energy power plants	Under MEMR 11/2024, minimum LCRs reduced to 20-29% (geothermal), 23-45% (hydro), 20% (solar), 15% (wind), 21% (biomass), 25.2% (biogas), 16.5% (waste)
Danantara Sumberdaya Indonesia (DSI)	Oil and gas exempted from DSI oversight

Note: List not intended to be exhaustive
Source: Compiled by Maybank IBG Research

Transmission, however, remains a critical bottleneck. Realized transmission investment averaged around US$1.4bn annually over 2019-24, compared with roughly US$2.4bn per year required under the new electricity plan[6]. Indonesia aims to construct almost 48,000 circuit-km of additional transmission lines and 108,000

[5] Antara, "Indonesia's RUPTL opens Rp2,133.7T investment opportunities", 29 Sep 2026.
[6] Institute for Energy Economics and Financial Analysis (IEEFA), "Unlocking Indonesia's transmission grid investment", 12 May 2026.

MVA of substation capacity through 2034, but financing remains substantially dependent on PLN's balance sheet. Electricity capacity is unevenly distributed nationwide. Java is oversupplied while ex-Java is undersupplied, despite holding the majority of Indonesia's untapped renewable energy potential (geothermal, solar) (see Indonesia Renewable Energy – Unlocking Value through Effective Execution, 19 May 2026).

A potentially reinforcing cycle could ensue: downstreaming and digital infrastructure raise power demand, which stimulates generation and grid investment, encouraging further industrial investment. **But the relationship also works in reverse. Delays in generation, gas supply or transmission could increasingly constrain the pace at which downstreaming and data center projects are realized.**

3. Not Vietnam: GDP Gains May Exceed Household Income Gains

Strong investment should support near-term economic growth (Maybank 2027 forecast: +5.2%)**, but Indonesia's current capex boom is unlikely to replicate the macroeconomic transmission of Vietnam's FDI-led industrialization.** The key difference is not the quantity of investment, but its composition.

Vietnam has predominantly attracted efficiency-seeking FDI into export-oriented manufacturing, assembly and processing, integrating the economy deeply into global manufacturing supply chains and driving export-led industrialization. Indonesia's current investment cycle remains more heavily tilted toward resource-seeking FDI.

Table 6: FDI Classifications - Resource-Seeking vs Efficiency-Seeking FDI

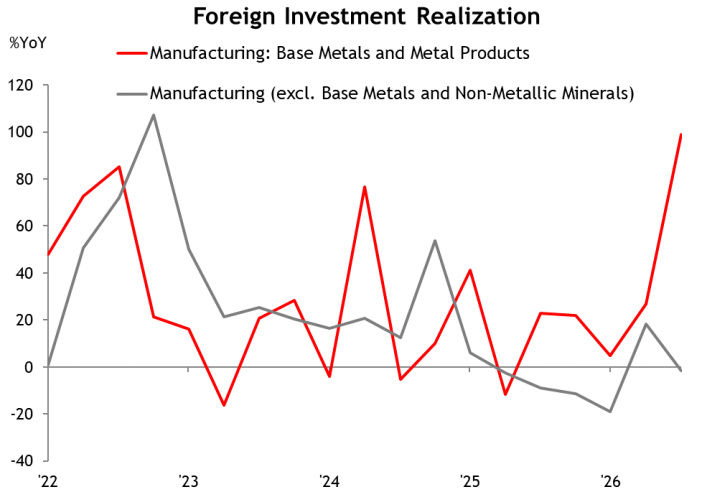
Type of FDI	Primary Objective	Key Characteristics	Typical Sectors	Key Drivers	Sensitivity to Investment Climate
Resource-Seeking FDI	Access natural resources, raw materials or labor at a higher availability or lower cost than at home	Targeted at resource-rich nations or regions with specific raw material endowments	Mining, energy, agriculture, and labor-intensive primary or assembly industries	• Natural resources • Cheap or abundant unskilled/skilled labor • Basic physical infrastructure	Low-Medium. Resource endowments can offset a poor business environment, but extreme policy uncertainty can deter investment
Efficiency-Seeking FDI	Rationalize and optimize existing production networks by exploiting cross-border differences in factor costs and capabilities	Placed in locations that integrate smoothly into international production and distribution networks	Global manufacturing supply chains, cross-border services	• Unit labor costs adjusted for productivity • Transport, logistics, and communication costs • Economies of scale and scope • Regional trade agreements and integration	High. Changes in costs, regulations, or logistics can cause investment to relocate elsewhere

