



Investing in Indonesia 2025

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KPMG Indonesia



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An aerial photograph of a tropical coastline. The image is split diagonally from the top-left to the bottom-right. The upper-left portion is a solid blue gradient, while the lower-right portion shows a vibrant scene of a white sandy beach, clear turquoise water, and dark, forested cliffs. The sky is a pale, hazy blue.

01

Introduction



This *2025 Investing in Indonesia* publication is intended as a general reference guide only to investing and doing business in Indonesia and follows previous 2015 and 2021 editions from which significant developments have occurred and major updates needed in some chapters, and less so in others.

Presidential, government and ministerial laws and regulations, decrees and rules continue to be issued in 2024 and 2025 as the regulatory landscape evolves in Indonesia in line with a general ongoing government reform agenda. The content in the nine chapters of this publication to the best of our knowledge reflects current legal and regulatory positions as of December 2024 and in some cases periods in 2025, but even at the time of writing and publication of this document, new laws and regulations continue to be issued, including around international arbitration practices and rules; further streamlining of business licensing; tightening of onshore retention of export proceeds and other areas. These are not captured in this document, and no broad publication like KPMG's *Investing in Indonesia* series can ever be definitively complete and up-to-date.

A common reform theme throughout multiple chapters, including Investment, Establishment, Labor and Employment as well as Tax, is Law No. 11/2020 on Job Creation or the "OMNIBUS Law" which introduced sweeping legal reform across a wide range of industry sectors. Around 80 existing laws and regulations were revised, amended and/or revoked supported by scores of government implementing regulations. The scale of the overhaul was unprecedented in Indonesia with the ambitious key objectives being to streamline bureaucracy, attract foreign investment, create employment and drive economic growth to the levels Indonesia deserves to achieve. Traction was naturally lost during the COVID-19 years with the government rightly distracted with managing this crisis, and further impacted by a legislative hurdle arising from a 2021 Constitutional Court decision which resulted in the OMNIBUS Law only being legally binding and enforceable under a separate and special 2023 law. Now is the time for all the positive aspects of the OMNIBUS Law to be properly socialized across central but also regional government circles and showcased to foreign investors and the world. Despite all the positive developments from the OMNIBUS Law, regulatory risk and legal uncertainty continues to remain a lingering country investment risk and a pragmatic reality "on the ground" is that licensing, administrative, documentary and general regulatory burdens still exist and need addressing.

Nothing in this publication is intended as legal, tax or other advice. Attempting to navigate on one's own the investment, tax and the many other types of laws and regulations in Indonesia which can still interplay, overlap and conflict is fraught with danger and professional advice should always be obtained in what can be a rapidly evolving regulatory environment.

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Director for Business Development

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02

Country and economic overview



Official name

Republic of Indonesia

Capital city

Jakarta, which is also the business governmental center.

In August 2019, President Joko Widodo announced the relocation of the capital to East Kalimantan

Other major cities and provinces

Surabaya, Medan and Bandung. Surabaya is the second largest city and a major industrial center and port. There are 38 provinces comprising 416 regencies and 98 cities, 7,288 districts and 83,971 villages.

Climate



Tropical, hot, humid, cooler in the highlands

Currency

Indonesian rupiah (IDR)

Natural resources

Oil, tin, natural gas, coal, gold, copper, silver, nickel, bauxite, timber, fertile soils

Government

Type : Independent Republic
Independence : 17 August 1945
Head of government : President

Language

Bahasa Indonesia (akin to Malay)
English is widely spoken by business people in major cities

Geography

Location : Southeast Asia, an archipelago between the Indian Ocean and the Pacific Ocean
Largest Islands : Sumatra, Java, Kalimantan (Borneo), Sulawesi and Papua account for over 90% of total land area. There are also two large groupings of smaller islands, Maluku and Nusa Tenggara.
Area : 1,892,410 sq km; land: 1,823,862 sq km; water: 93,000 sq km
Terrain : 17,001 islands
Coastline : 108,000 km



People

Nationality : Indonesian
Population : 279 million, 47.93% under the age of 30
Ethnic Groups : 40% Javanese, 16% Sundanese, and 44% other ethnic groups
Religions : Islam 87%, Protestant 7%, Catholic 3%, Hindu 2%, Others 1%

Major exports

Mineral fuels, animal and vegetable fats and oils, iron and steel, electrical machinery/equipment and vehicles and parts

Major imports

Mechanical machinery/apparatus, electrical machinery/equipment, iron and steel, vehicle and parts, plastics and plastic products

Agricultural products

Rice, cassava (tapioca), peanuts, palm oil, rubber, cocoa, coffee, copra, poultry, beef, eggs



The country

Indonesia is located in Southeast Asia between the Indian and Pacific Oceans and is bordered by Malaysia, Singapore, East Timor and Papua New Guinea. The main islands of Java, Sumatra, Kalimantan, Sulawesi, and Papua feature spectacular mountain ranges flanked by rich coastal plains, fertile valleys and large areas of lowlands. The smaller islands, many of which are uninhabited, are often fringed by brilliant beaches and coral reefs and bedecked with tropical palm trees.

A large percentage of world trade transits the strategically important Straits of Malacca that link the Indonesian ocean littoral to the South China Sea and the larger Pacific Ocean basin.

Indonesia is rich in natural resources like coal, minerals like tin, gold, copper, nickel, bauxite, oil and gas and fertile land to support agricultural products. The archipelago's tropical weather and huge landbank makes it ideal for producing palm oil, rubber, coffee, cocoa as well as rice which is the staple of most of the population. It is these resources, together with the islands' central location between India and the Orient, that have made Indonesia so attractive to foreign traders, rulers and investors both historically and today.

The capital city: Jakarta

Overview

Jakarta is the hub of the Indonesian economy where the central government and almost all local and multinational corporate headquarters are located and business conducted.

However, Jakarta has now for decades experienced chronic daily traffic congestion, periodic or seasonal flooding especially in the northern part of the city which is reported to be sinking at an average rate of 25 centimeters per year due to excessive groundwater pumping. It is predicted that approximately one-third of the city could be submerged by 2050. Mass inbound domestic commuting elevates the traffic congestion in many parts of the city. In addition to the population of 10.67 million registered Jakarta residents, another 15 to 20 million people enter the sprawling city every day from outlying areas in Greater Jakarta. Traffic jams are unavoidable during peak hours and not uncommon at many other times of the day and early evening. Commuters spend an average of one to two hours traveling in and out of Jakarta, with resulting adverse productivity impacts.

These factors together with the large resident and transient population have all contributed to a major strategic plan announced in 2019 to move Indonesia's capital to a newly dedicated area in East Kalimantan (on the Island of Borneo). The location has since been named as "Nusantara" and construction is well underway, with a current final completion date of 2045 being referred to. The impacts of COVID-19 substantially slowed progress as the government shifted its attention to pandemic mitigation impacts and strategies. On 15 February 2022 the Indonesian government ("GoI") issued Law No. 3/2022 on the State Capital City as the legal platform of the plan.

Jakarta is for at least the medium term expected to remain the hub of the Indonesian economy, including commerce and industry.

City infrastructure developments

In response to the above, the Jakarta government commenced construction of the Jakarta Mass Rapid Transit ("MRT") system project in October 2013 to ease traffic congestion. The first phase of the MRT North-South Line spanning 15.7 km from South Jakarta to Central Jakarta has been operating since March 2019 and as of March 2024 the service has transported more than 102 million people. The Jakarta MRT will be extended to Phase 2 which will span c.11.8 km through North Jakarta and is targeted to be fully completed by 2032. Phase 2 will be divided into phases 2A and 2B and as of April 2024 the progress of Phase 2A has reached 34.29 percent. The government also plans to construct a Phase 3 East-West line spanning 84.1 km through West Java and Banten which is expected to be operational by 2031 and 2033. A Phase 4 with a track length of c.10.9 km is also planned, subject to confirmation from foreign investors regarding construction.

Other major infrastructure projects recently completed are the Jakarta Light Rail Transit ("LRT") and Greater Jakarta LRT ("Jabodebek LRT").

The LRT Phase 1A has been operational since 2019 covering a route of 5.8 km from North Jakarta to East Jakarta. This route is set to be extended by 6.4 km, through South Jakarta as part of a Phase 1B for which construction is underway with completion expected by 2026 and operations starting in early 2027. As of August 2024, development progress of Phase 1B has reached 26.64 percent. Further expansion plans are in place.



The Jabodebek LRT is integrated across the Jakarta, Bogor, Depok and Bekasi areas and began operations in August 2023. Spanning over 40 km, the Jabodebek LRT connects various parts of East Jakarta, West Java, and Central Jakarta.

Also, a high-speed train connecting Jakarta and Bandung named “Whoosh” was successfully commissioned in October 2023 and marks the first high-speed train in Indonesia and Southeast Asia. The train operates on a 142.3 km track with a top speed of 350 km per hour, which reduces travel time from the usual two to three hours by conventional railway to around 40 minutes. As of October 2024, “Whoosh” has transported more than 5.4 million passengers.

Society

In 2021, the Economist Intelligence Unit released a “Safe Cities Index 2021: New expectations demand a new coherence” report. The report covers 60 cities based on an index comprising digital security, health security, infrastructure security, personal security and environmental security. Jakarta ranked 46th in the overall index in 2021, rising from 53rd place in 2019. However, Jakarta remained in the “bottom ten” for digital security and personal security indicators, while ranking 30th on an environmental security indicator. The top ten positions in the overall index were occupied by cities in mostly more developed Western and Asian countries such as Copenhagen, Toronto, Singapore, Sydney, Tokyo and Amsterdam. Other developing market country cities such as Manila, Ho Chi Minh City, Dhaka, Karachi, Cairo and New Delhi also fall in the bottom half.

The latest Jakarta city poverty statistics released by the Central Bureau of Statistics (Badan Pusat Statistik or “BPS”) in July 2024 show a welcomed decline after a previously increasing or worsening condition due to impacts of COVID-19. The poverty rate fell to 4.30 percent in March 2024 down from 4.44 percent in March 2023 which marks a significant drop from a peak of 4.72 percent in March 2021. However, the March 2024 rate remains higher than the pre-COVID-19 levels of 3.47 percent in March 2019.

More generally on a country wide basis, Indonesia’s performance in terms of social parameters continues to require ongoing government reforms. According to a Human Development Report (2021–22), Indonesia was ranked 114th out of 191 countries with an index score of 0.71 out of 1.0. The country’s index score is lower than many of its neighbors, including Singapore (0.93), Malaysia (0.80) and Thailand (0.80). According to MarketLine’s Indonesia In-depth PESTLE Insights report dated June 2023, life expectancy at birth is 73.1 years and the infant mortality rate is 19.7 per 1,000 live births.

The people

The people of Indonesia are culturally diverse reflecting their differing ethnic origins, religions and histories.

With a total population of 279 million as of 2023, Indonesia is the fourth most populous nation in the world after China, India and USA, as well as the world's most populous Muslim nation. More than 69 percent of the population is between 15-64 years of age, which supports a large workforce. More than 23 percent of the population is below age 14, while only seven percent is above 65 years. The most populous cities are Jakarta, Surabaya, Bandung, Bekasi and Medan. 58.6 percent of the population resides in urban areas, with an annual rate of urbanization estimated at 1.2 percent over 2014-2023.

Most Indonesians are of Malay descent. The largest ethnic group, Javanese, makes up 40.2 percent of the total population followed by 15.5 percent Sundanese, 3.6 percent Batak, 3.2 percent Sulawesi natives and 37.5 percent other. The Javanese are preeminent in the social elite, bureaucracy, and the armed forces. There is also an ethnic Chinese minority whose influence in business is proportionately greater than their numbers. Papua, located on the eastern half of the island of New Guinea, is peopled by Melanesians.

The official language of the country is Bahasa Indonesia, which is akin to Malay. This is the second language of many rural Indonesians after their local dialect or tongue, of which there are almost 700. English language skills are actively encouraged in recognition of the business opportunities English affords to Indonesians in education, commerce, and international relations. English is generally understood by most executive and management level business people in company head offices in Jakarta and other major cities. The country has a 96.5 percent adult literacy rate.

Over 87 percent of the population follow the Muslim faith, but there are significant minorities of Hindus (centered in Bali) and Christians.

The climate

Straddling the equator from latitude 60°N to 110°S, Indonesia has a typically tropical climate marked by heavy rainfall as well as high humidity and hot temperatures. The tropical climate is moderated by mountains in large parts of the country. Temperatures generally range from 23° to 33°C.

There is a dry and wet season, however the onset and duration of seasons and weather patterns having become more difficult to predict in recent years, this being largely attributed to climate change.



The type of government

The 1945 Constitution provides for independent executive, legislative and judicial functions. The highest authority is the People's Consultative Assembly ("MPR") which meets annually to hear accountability reports from the President and government agencies and provide policy guidance. The MPR includes the House of Representatives ("DPR") which has 580 members, and the Council of Regional Representatives ("DPD") which has 152 members. Members are elected to five-year terms.

The President and Vice-president are elected by direct popular vote. The President is the chief executive, the head of state and commander-in-chief of the armed forces, and also appoints cabinet ministers who are responsible only to him/her.

The country is divided administratively into 38 provinces headed by a governor and elected provincial assemblies, and hundreds of regencies headed by a regent or mayor, each with its own elected council assemblies.

The type of legal system

Overview

The judiciary is based on the Supreme Court and separate courts for public administration and military, religious and civil matters. A comprehensive system of civil laws has replaced most of the statutes established by the Dutch which colonized the country generally from late 1500s to 1945. In addition, there is an extensive range of regulations and decrees issued and applied by government ministries and departments. For foreign investors, the most relevant areas are laws regarding:

- Foreign Direct Investment ("FDI")
- Company law
- Business licensing and trade
- Taxation and customs
- Labor (and Immigration)
- Land and buildings
- Regional regulations

Certain industries are subject to specific ministerial regulations, decrees and requirements, including oil and gas, financial services, power and utilities, mining, and others.

Indonesian laws become operative following issuance of implementing regulations and can be subsequently stipulated in ministerial and presidential regulations and decrees.

A significant period of time can elapse between new laws being announced, drafted and passed by parliament, and the final regulations or decrees being rolled out.

Professional advice should always be obtained with regard to contracts and agreements made in Indonesia. One reason is that the civil law provides for certain clauses to apply to all agreements unless specifically excluded. Litigation can be unpredictable in terms of outcomes and is often protracted, time-consuming and costly, and as a result is not commonly an effective route to resolve disputes. The protection provided by agreements can be limited and commercial arrangements should be designed, where possible, with safeguards which can operate in the event of later disagreements.

Contracts commonly include Indonesian or international arbitration for resolution of disputes. A popular choice is Singapore in accordance with the rules and regulations of the Singapore International Arbitration Centre ("SIAC"), where the final, binding arbitral award is automatically ratified in the Indonesian courts, however delays can often occur in Court arbitration awards being issued. Locally and a commonly used alternative, the Indonesian National Board of Arbitration ("BANI") is an independent institution established in 1977 which provides a range of services in relation to arbitration, mediation, binding opinion and other forms of dispute resolutions.

Courts roles in guiding and enforcing arbitration decisions

The arbitration framework is regulated under Law No. 30/2009 on Arbitration and Alternative Dispute Resolution ("Arbitration Law"). Article 13 sets out the Court's role in appointment of Arbitrators where there is contractual silence or disagreement on appointment of an arbitrator. In late 2023 the Supreme Court issued "Regulation No. 3/2023 on Procedures for Appointment of Arbitrators by Courts, Challenges Against Arbitrator Appointments, and Examination of Requests to Enforce and Set Aside Arbitral Awards", as part of the regulatory framework of the Arbitration Law. The regulation introduces new Supreme Court policies, further details on type of compliance that can be provided including procedural matters around the arbitration landscape. Enforcement of awards is now expected to be faster and outcomes more predictable for both domestic and in particular, foreign arbitral awards.

Indonesian language contracts

Article 31 of Law No. 24/2009 on National Flag, Language, Emblem and Anthem (“Language Law” or “Law No. 24/2009”) provides for all agreements with an Indonesian party to be in Indonesian language.

Following issuance of Law No. 24/2009 the Ministry of Law and Human Rights (“MoLHR”) provided written guidance that:

1. commercial contracts should be in English or dual language pending issuance of implementing regulations; and
2. contracts are still enforceable if the language requirement is not met.

There is time and costs involved in translation and preparation of dual language documents. Historically in practice, a common approach adopted has been for agreements and contracts to be in one language, with a standard clause providing for an executed Indonesian language version to be furnished at a future time, if required.

While Supreme Court decisions have held that this approach does not disturb contract enforceability, litigation at the District Court level created legal uncertainty pending higher court appeals or release of implementing regulations or other guidance.

Finally Supreme Court Circular Letter No. 3/2023 resolved that a contract between an Indonesian entity or individual and a foreign party should not be cancelled on the grounds of absence of an Indonesian language version, provided this condition is not caused by a party acting in bad faith.

Mandatory use of Indonesian Law in foreign Electronic Contracts

In January 2024 Law No. 1/2024 on the Second Amendment to Law No. 11/2008 on Electronic Information and Transactions (“EIT Law”) or in short, an “Amendment Law” was issued. Amongst other provisions, this introduces a requirement for international electronic contracts to be governed under Indonesian Law. Article 18A of the Amendment Law provides for mandatory application of Indonesian Law and language in contracts relating to products and services given by foreign overseas electronic system operators provided certain conditions are met, with corresponding foreign law and language terms and conditions overridden. Implications around international electronic contracts governed by foreign law remain unclear at this time.