Note: "Resource-seeking" and efficiency-seeking" FDI are classifications under John Dunning's OLI (Ownership, Location, Internalization) paradigm
Source: Compiled by Maybank IBG Research

Recent FDI data illustrate this divergence. **Manufacturing FDI excluding base metals and non-metallic minerals fell -2% YoY in Jan-Sep 2026, while base metals FDI surged +42.8%.** Downstreaming has unquestionably increased the value of Indonesia's exports, particularly in nickel and iron and steel, whose combined

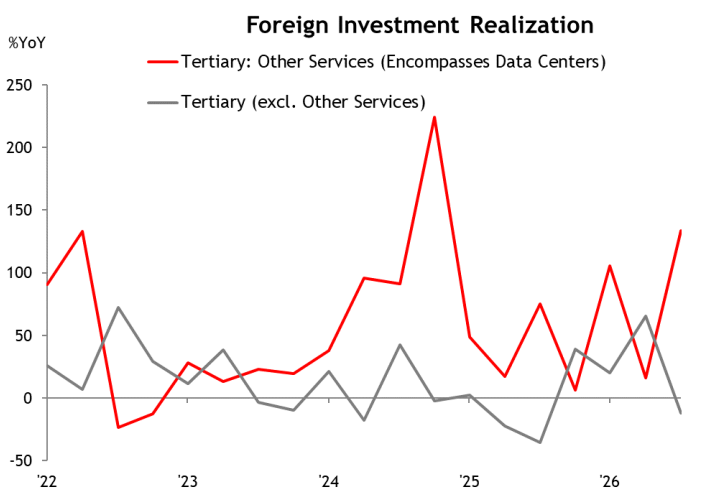
share of exports rose to 14.3% in 8M26 from 4.9% in 8M19. Nonetheless, goods and services exports remain equivalent to only 22.8% of GDP, compared with around 98% in Vietnam.

Fig 14: Divergence: FDI in Base Metals FDI Surged +99% in 3Q 2026, While FDI in Other Manufacturing Fell -1.6%



Source: BKPM, CEIC, Maybank IBG Research

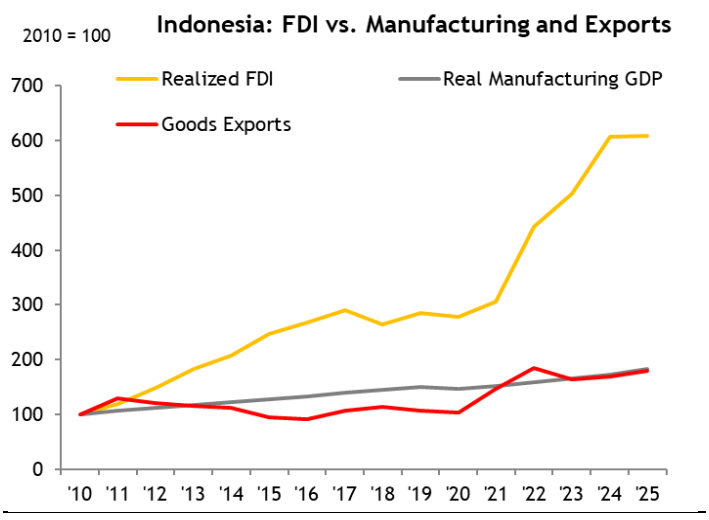
Fig 15: FDI in Other Services (Incl. Data Centers) Jumped +134% in 3Q, While the Rest of Tertiary Sector Fell -11.9%