The economic environment

Size and state of the Indonesian economy

Indonesia has a large domestic consumption base and the country's middle class, with increasing levels of disposable income and purchasing power, grew substantially from 45 million in 2010 to 52 million in 2020. A 2019 World Bank "Aspiring Indonesia – Expanding the Middle Class" report indicated that one in every five Indonesians belonged to the middle class at that time.

According to more current BPS data, Indonesia's middle-class population has significantly declined by 16.5 percent over the past five years from 57.3 million people in 2019 to 47.9 million people in 2024. In 2019 the middle-class made up 21.5 percent of the total population, and this has declined to 17.1 percent in 2024. BPS adopts World Bank criteria which assesses middle class standards and size based on monthly per capita expenditure. The middle-class consists of those with monthly spending 3.5 to 17 times the poverty line. In 2024 this translates to individual consumers who have monthly personal expenditure of between IDR2.04 million to IDR9.9 million. These people have per capita household consumption which is adequate for them not to be at risk of falling into vulnerability.

BPS also identifies an "aspiring middle-class" population which has increased from 128.9 million people in 2019 to 137.5 million in 2024. This group includes individuals with monthly spending 1.5 to 3.5 times the poverty line which ranges from IDR0.87 million to IDR2.04 million. These people are those free from poverty but yet to achieve full economic security.

The majority of spending by both the middle-class and aspiring middle-class is allocated towards food and housing, with housing expenses covering rent and household furnishings but excluding mortgage payments or Home Ownership Credit (Kredit Pemilikan Rumah or "KPR"). Household or domestic consumption on the back of high employment is considered to be among the key economic growth drivers for Indonesia, with the large population and consumption base being a fundamental reason why many multinationals rank the country as a FDI destination of choice in Southeast Asia.

Indonesia is the largest economy in Southeast Asia, the seventh largest in the world as measured by purchasing power parity and the only Southeast Asian member of the G20. The G20 is an international economic forum that brings together governments and central bank governors from nineteen major economies and two regional unions accounting for two-thirds of the world's population. Current members of the G20 are Canada, France, Germany, Italy, Japan, the UK, the US, Argentina, Australia, Brazil, China, India, Indonesia, Mexico, South Korea, Russia, Saudi Arabia, South Africa, Turkey, the African Union, and the European Union.

In January 2025 Indonesia finally became a member of the BRICS countries to which members have been progressively added over the years. The country has also for some time now been grouped with Mexico, Nigeria and Turkey as one of the MINT countries. The MINT countries share a number of common features. First, they have relatively large, youthful, and growing populations as compared to the ageing and shrinking populations of many western and/or developed countries. Second, they are geographically well placed to take advantage of large nearby markets. Last, they have diversified markets, meaning a country does not rely on only one industry for survival. Indonesia is included among the MINT countries due to its powerful emerging market and rapid economic growth which has historically been largely reliant on natural resources industry and sectors like oil and gas and coal extraction exports. With its large and growing population, Indonesia has an advantage over many other countries in terms of labor force power.

Indonesia's population has grown at an average rate of 1.25 percent per year from 238 million in 2010 to 270 million in 2020. However, since 2020 the growth rate has slowed to 1.13 percent per year reaching 279 million in 2023. BPS estimates that Indonesia's population will exceed 324 million by 2045. Another report estimates that Indonesia's population will exceed the USA's by 2043. Indonesia is the most populous country in Southeast Asia as well as the largest market. As of 2023, Indonesia's 279 million people make up c.41 percent of the combined ASEAN countries' population of 680 million.

Ease of doing business indicators

In 2019 and 2020 Indonesia ranked 73rd out of 190 countries in 2019 and 2020 World Bank Doing Business reports, lagging behind most other neighboring Southeast Asian countries. The World Bank announced a discontinuation of this Doing Business Report effective 2021 following data irregularities.

This report has now been replaced by a new "Business Ready (B-Ready)" report from 2024. The Business Ready report assesses the business and investment climate in 50 countries worldwide across 10 topics: Business Entry, Business Location, Utility Services, Labor, Financial Services, International Trade, Taxation, Dispute Resolution, Market Competition and Business Insolvency. Each topic is scored on a scale from 0 to 100. Indonesia scores highest in Labor, Utility Services and Business Location on the basis there is vocational employment and training centers, there is enforcement of regulations for internet and water, and transparency on information related to building permits, zoning and land use.

Indonesia scores lowest in Market Competition, Financial Services and Business Insolvency:



Indonesia's Business Ready Scores - 2024

Topic	Score (out of 100)
Business Entry	64
Business Location	68
Utility Services	71
Labor	72
Financial Services	57
International Trade	65
Taxation	60
Dispute Resolution	64
Market Competition	52
Business Insolvency	57

Business transparency

According to a 2023 Transparency International Corruption Perceptions Index, Indonesia ranked 115th out of 180 countries with a score of 34 points which remained unchanged since 2022. The index highlights another year of at least perceived minimal or no significant progress in reducing corruption. Based on the corresponding 2020 Transparency International Corruption Perceptions Index, Indonesia ranked 102nd out of 180 countries with a score of 37. Scores below 50 generally indicate ongoing corruption reform is needed.

Country competitiveness

In a 2020 annual report on world competitiveness, the International Institute for Management Development ("IMD") ranked Indonesia as 40th of 63 countries. The ranking was lower compared to a 2019 rank of 32nd but was higher than the 2018 rank of 43rd. The IMD stated at the time that the biggest improvements in overall performance of Indonesia's economy to be on: employment (long-term growth), labor force (long-term growth), number of patents in force, exchange rate stability, start-up days, and exports of commercial services. Indonesia was also described as having the lowest cost of labor among the 63 country economies.

In a new IMD World Competitiveness Yearbook 2024, Indonesia advanced to 27th place out of 67 countries, which marks significant progress from 34th place in 2023. This achievement places Indonesia third among Southeast Asian nations behind Singapore and Thailand. Indonesia's competitiveness ranking is strengthened by strong performances in business efficiency, government efficiency and economic performance. However, the country continues to face challenges in infrastructure, particularly in health, education and environmental infrastructure as well as science and technology.

Population growth, middle-income trap and poverty

According to an Indonesia Poverty Profile issued in March 2024 by BPS, Indonesia's poverty rate decreased from 9.36 percent in March 2023 to 9.03 percent in March 2024. Indonesia has maintained a single digit poverty rate since September 2021. In absolute terms, the number of poor people decreased from 25.90 million in March 2023 to 25.22 million in March 2024. The poverty line in March 2024 was recorded at IDR582,932 monthly per capita expenditure.

The above 2019 World Bank "Aspiring Indonesia – Expanding the Middle Class" report indicated that Indonesia's economy would need to grow faster than five percent to escape the so-called "middle-income trap"; the phenomenon in which countries fail to evolve into high-income nations, which is characterized by a per capita income below USD12,400, low investment, slow manufacturing growth and low industrial diversification. At the time, Indonesia's economic growth was averaging about five percent a year, still far from the seven percent target.

Based on a World Bank "Unleashing Indonesia's Business Potential 2024" report, Indonesia is at a critical stage in its economic development, where the private sector is expected to play a more prominent role in driving growth and innovation. To escape the middle-income trap, Indonesia must accelerate annual economic growth to at least six percent, which is only slightly above the five percent average recorded over the past five years. This target would require a three percent increase in productivity, which is one percentage point higher than recent trends. Achieving the ambitious goal of reaching a high-income status country by 2045 requires a significantly more dynamic and productive private sector.

According to Indonesia's Ministry of Finance ("MoF"), high and inclusive economic growth; high-productivity human resources and infrastructure; clean and efficient bureaucracy as well as a healthy and competitive private sector are required in order to escape the middle-income trap. More specifically, the MoF states that to achieve six percent economic growth the government must identify new sources of economic growth and implement necessary reforms to accelerate general economic transformation. Fiscal policy strategy in 2025 involves implementation of i) a medium to long-term strategy that involves strengthening human resources, downstreaming, green economic transformation, creative economy; and ii) a short-term strategy that emphasizes maintaining the sustainability of priority government programs.

Table 1: Indonesia - Key fundamentals, 2020-27f

	2020	2021	2022f	2023f	2024f	2025f	2026f	2027f
GDP, constant 2010 prices (USD trillion)	1.2	1.2	1.3	1.3	1.4	1.5	1.6	1.6
GDP growth rate (%)	-2.1	3.7	5.3	4.6	5.1	5.1	4.7	4.7
GDP, constant 2010 prices, per capita (USD)	4,375.3	4,492.7	4,686.6	4,855.9	5,059.0	5,271.7	5,474.7	5,682.3
Inflation (%)	1.9	1.6	4.2	4.0	2.9	2.8	2.8	2.8
Volume of exports growth (%)	-8.0	22.1	1.1	2.1	10.2	9.0	8.5	7.0
Volume of imports growth (%)	-15.3	16.1	9.7	-0.8	11.8	10.4	9.7	7.4
Mid-year population, total (million)	269.6	272.2	274.9	277.4	280.0	282.5	284.9	287.3
Unemployment rate (%)	7.1	6.4	5.5	5.3	5.2	5.1	5.1	5.1
Mobile penetration (per 100 people)	130.8	133.7	134.9	136.0	137.0	137.8	138.6	139.4

Note: population numbers presented above may differ from others referred to in this publication due to sourcing differences

Source: Country Statistics, MarketLine & IMF April 2023

Economic Growth (GDP) at 2010 Constant Prices by Expenditure 2019-2023: Economic growth composition										
IDR trillion	2019	%	2020	%	2021	%	2022	%	2023	%
Domestic (Private) Consumption	6,072.4	55.5	5,910.5	55.1	6,029.1	54.2	6,327.8	54.0	6,640.0	54.0
Government Expenditure	856.0	7.8	874.1	8.2	911.3	8.2	870.6	7.4	896.2	7.3
Investment	3,727.7	34.0	3,470.5	32.4	3,611.9	32.5	3,757.3	32.1	3,976.4	32.3
Net Exports of Goods & Services	229.3	2.1	397.9	3.7	353.7	3.2	437.2	3.7	514.9	4.2
Exports of Goods & Services	2,275.5		2,083.9		2,458.8		2,858.0		2,895.8	
Imports of Goods & Services	2,046.2		1,686.0		2,105.1		2,420.8		2,380.9	
Statistical Discrepancies	63.8	0.6	70.0	0.7	214.1	1.9	317.3	2.7	273.9	2.2
GDP (IDR trillion)	10,949.2	100.0	10,723.0	100.0	11,120.1	100.0	11,710.2	100.0	12,301.4	100.0
Economic growth rate (%)			-2.1%		3.7%		5.3%		5.0%	

Note: (1) Statistical Discrepancies GDP by Expenditure from BPS data

Source: BPS Gross Domestic Product of Indonesia by Expenditure 2019-2023

Key fundamentals

GDP and economic growth rate

Domestic consumption still drives economic growth with Investment running at levels below what is achievable with improvements in the general country investment risk profile still subject to ongoing reform. Investment comprises both FDI and domestic investment which are addressed in Chapter 4.

The economy contracted by 2.1 percent in 2020 due to COVID-19 but recovered in 2021 and with reported economic growth of 3.7 percent. In 2022 amid a global economic slowdown, Indonesian economy achieved a nine-year high growth rate of 5.3 percent driven by domestic (private) consumption after lifting of COVID-19 restrictions.

Although inflation is declining it is still higher than the central bank's (Bank Indonesia or "BI") target range of two to four percent at five percent in March 2023.

Indonesia is forecast to achieve economic growth at an average of 4.9 percent over 2024–27.

Inflation and foreign exchange

In 2022 an annual inflation rate of 4.2 percent was largely due to increasing domestic energy and food prices but was controlled after tighter government monetary policy intervention. The country's inflation rate is forecast to decrease to 4.0 percent in 2023 and 2.8 percent over 2024–27, which is in the range of BI's target of two to four percent.

In recent years Indonesia has faced economic challenges from depreciation of the IDR and negative impacts on inflation which increases the cost of production with resulting higher prices, reducing the purchasing power of consumers. Depreciation of the IDR also makes it more expensive for Indonesia to pay off external debt, which is often denominated in foreign currencies, placing pressure on the country's foreign reserves and government budget. As of April 2023, the IDR has depreciated by 4.1 percent annually.

Exports and Imports

According to the International Monetary Fund ("IMF"), Indonesia's imports grew at 9.7 percent in 2022, compared to 16.1 percent in 2021. Export volumes grew at 1.1 percent in 2022 (2021: 22.1 percent).

According to an International Trade Council database, Indonesia's main export partners in 2022 were China (22.6 percent), USA (9.7 percent), Japan (8.5 percent), India (8.0 percent) and Malaysia (5.3 percent). Main import partners were China (28.5 percent), Singapore (8.2 percent), Japan (7.2 percent), Malaysia (5.3 percent) and South Korea (4.9 percent).

Unemployment rate

Indonesia's unemployment rate increased to 6.4 percent in 2021 from 5.4 percent in 2017 mainly due to COVID-19 impacts. The rate declined to 5.5 percent in 2022 as government restrictions were lifted. The unemployment rate is forecast to decrease to 5.3 percent in 2023 and 5.1 percent on average over 2024–27.

Research and Development (“R&D”)

According to a World Intellectual Property Organization Global Innovation Index (2022), Indonesia ranked 75th among 132 country economies with an index score of 27.9 out of 100. The country was ranked 49th in terms of general R&D expenditure with an index score of 13.5.

Indonesia spent less than half a percentage point of GDP on R&D (0.3 percent) in 2021 or USD3.5 billion which translates to lower than desired innovation and also patent count regulation levels.

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An aerial photograph of the Borobudur temple complex in Indonesia, showing the tiered stone structures and surrounding lush greenery. The scene is captured during sunrise or sunset, with a dramatic sky filled with clouds and a misty atmosphere over the distant landscape. The image is partially overlaid by a blue diagonal graphic on the left side.

03

Infrastructure

Overview

History

In 2014-2024 the Gol continued to maintain a focused agenda on infrastructure development as the cornerstone of an overall economic development program. Basic Infrastructure is the platform for economic growth which ran at c.5% per annum over this period with the exception of the COVID-19 impacted years of 2 to 3.7 percent.

Despite significant infrastructure development progress made over the last 20 years, this came off a low base and Indonesia still has poor basic infrastructure relative to many other comparable developing market countries and continues to remain underinvested, holding back the country's growth potential. The symptoms of close to two decades of limited infrastructure investment in the 1990's and early 2000's can be linked to the Asian Economic Crisis and include ongoing road congestion, airports operating at over capacity, weak rail connectivity, an undeveloped port sector, high inter-island cargo and other logistics costs, electricity supply disruptions as well as poor access to clean sanitation and healthcare. Population pressures compound the importance of attracting much needed FDI to drive economic growth through infrastructure development. Unless ongoing progress is made, this could be a major barrier to sustaining longer term country economic growth and development across many industries. Indonesia's relatively low infrastructure ranking is consistently identified by foreign and local domestic investors and corporates as a constraint on their operations, investment strategies and overall capacity to achieve growth.

In recognition of this, in recent years the government has introduced a number of new infrastructure policies and initiatives and in parallel, accelerated delivery of infrastructure projects listed either under: i) 2025-2029 National Medium-term Development Plan ("RPJMN");

ii) National Strategic Projects ("PSN"); and iii) Priority Infrastructure Projects ("PIP"). These are addressed later in this chapter.

Challenges to attracting investment in the infrastructure sector

According to the Indonesian Investment Coordinating Board (BKPM), at least five key challenges contribute to investment constraints on Indonesian infrastructure projects: i) unclear, conflicting or overlapping laws and regulations; ii) ongoing complications in land acquisition; iii) unbalanced public infrastructure across geographical regions in terms of quality, availability and accessibility; iv) lack of specific supporting incentives; and v) skilled workforce shortages. These challenges present barriers to FDI and domestic investment across most infrastructure industry sectors.

Related to wider country investment risks, and specifically around regulatory and legal uncertainty, is navigating Indonesia's complex government bureaucracy and "red tape". An application process for permits, licenses and approvals still often involves multiple government ministries or agencies sometimes at central, regional and/or local government levels, with time-consuming, protracted procedures sometimes taking months to complete. While the 2020 OMNIBUS Law aims to simplify rules and procedures, inconsistent practices, standards and interpretations across governments and ministries continue to persist, compounded by new provisions of the law still being socialized within government circles in 2022-2023. These conditions result in delays, a lack of transparency and inconsistent implementation which complicates project delivery and execution.