Source: BKPM, CEIC, Maybank IBG Research

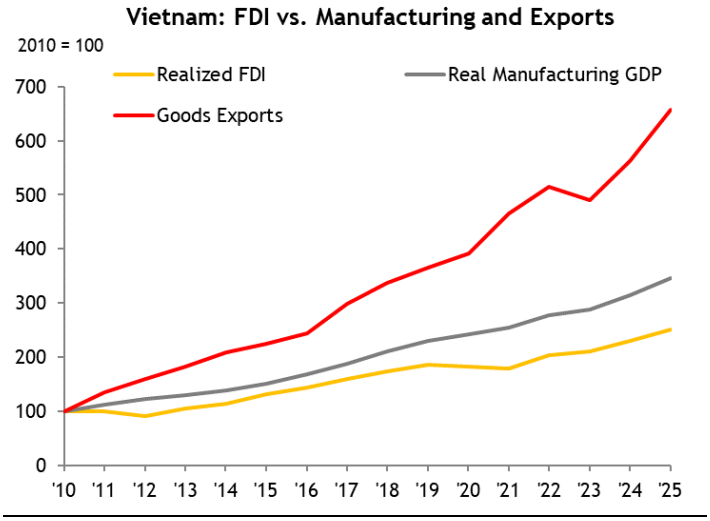
A concentration in resource-seeking FDI has historically delivered less than proportionate spillovers to industrialization and exports. Between 2010 and 2025, realized FDI increased six-fold, while real manufacturing GDP and merchandise export value rose only +82% and +79% respectively. Over the same period, Vietnam's inward FDI rose two and a half fold, but real manufacturing GDP and exports jumped +3.5 fold and +6.6 fold respectively.

Fig 16: Indonesia - Realized FDI Rose 6-Fold Between 2010 and 2025, But Manufacturing and Exports Rose Much Less



Source: BKPM, CEIC, Maybank IBG Research

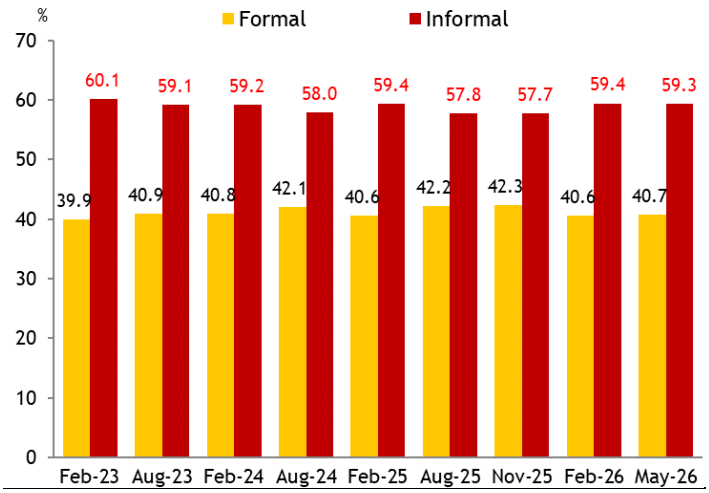
Fig 17: Vietnam's FDI-Led Industrialization: Realized FDI up 2.5-fold While Manufacturing and Exports Rose 3.5x and 6.6x



Source: BKPM, CEIC, Maybank IBG Research

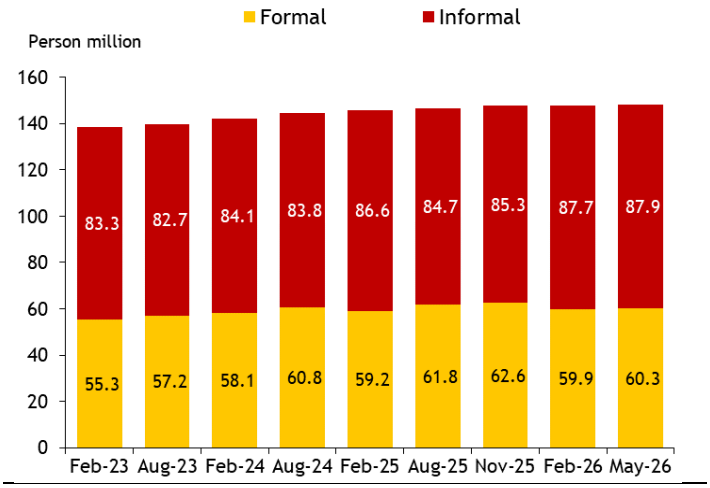
The second difference is employment, with Indonesia yet to experience the formal employment boom that accompanied Vietnam's industrialization. Real GFCF increased +14.3% between 2Q24 and 2Q26, markedly faster than the +8.6% increase over the preceding two years. Yet Indonesia's informal employment share rose to 59.3% in May 2026 from 58% in August 2024, while formal employment declined by around 500,000 over the period. The Investment Ministry reported that year-to-date investments created 2.2mn jobs, but these figures may include non-permanent or temporary contract roles.