Infrastructure development agenda: A snapshot

Indonesia infrastructure development agenda: 2020-2024

Transport and Logistics Infrastructure

- 27% of shipping routes to be interconnected
- 3,000 km of New National Roads
- 2,500 km of New and/or Operating Toll Roads

Energy Infrastructure

- 100% Electrification ratio
- 1,400 kWh National Per Capita Electricity Consumption
- Urban gas network infrastructure: 4 million new household connections
- 6 new Oil Refinery Constructions Development Units: 2 Grass Root and 4 RDMP¹

Note: (1) Refinery Development Master Plan (RDMP)

Source: National Medium-Term Development Plan 2020-2024 (*Rencana Pembangunan Jangka Menengah Nasional (RPJMN) 2020-2024*)

Indonesia infrastructure Progress (2014 – Q1 2019)

Road network ¹	<ul style="list-style-type: none"> 46,964.8 km of national road 459,703.9 km of provincial and regional road 635.7 km of bridges (including special and wire bridges)
Toll Roads ²	<ul style="list-style-type: none"> 2,839 km (operated) 240 km (constructed in 2023)
Railway network ³	<ul style="list-style-type: none"> 671 train stations 6,880.9 km length of railway line
Air ⁴	<ul style="list-style-type: none"> 250 commercial airports, of which 17 are international airports
Maritime transport ⁵	<ul style="list-style-type: none"> 472 active ports (93 commercial ports managed under Pelindo^a and 379 non-commercial ports supervised by the Directorate General of Sea Transportation under the Ministry of Transportation)
Dams ¹	<ul style="list-style-type: none"> 229 units (operated)
Clean water ^{1,6}	<ul style="list-style-type: none"> 401 Regional Water Utility Companies ("PDAMs") 1,657 Water Treatment Plant for Drinking Water Supply System ("SPAM")
Waste treatment ¹	<ul style="list-style-type: none"> 148 units of Wastewater Treatment Plants ("IPAL") 221 units of Fecal Sludge Treatment Plants ("IPLT") 271 units of Final Disposal Sites ("TPA") across 1,772.7 ha area
Power ⁷	<ul style="list-style-type: none"> 99.79% electrification ratio 91.2 gigawatt (GW) installed capacity (46,132 megawatt (MW) by PLN^b and 45,031MW by non-PLN) 71,834 circuit kilometers (ckm) of transmission line length 1,081,655 ckm of distribution line length

Note: (a) PT Pelabuhan Indonesia (Persero) ("Pelindo"); (b) PT Perusahaan Listrik Negara (Persero) ("PLN")

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Indonesian infrastructure: Global and regional positioning

Scores and rankings: Infrastructure competitiveness

A World Competitiveness Booklet 2024 was published in June 2024 by the International Institute for Management Development (IMD), a Swiss-based independent academic institute. This report evaluates the World Competitiveness Ranking (WCR) of 67 global economies based on four categories: i) Economic Performance; ii) Government Efficiency; iii) Business Efficiency; and iv) Infrastructure. The report presents the following rankings of ASEAN countries under the Infrastructure category:

World Competitiveness Booklet 2024					
Infrastructure	Rank (ASEAN Countries)				
	Indonesia	Singapore	Malaysia	Thailand	Philippines
Basic Infrastructure	22	5	10	23	62
Technological Infrastructure	32	1	29	25	55
Scientific Infrastructure	45	13	31	40	60
Health & Environment	61	28	42	55	60
Education	57	3	44	54	63

Source: International Institute for Management Development (IMD) - World Competitiveness Booklet 2024

Indonesia ranks low across most Infrastructure segments relative to Singapore and Malaysia, but alongside or higher than the Philippines and Thailand.

A different Global Competitiveness Index (GCI) is a measurement developed and published by the World Economic Forum (WEF) that captures both the microeconomic and macroeconomic foundations of national competitiveness. It defines competitiveness as a set of institutions, policies and factors that determine a country's level of productivity. A GCI 5.0 published in 2021 is an updated version of the GCI 4.0 published in 2018, incorporating new pillars on the environment and social protection while embedding technological advancements, environmental concerns and fairness considerations into the traditional drivers of competitiveness.

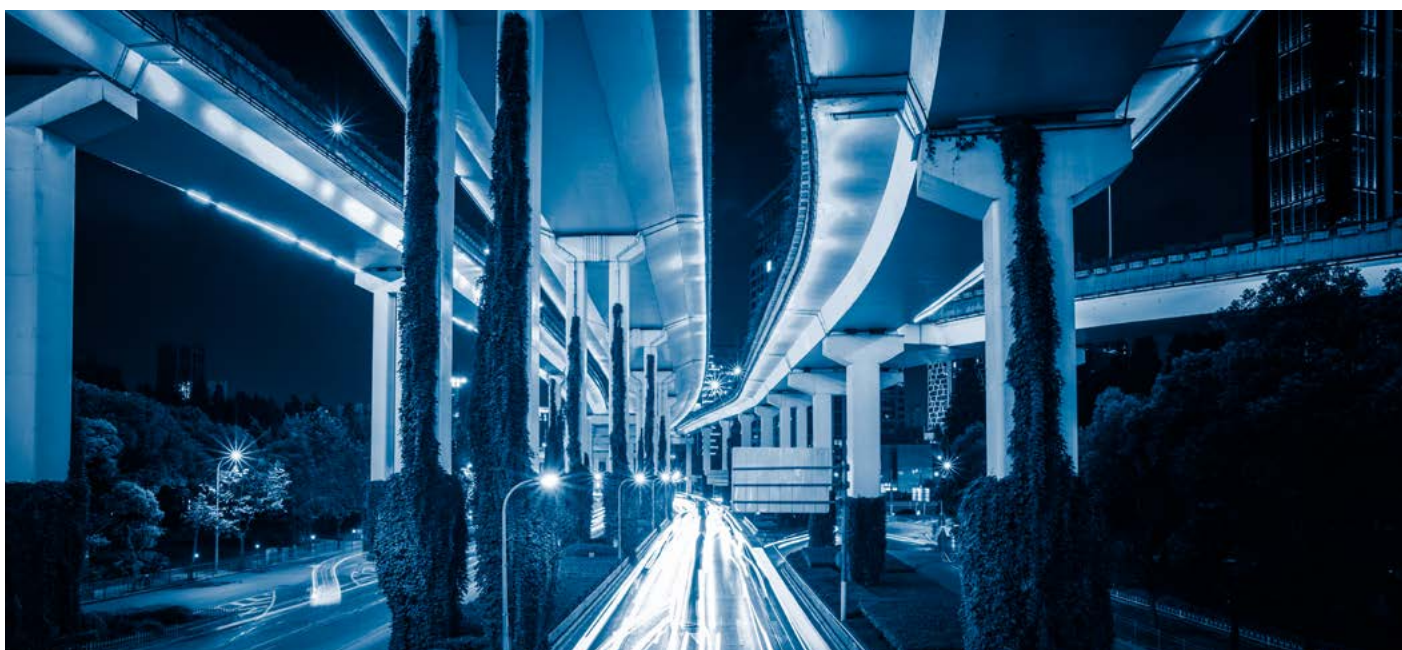
The GCI 5.0 positioned Indonesia at 54th out of 141 countries on the Infrastructure Pillar:

Global Competitiveness Index 5.0: Indonesia	
Pillars	Global Rank
Pillar 1: Public Institutions	31
Pillar 2: Security and Social Cohesion	N/A
Pillar 3: Environment	105
Pillar 4: Infrastructure	54
Pillar 5: Public Health	85
Pillar 6: Social Protection	77
Pillar 7: Education and Skills	50
Pillar 8: Labour Markets	N/A
Pillar 9: Financial Conditions	57
Pillar 10: Competition	19
Pillar 11: Innovation	N/A
Pillar 12: Future Orientation of Business	17
Global Competitiveness Index (overall)	53

Source: World Economic Forum (WEF) - The Global Competitiveness Index (GCI) 5.0

"Pillar 4: Infrastructure" captures the quality and density of transport infrastructure (air, road, rail and shipping as well as public transport), the efficiency and sustainability of utility infrastructure and the quality of digital connectivity of a country. For example, a well-designed transport network is important to ensuring different regions within a country are connected to labour markets. In addition, digital connectivity will become ever more important for individuals to participate in education and labour markets as more of a country's economy moves online.

Note that another 2019 Global Competitiveness Report was also released by the WEF which positioned Indonesian Infrastructure at 72nd out of 141 countries, a decline from the 2018 rank of 71st.



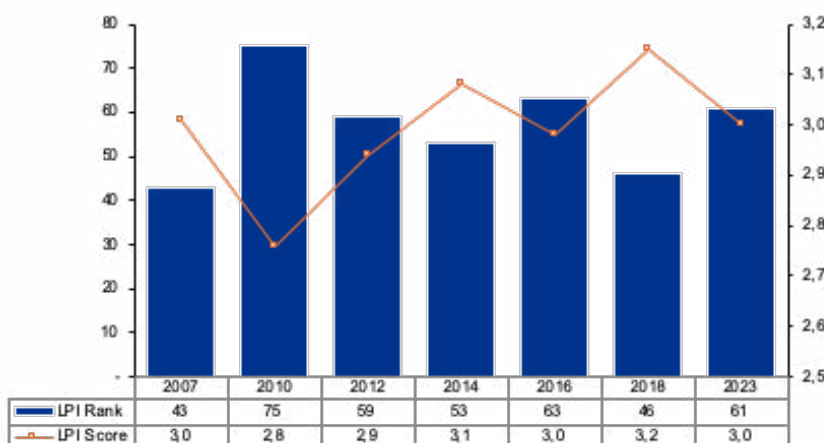
Infrastructure and logistics

Infrastructure development and the infrastructure industry generally are directly linked to the logistics sector. According to a 2023 World Bank Logistics Performance Index report, Indonesia's Logistics Performance Index (LPI) declined from 3.15 (rank 46th) in 2018 to 3.0 (rank 61st) in 2023. The 3.0 score for Indonesia is well below those of the 10 other countries surveyed and specific "Infrastructure" and "Logistics competence" scores both of 2.9 rank the lowest. It is also relevant however that all other countries surveyed are developed market nations and only Singapore and Hong Kong are Asian countries:

Logistics Performance Index Rank (2023)								
Country	LPI rank	LPI score	Customs	Infrastructure	International shipments	Logistics competence	Timeliness	Tracking & Tracing
Singapore	1	4.3	4.2	4.6	4.0	4.4	4.3	4.4
Finland	2	4.2	4.0	4.2	4.1	4.2	4.3	4.2
Denmark	3	4.1	4.1	4.1	3.6	4.1	4.1	4.3
Germany	4	4.1	3.9	4.3	3.7	4.2	4.1	4.2
Netherlands	5	4.1	3.9	4.2	3.7	4.2	4.0	4.2
Switzerland	6	4.1	4.1	4.4	3.6	4.3	4.2	4.2
Austria	7	4.1	3.7	3.9	3.8	4.0	4.3	4.2
Belgium	8	4.0	3.9	4.1	3.8	4.2	4.2	4.0
Canada	9	4.0	4.0	4.3	3.6	4.2	4.1	4.1
Hong Kong SAR	10	4.0	3.8	4.0	4.0	4.0	4.1	4.2
Indonesia	61	3.0	2.8	2.9	3.0	2.9	3.3	3.0

Source: World Bank Logistics Performance Index report 2023

Indonesia Logistics Performance Index



In September 2023 the Indonesian National Development Planning Agency ("BAPPENAS") announced that Indonesia's total country-wide industry logistics costs had been reported at 14.29% of GDP, a decrease from 23.8% in 2018. The government aims to further reduce national logistics costs to 8% by 2045. Whilst a positive development, this percentage measurement as a function of GDP and needs to be considered having regard to moving generally increasing baseline annual GDP levels.

Other logistics related data and statistics are presented overleaf.



Based on a UN Trade and Development (UNCTAD) for Annual Container Port Throughput per Country study and statistics, as expected Singapore ranks first in average annual container throughput volumes across 2018-2022 in Southeast Asia:

Annual Container Port Throughput per Country in Southeast Asia (2018-2022)							
Countries	Annual Container Port Throughput (in TEU) ¹ ²						Performance Rank (based on Annual Average Throughput)
	2018	2019	2020	2021	2022	Annual Average 2018 - 2022	
Cambodia	537,107	639,211	641,842	732,387		637,637	8
Indonesia	12,532,311	12,615,422	11,673,708	12,910,700	12,380,584	12,422,545	4
Malaysia	24,955,994	26,215,322	26,669,483	28,261,849	27,293,935	26,679,317	2
Myanmar	1,104,101	1,128,353	1,095,247	694,016	846,426	973,629	7
Philippines	8,859,565	9,333,428	8,019,642	8,674,859	9,249,451	8,827,389	6
Singapore	36,599,200	37,195,000	36,870,900	37,571,200	37,289,600	37,105,180	1
Thailand	10,371,645	10,130,294	9,568,488	10,436,689	10,497,112	10,200,846	5
Vietnam	13,394,390	15,297,028	16,394,723	19,821,048	20,518,926	17,085,223	3

Note: 1) TEU herein refers to Twenty-foot Equivalent Unit; 2) Annual Container Port Throughput, UNCTAD (2023)

Source: Container port throughput, (annual), UNCTAD (2023): ContPortThroughput

After Singapore ranks Vietnam and Malaysia but with significantly lower Port Throughput volumes, with Indonesia positioned 4th ahead of Thailand and the Philippines.

Countries	Average Port Turnaround Time in 2022 (days)
Cambodia	0.9
Indonesia	1.8
Malaysia	1.2
Myanmar	2.0
Philippines	1.3
Singapore	1.2
Thailand	1.0
Vietnam	0.9

Source: World Bank Logistics Performance Index report 2023

Performance Ranks based on Annual Average Container Throughput volumes need to be considered together with Average Port Turnaround Time to assess overall port operational efficiency.

According to the previously referenced 2023 World Bank Logistics Performance Index report, Vietnam and Cambodia had the fastest port turnaround times in 2022, averaging 0.9 days, followed by Thailand (1 day), Malaysia and Singapore (1.2 days each), the Philippines (1.3 days), Indonesia (1.8 days) and Myanmar (2 days), but these are distorted by Throughput volumes. Vietnam and Cambodia Port Throughput volumes are a fraction of Singapore and other countries. Indonesian ports are still among the least efficient in Southeast Asia in terms of Turnaround time. With slower relative port processing times and efficiency levels, Indonesia faces significantly higher logistics costs, impacting overall competitiveness relative to other countries in Southeast Asia.

Note: 1) Turnaround time represents the elapsed time for a vessel between arrival and departure calculated for each port call, excluding waiting time at anchorage. It includes: i) docking time; ii) cargo handling (loading and unloading); iii) maintenance time of ships at dock (if required); iv) customs and inspections of cargo; and v) departure time. This is different from Lead time which represent the median of a measured time spent for shipments from entering a port of origin to exiting a port of destination. This includes: i) turnaround time of shipments at the port of origin; ii) shipping time between the port of origin to the port of destination; and iii) turnaround time at the port of destination.

Infrastructure development policy and projects

2025–2029 National Medium-Term Development Plan (RPJMN)

As indicated, Infrastructure development has been a cornerstone of Indonesia's national economic development policy and agenda, and significant progress has been achieved over the past decade under the two terms of the Joko Widodo Presidency and administrations, including: i) a focus on more balanced or equitable development in outlying geographical regions; ii) some reduction in still what are relatively high logistics costs; iii) a general improvement in global competitiveness; as well as iv) demonstrating resilience in achieving strong economic growth of c.5% amid conditions of global uncertainty. All this serves as a solid foundation upon which the new President Prabowo Subianto's government can build momentum.

The President Subianto administration has quickly introduced a vision for Indonesia's development structured around eight (8) National Priorities outlined in a "Preliminary Summary of the National Medium-Term Development Plan (RPJMN): 2025-2029" ("RPJMN") which aims to achieve an outcome of a Golden Indonesia 2045 planned to commemorate the 100th anniversary of Indonesia's national independence. By this time the aim is for the country to be a resilient, self-reliant and inclusive nation. The RPJMN is imbedded in Law No. 59/2024 regarding National Long-Term Development Plan 2025-2045 for which a Presidential Regulation has been issued.

BAPPENAS in collaboration with central government ministries and regional or local governments has outlined a comprehensive framework as part of the RPJMN with an emphasis on sustainable growth across all key geographical areas of Indonesia: Sumatra; Java; Bali – Nusa Tenggara; Kalimantan; Sulawesi; Maluku and Papua. The underlying strategy is to develop specific regional segments, including Industrial corridors, a Tourism priority and Creative economy zones as well as "Blue economy" areas. While the RPJMN encompasses a broad range of industry sectors, infrastructure development is a key focus:

Preliminary Summary of the National Medium-Term Development Plan (RPJMN): 2025-2029		
	National Priority	Target (2025 – 2029)
1	Pancasila, Democracy, and Human Rights	Focuses on strengthening the Pancasila ideology ¹⁾ , democracy and human rights. No statement regarding development or maintenance of infrastructure
2	Food	<ul style="list-style-type: none"> Development of National Food Barns with additional 4 million Ha of rice fields Development of Southern Papua Food and Energy Barns
	Energy	<ul style="list-style-type: none"> Increase energy consumption per capita to 0.798 Increase renewable energy share in energy mix to 23% 356 MTOE for primary energy supply Develop two fields, CPE, bioethanol (E10), and geothermal Construction of natural gas transmission pipelines (Cirebon – Semarang Phase II and Dumai – Sei Mangkei)
	Water	<ul style="list-style-type: none"> Expand water storage capacity per capita to 70m3/kap 42.56% of households served with safe drinking water Access to piped drinking water of 40.2% Integrated water storage and sanitation infrastructure in metropolitan and 3T (underdeveloped) areas
	Green Economy	<ul style="list-style-type: none"> Rise of waste processed in recycling facilities to 28% Increase green transportation at 10 metropolitan areas and 10 priority cities Improve peatland ecosystem quality in 23 priority provinces Develop water quality management in 13 priority river basins
	Blue Economy	<ul style="list-style-type: none"> Increase the added value of blue economy sector to 39.92% Develop modern fishing ports and fleets in Exclusive Economic Zone (EEZ) Strengthen the maritime transport industry in several regions
3	General Infrastructure	Grow infrastructure stock as a percentage of GDP to 48.5%