Fig 18: Informal Share of Total Employment Rose to 59.3% in May 2026 from 58% in August 2024



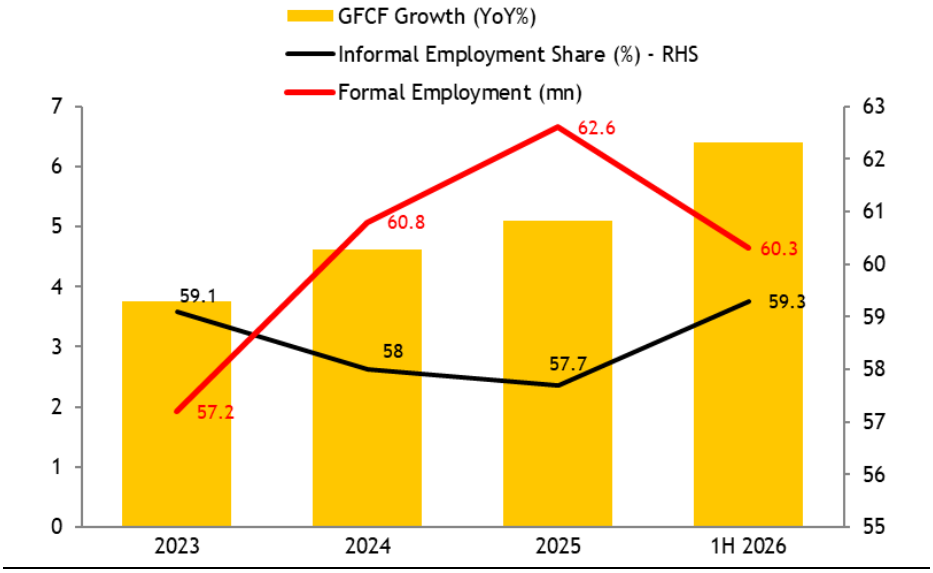
Source: BPS, CEIC, Maybank IBG Research

Fig 19: Formal Employment Declined by -500k Over the Same Period



Source: BPS, CEIC, Maybank IBG Research

Fig 20: Real GFCF Growth Accelerated Between 2023 and 2026, But Informal Employment Share Rose Slightly to 59.3% in 1H 2026 from 59.1% in 2023



Source: BPS, CEIC, Maybank IBG Research

The aggregate unemployment rate has fallen to 4.65% in 2026, from 4.91% in 2024 – this may however be too broad a measure, as anyone who works a minimum of 1 hour during a reference week is counted as employed[7].

Insufficient formal job creation partly reflects the capital-intensive nature of the investment cycle. Metals processing requires substantial fixed capital but generates fewer jobs per dollar invested than labor-intensive manufacturing. **The result is a weaker transmission from investment into employment, household income and ultimately consumption.**

The other investment engines share some of these characteristics. Data centers have a large construction and equipment footprint but relatively modest direct employment once operational. A US$5bn AI data center development in Batam[8], for example, is projected to create only around 700-800 digital-technology jobs.

[7] Following international labor standards under ILO (International Labor Organization).
[8] Developed by PT Equator Gate System Batam (backed by China's RangeIDC)

Public projects can similarly support construction, employment and demand during the buildout phase, but **their longer-term growth multiplier ultimately depends on utilization and whether the assets raise private sector productivity**.