Preliminary Summary of the National Medium-Term Development Plan (RPJMN): 2025-2029

National Priority		Target (2025 – 2029)
3	Transportation	<ul style="list-style-type: none"> Decrease travel time on main road (1.7 hours/100 km) Improve port performance by increasing cargo handling efficiency to 153% Increase on-time air transport performance to 85% Develop main road connectivity and accessibility of underdeveloped areas Improve 12 toll roads Build toll road (Gilimanuk – Negara – Pekutatan – Soka – Mengwi) and New Priok Eastern Access (NPEA) Improve integrated operations of Patimban Port and Kuala Tanjung Port Expansion of MRT (north – south and east – west phase I) Expansion of LRT (Velodrome – Manggarai) Development of intercity passenger (South Java Double Track) and freight train (East Kalimantan)
	Electricity	<ul style="list-style-type: none"> Increase electricity consumption per capita to 1,713-2,000 kWh Accelerate renewable electricity integration and decarbonization of power plants
4	Education	Revitalize 94,577 schools by 2029
	Healthcare	<ul style="list-style-type: none"> Improve quality of hospitals Achieve 95% “Paripurna” accredited government hospitals
5	Natural Resources	Develop industries based on natural resources to increase value
	Logistics	<ul style="list-style-type: none"> Strengthen infrastructure for logistics and connectivity to support industrial growth Increase connectivity and digitalization for logistics
6	Housing	<ul style="list-style-type: none"> Increase access to affordable and sustainable housing to 74% Integrated slum settlement development
	Political, legal, and bureaucratic reforms & prevention of corruption, drugs, gambling, and smuggling	Focuses on strengthening political, legal, and bureaucratic reforms, as well as the prevention and eradication of corruption, drugs, gambling, and smuggling. No statement regarding development or maintenance of infrastructure.
8	Religion, culture, climate, and natural disaster risks	Focuses on culture and inter-religion tolerance. Focuses on culture and inter-religion tolerance. No statement regarding development or maintenance of infrastructure.

Note: 1) Pancasila ideology is the State philosophy comprising five (5) principles around: religion, humanity, national unity, democracy and social justice

Source: Preliminary Summary of the National Medium Term Development Plan 2025-2029 (*Ringkasan Awal Rencana Pembangunan Jangka Menengah Nasional 2025-2029*)

A list of actual 2025-2029 RPJMN projects is not yet available in the public domain.



New National Strategic Projects (PSN)

In 2024 the government approved 14 new National Strategic Projects (PSN) as fully funded by private foreign and/or domestic investors. The new projects were in addition to 230 existing “PSN projects” of which 102 are completed, 38 partially-operational, 44 under-construction, five (5) in transaction stage and 41 in preparation stage.

The 14 new projects comprise eight (8) Industrial Estates; two (2) Tourism Areas; two (2) Toll Roads; one (1) Education, Research, Technology and Health Area as well as one (1) Offshore Oil & Gas Project. As all these projects will be privately funded, total estimated investment value, impacts on employment and other aspects are not disclosed.

Out of the total 244 PSN projects, 87 are located in Java with a total investment value of IDR1,559.5 trillion, 46 projects are in Sumatra worth IDR683.6 trillion, 19 projects in Kalimantan worth IDR246.3 trillion, 33 projects in Sulawesi worth IDR1,261.6 trillion, 17 projects in Bali and Nusa Tenggara worth IDR45 trillion and 17 projects in Maluku and Papua worth IDR1,030.2 trillion. There are also 25 nationwide projects worth IDR1,654.3 trillion.

A PSN Project list (228 Projects and 16 Programs) exists in the form of an Attachment to the Regulation of the Coordinating Minister for Economic Affairs No.12/2024 on the Revision of the National Strategic Projects List and is available for public review through the Committee for Acceleration of Priority Infrastructure Delivery (KPPIP) website. The KPPIP is mandated with supervision of the delivery of the PSN.

Priority Infrastructure Projects (PIP)

Background and history

The concept of “Priority Infrastructure” was introduced and prioritized in 2005 well before Priority Infrastructure Projects (“PIP”) implementation from 2014. This was to address the recognition for development of effective, efficient and timely infrastructure and recognition of the strategic importance this plays in driving economic growth and improving public welfare.

To support the 2005 initiative, two (2) Presidential Regulations were enacted: Presidential Regulation No. 42/2005 and a subsequent amendment in Presidential Regulation No. 12/2011 regarding Infrastructure Provision Acceleration Policy Committee. The Infrastructure Provision Acceleration Policy Committee was responsible for overseeing the planning and implementation of Priority Infrastructure policies. However, over time it became clear that the Committee and related governing regulations were no longer aligned with the evolving needs and challenges of accelerating infrastructure development.

Introduction of PIP

To address these challenges, President Regulation No. 75/2014 regarding Acceleration of Priority Infrastructure Provision was issued which focuses on the acceleration of priority infrastructure development and for projects to be completed on time and contribute to sustainable economic progress. This regulation served as the basis for the formation in 2014 of the KPPIP referred to above which was also tasked with overseeing PIPs and accelerating their delivery.

A list of PIPs was later published in Regulation of Coordinating Minister of Economic Affairs No. 5/2017 (“Reg. No. 5/2017”) which amended Regulation No. 12/2015 (“Reg. No. 12/2015”) on the Acceleration of Priority Infrastructure Preparation. Reg. No. 5/2017 expanded the number of listed PIPs from 30 (as per Reg No. 12/2015) to 37, with a total investment value of IDR2,665.5 trillion. One of the 37 projects, the Trans-Sumatra Toll Road was further split into 15 separate projects bringing the total number of PIPs to 51.

These PIPs are spread across various geographical regions: Sumatra with 19 PIPs and an investment value of IDR400.6 trillion; Kalimantan with 4 PIPs valued at IDR384.2 trillion; Java with 18 PIP projects valued at IDR639.2 trillion; Sulawesi with 3 PIPs valued at IDR51.8 trillion; Maluku and Papua regions with 2 PIPs worth IDR428.7 trillion and 5 PIPs which are national projects with an investment value of IDR761.1 trillion.

According to the KPPIP’s 2023 2nd Semester report, out of the 51 projects, 20 have been completed, 10 are partially operational, 13 are under construction, 2 are in transaction stage and the remaining 6 are still in preparation stage.

Infrastructure sectors: Transport-road, rail, air, maritime, power

Road and toll road

Basic road infrastructure is the platform for development of most other primary and secondary infrastructure.

Indonesia continues to lead in vehicle ownership among ASEAN countries. The sustained growth of the Indonesian economy over the past decade has supported increases in the number of vehicles on the road. As of August 2024 there were c. 164 million units of registered motor vehicles in Indonesia, with well over half of these in Java. This places ongoing pressures on the country's road infrastructure.

As of December 2023 there are 46,964.8 km of national road, 459,703.9 km of provincial and regional road as well as 2,839 km of toll road.

The road network is most developed in the main population centers and islands of Java, Sumatra and Bali, where over 80 percent of Indonesia's population live. Mining and plantation related transport infrastructure (road and rail) is more developed in Kalimantan compared to Sumatra. Despite being given a high priority in government spending programs, road construction in Indonesia is still progressing at a moderate pace at least partly due to ongoing land acquisition challenges.

While toll road traffic volumes are increasing, their usage by private vehicles and public transportation remains disproportionately low compared to national and provincial or regional roads. Less than 20 percent of private vehicles and only 2.5 percent of public transportation utilize toll roads largely due to high tariffs and users often elect to utilize national or provincial and regional roads as more cost-effective alternatives.

Investment

The total investment on toll roads in 2023 was c.IDR725 trillion comprising: i) FDI amounting to IDR12 trillion and ii) credit financing. Credit financing is via international banks and/or international financing institutions amounting to IDR4.7 trillion; from state-owned banks of IDR104.3 trillion and from private commercial banks of IDR123.5 trillion.

While this investment data reflects ongoing efforts to expand the road network, it falls short of meeting the demands of the growing number of motor vehicles on the roads. Accessibility to national roads stood at 83-84 percent in 2023, with only 93-94 percent of national roads rated as "Stable" and less than 40 percent rated as "Good".



Railway network

As of mid-2024 the railway network system covered 6,927.4 km (including the new “Whoosh” high-speed Jakarta-Bandung rail) across the country with more than 70 percent of this on Java. The majority of the rail network in Java is operated by the state-owned company, PT Kereta Api Indonesia (Persero). Outside of Java, state-owned rail lines are generally limited to key commodity regions in North Sumatra, Central Sumatra and South Sumatra. Kalimantan has a number of privately owned and operated rail lines specifically for coal.