This distinction matters for investors. **Indonesia's investment boom can sustain GDP growth well above 5%, without necessarily producing an equivalent acceleration in household consumption.** It also means that stronger headline GFCF growth should not automatically be interpreted as evidence of a correspondingly large increase in potential GDP growth.

The investment story is consequently more constructive for sectors directly exposed to the buildout, including construction, industrial estates, building materials, logistics, utilities and selected banks, than it necessarily is for consumption purely through second-order income effects.

4. Risks: Capex Boom Could Run into Capacity Constraints

The principal risk to the investment cycle may increasingly shift from insufficient demand for projects to Indonesia's capacity to finance, supply and execute. Four constraints bear watching: fiscal capacity, the external balance, energy availability, and policy/execution.

Fiscal Pressures Could Constrain State Investments

The 2027 budget deficit target of 2.4% of GDP retains a meaningful cushion below the statutory 3% limit, but Indonesia remains exposed to commodity price shocks through subsidies and social spending. Budget 2027 assumes an oil price of US$75/bbl and allocates Rp261.5tn to energy subsidies. A sustained rise in global oil prices could therefore generate expenditure overruns, while higher food prices could require additional social-assistance and food-security spending.

The consequence need not be an outright reduction in investment. **But greater fiscal pressures could necessitate expenditure reprioritization**, potentially affecting direct public capex or increasing pressure to redirect some financial resources elsewhere. Danantara, which targets around Rp200tn in SOE dividends in 2026, could have less firepower for co-investment if a larger proportion of state resources were required to support the central budget. This is illustrated by former Finance Minister Purbaya's August 2026 announcement that Danantara would remit around Rp120tn (US$6.7bn) to the state treasury as a fiscal buffer, which was later walked back.

Import-Intensive Capex Cycle Could Weigh on Current Account

The data center boom and broader investment upturn are likely to lift imports of computing equipment, machinery and other capital goods. That could narrow Indonesia's trade surplus just as stronger domestic demand and a persistent oil and gas deficit are already putting pressure on the external accounts.

FDI financing should contain the impact on the overall balance of payments, since an import-heavy project financed by foreign equity generates an offsetting financial-account inflow. But it does not eliminate the widening in the current account deficit, and a simultaneous rise in oil prices would compound the pressure.

We forecast Indonesia's current-account deficit at 1.5% of GDP in 2027 (previous forecast: -0.7%), compared with 2% in 2026.

Energy Infrastructure Bottlenecks Could Dampen Investment and Raise Regulatory Risks for Energy Exports

A persistent mismatch between domestic energy supply and demand could generate effects beyond the investment projects themselves. Greater prioritization of domestic users could raise supply and regulatory risks for industries dependent on Indonesian energy commodity exports, while insufficient grid expansion could delay the very downstreaming and digital projects driving electricity demand.

Recent developments provide an early illustration. Indonesia has begun redirecting some natural gas previously destined for Singapore toward domestic electricity generation in Batam, Bintan and Sumatra, including supply to Batam, possibly as its data center industry expands.

Singapore remains Indonesia's largest source of foreign investment, accounting for around 30% of realized FDI in 9M 2026. Both governments have moved quickly to reiterate their commitment to continued investment cooperation following recent high-level discussions between Singapore Foreign Minister Vivian Balakrishnan and Investment and Downstreaming Minister Rosan Roeslani. Key areas of cooperation include the data center ecosystem in Batam-Bintan-Karimun (BBK), green energy and industrial parks (Kendal Industrial Park being the flagship).

The recent piped gas export reduction to Singapore is more a reflection of domestic energy prioritization rather than bilateral relations. Domestic supply prioritization could raise regulatory and supply risks for cross-border electricity projects and investments. There has been increased uncertainty over Indonesia's plans to supply up to 3.4GW of low-carbon electricity to Singapore by 2035, given recent remarks from the Indonesian government that the country would prioritize domestic needs if "the price is not right"[9].

Policy Predictability and Execution Capacity Bear Watching

An evolving policy environment presents a final risk to the durability of the investment cycle. Changes covering mining quotas, processing capacity, stricter commodity export oversight, FX retention and labor protection regulations have not prevented substantial private investment from proceeding, but continued shifts could raise business costs and make long-duration project economics less predictable.

For state-led investment, the challenge is different. Rapid programs such as the Red and White Village Cooperatives require management capability, working capital and viable operating models alongside the construction of physical assets. Execution capacity will therefore increasingly determine how quickly headline spending and investment commitments translate into productive capacity.

Data center development could face opposition from locals due to their high electricity and water needs, which may slow down investment execution and approvals.

[9] The Straits Times, "Indonesia will not export electricity to Singapore unless price is right, says Bahlil", 3 Nov 2026.

Summary: A Durable Boom, but Not All Capex is Created Equal

Indonesia is entering a durable but distinctive investment upcycle. State programs, broader metals downstreaming, data centers and energy infrastructure should keep capex an important engine of above-5% GDP growth into 2027 and 2028, even as monetary conditions remain relatively tight.

The composition of the boom however matters as much as its magnitude. The current cycle is more capital-intensive and more concentrated in resources, infrastructure and domestic-market investment than the export-manufacturing model that propelled Vietnam's industrialization. The benefits are therefore likely to accrue disproportionately to sectors directly exposed to investment, while the transmission into formal employment, household income and consumption could remain comparatively muted.

Finally, the stronger the capex boom becomes, the tighter its constraints become. Power generation and transmission, imported capital goods, fiscal resources and execution capacity will increasingly determine how far the cycle can sustain. **The key risk is therefore not simply that Indonesia runs out of investment projects, but the capacity constraints cannot accommodate them quickly enough, reducing the multiplier from an otherwise impressive investment pipeline.**

Appendix

Table 7: Breakdown of Realized Investment Growth (%YoY)

	Foreign Investment		Domestic Investment	
	3Q26	Jan-Sep 2026	3Q26	Jan-Sep 2026
Total Value	**27.4**	**20.7**	**-7.5**	**-3.6**
Primary Sector	**-64.1**	**-21.1**	**-8.7**	**0.1**
Forestry	10.9	161.4	0.5	0.4
Fishery	-36.9	29.2	-9.9	0.4
Mining	-66.5	-28.1	-14.6	1.4
Food Corps, Plantation and Livestock	-58.3	-5.0	4.1	-3.5
Secondary Sector	**40.8**	**18.3**	**1.4**	**-0.6**
Machinery Industry, Electronic, Medical Instrument, Precision, Optical and Watch	1.4	7.4	88.0	24.0
Leather Goods & Footwear Industy	-23.1	-5.3	107.9	50.1
Rubber & Plastic Industry	89.6	12.5	35.4	25.4
Wood Industry	-31.9	16.4	-55.0	220.5
Motor vehicles & Other Transport Equipment Industry	-48.1	-18.0	24.4	-23.6
Paper & Printing Industry	-15.0	-29.2	-12.2	-16.5
Chemical & Pharmaceutical Industry	1.3	-5.7	-25.5	0.0
Basic Metal Industry, Metal Goods, Non Machinery and Equipment	99.0	42.8	21.5	-4.9
Food Industry	13.4	15.2	8.6	-6.7
Non Metallic Mineral Industry	-42.0	4.7	-20.5	-22.9
Textile Industry	16.3	17.7	-9.1	-2.3
Other Secondary Industries	34.5	41.8	-33.2	-7.2
Tertiary Sector	**33.7**	**41.3**	**-10.7**	**-6.0**
Hotel & Restaurant	-22.9	11.6	-22.8	-0.3
Other Services	133.9	86.0	48.2	25.5
Construction	-36.9	10.3	-28.1	-10.7
Electricity,Gas & Water Supply	18.3	64.5	-60.5	-40.9
Trade & Repair	-32.5	25.1	-66.6	-32.9
Real Estate, Ind Estate & Business Activities	35.9	37.3	8.2	5.6
Transport, Storage & Communication	-31.2	-7.0	7.3	-4.9

Source: BKPM, CEIC, Maybank IBG Research

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