In March 2023 President Joko Widodo inaugurated the operation of the Makassar–Parepare railway, the first train service in Sulawesi. This railway is part of a Trans-Sulawesi Railway project, which aims to connect provinces across Sulawesi from Makassar, South Sulawesi to Manado, North Sulawesi.

In 2023 an estimated 429.1 million people and 64.3 million tons of cargo (over half of it coal) were transported by rail across Sumatra, Java and Sulawesi islands. Recognizing the importance of rail transport for continuing economic development, the government plans to continue to improve the quality of rail tracking as well as expanding the rail network across Indonesia.

Between 2015 and mid-2024 c.1,731.3 km of new railway lines were constructed across 55 locations, and 1,900.5 km of railway lines underwent upgrades across 25 other locations. Most of this activity occurred in Java, Sumatra, Kalimantan and Sulawesi. This reflects the government’s ongoing commitment to improving connectivity and accessibility of railway transportation throughout Indonesia. However progress remains geographically uneven, particularly outside Java in line with slower infrastructure development generally.

References to rail in the context of infrastructure in Indonesia generally relates to the traditional rail track network. There is a separate discussion in Chapter 2 on landmark new MRT, LRT and other projects.

Air

Given Indonesia’s geography and the underdeveloped state of its land and maritime or sea transportation, airports represent a key mode of transportation, not only for inter-island flights but also between cities.

As of September 2024 there are 257 commercial airports, including 17 international airports. 37 airports are managed by the State-owned company, PT Angkasa Pura Indonesia (or “InJourney Airports”), established in September 2024 through a merger of PT Angkasa Pura I and PT Angkasa Pura II. The Directorate General of Civil Aviation (“DGCA”) oversees the operation of the majority of other airports across the country.

In 2023 there were c.65.9 million domestic route and 29.2 million international route passengers moving through 301 different passenger routes across Indonesia.

As part of the continuing development of airport infrastructure to meet growing demand, the government has developed plans to build new airports and expand existing airport capacity, including through the Public Private Partnership (“PPP”) scheme. Several airport construction projects in progress under PPP schemes and these include Bintan Airport (Kepulauan Riau) and Singkawang Airport (West Kalimantan) which are in preparation stage as well as Kediri Airport (East Java) which has been completed and commenced operating in April 2024.



Maritime or sea

As an archipelago nation comprising more than 17,000 islands covering an area of over 1.8 million km² straddling the main trade routes between the Indian Ocean and the Pacific Ocean, air and maritime connections are vital to Indonesia and its economy. There are 21,579 km of navigable waterways between the larger islands of Sumatra, Java, Kalimantan, Sulawesi and Papua, which represents over 90 percent of Indonesia's equivalent land area.

According to 2023 Sea Transportation Statistics issued by BPS, there are 472 active ports in Indonesia, with 93 commercial ports managed by the state-owned company, PT Pelabuhan Indonesia (Persero) (or "Pelindo") and 379 non-commercial ports for which operations are supervised by the Directorate General of Sea Transportation under the Ministry of Transportation. Pelindo was formed through the integration of Pelindo I to IV in 2021 and its container throughput in 2023 ranked 2nd in Southeast Asia at 17.7 million twenty-foot equivalent units ("TEUs").

Shipping and loading activities are conducted at 25 strategic ports located in 21 provinces. Those strategic ports are Port of Lhokseumawe, Belawan, Teluk Bayur, Dumai, Pekanbaru, Palembang, Panjang, Tanjung Pinang, Batam, Tanjung Priok, Tanjung Emas, Tanjung Perak, Banten, Benoa, Tenau, Pontianak, Banjarmasin, Balikpapan, Samarinda, Bitung, Makassar, Ambon, Sorong, Jayapura and Biak. Of the 25 ports, four are classified as "Prime Ports": Port of Belawan (Medan), Tanjung Priok (Jakarta), Tanjung Perak (Surabaya) and Makassar. Thirteen ports are classified as "Class 1 Ports", including Tanjung Emas port (Semarang) and Banjarmasin Port. Prime and Class 1 ports are deep water ports suitable for international shipping.

Over the past decade 28 new ports have been constructed with 25 of these now operational. One of the key additions is the Makassar New Port, now the second largest port in Indonesia, which was commissioned in February 2024. With a water depth of 16 meters and a capacity of 2.5 million TEUs per annum, the port is expected to improve logistics efficiency across Eastern Indonesia. The governments of Indonesia and Japan are also presently developing the Port of Patimban, West Java at an estimated cost of USD3 billion. Positioned to become one of Indonesia's primary export ports and a key hub for automotive exports, Patimban Port is being designed to alleviate shipping and loading congestion at Jakarta's Tanjung Priok Port as well as reduce traffic congestion in Jakarta caused by heavy trucking cargo.

According to a 2024 Review of Maritime Transport by the United Nations Conference of Trade and Development (UNCTAD), Indonesia's total marine fleet as of 1 January 2024 comprised 2,540 propelled seagoing vessels of 1,000 gross tons and above. This includes 2,398 Indonesian national vessels and 132 foreign vessels operating with a total capacity of c.32 million dead weight tons ("DWT") with 88.4 percent of this attributed to Indonesian national vessels.





Power

Indonesia continues to prioritize the development of the power industry to support economic growth and achieve a sustainable energy future. As of January 2025 Indonesia has a total of 101 GW installed power capacity, with up to 75 GW managed by the State-owned electric company, PT Perusahaan Listrik Negara (Persero) ("PLN"). Renewable Energy ("RE") comprises up c.15-16 percent of the energy mix, with coal making up more than half of current capacity. In December 2024 Indonesia's electrification ratio was reported at 99.83 percent, just below Thailand (99.9 percent) and Malaysia (100 percent).

In January 2025 President Subianto inaugurated 37 strategic power plant construction projects intended to put the country on track to achieve energy self-sufficiency. These projects comprise 26 power plants with a total capacity of 3.2 GW of which 89 percent of this capacity will come from clean and RE sources. There is also 11 transmission line networks at c.740 circuit-km and various substations across 18 provinces. This initiative symbolizes a government commitment to a sustainable energy transition and achieving energy independence through the acceleration of national energy infrastructure development.

Additionally, Indonesia plans a 71 GW power capacity expansion by 2034, prioritizing private investment for 60 percent of new plants and focusing on transmission infrastructure for RE aligned with an objective to boost RE to 70 percent of the energy mix. PLN's 2025-2034 Power Supply Plan includes the above 71 GW of new power capacity and 48,000 circuit-km of transmission line which is equivalent to 8,000 km straight line.

As of January 2024 Indonesia's energy mix is still dominated by coal (40 percent), oil (30 percent) and natural gas (17 percent) with RE comprising 13 percent. Total RE installed capacity was c.13.3 GW: Hydropower still dominates with c.5.6 GW, followed by Bioenergy at c.3.4 GW, Geothermal at c.2.6 GW, Mini/Micro Hydro at c.1 GW, Solar at c.0.6 GW, Wind at c.0.2 GW and Waste power plants at 36.5 MW.

Some key challenges that limit investment in RE projects include:

- Constraints faced by PLN: as an State-Owned Enterprise ("SOE"), a significant percentage of electricity is sold to end customers at subsidized tariff pricing, a function of PLN's public service obligations across a geographically wide national power grid. Being reliant on government funding, allocating funds and resources to RE capacity is difficult, compounded by the ongoing need for existing grid upgrades
- Changes to the Independent Power Producer ("IPP") scheme and reduced attractiveness of IPP Tenders under more government preferred "partnership projects" structures introduced by PLN. These fall into two (2) different models: i) Mandatory Partnerships where PLN holds a significant minority ownership interest; ii) Cooperation Mechanism under regulation whereby PLN acts as a Cooperation Partner of the private sponsor with 51% ownership of the IPP company, but with effective "joint control" in place
- Local content requirements: historically these have been uncondusive to investments in RE, but under recently enacted 2024 Ministry of Energy & Mineral Resources ("MEMR") and Ministry of Industry ("Mol") regulations which relax historical positions, this may improve the investment climate

Indonesia's National Energy Council (or "DEN") which operates under the MEMR has recently proposed 29 sites for nuclear power plants in a bid to secure reliable energy supply and reduce carbon emissions. The sites stretch from North Sumatra and south-east across to West Papua. The DEN is searching for foreign investors needed to provide financial support for the plan, which is obviously in its infancy stages, and also subject to environmental group lobbying.

Key government institutions

Overview

The Indonesian government has implemented a number of institutional and financial initiatives to support infrastructure development, including viability gap funding, availability payments, government guarantees streamlining permits and licensing.

To this end a number of key infrastructure institutions have been established to improve the coordination and implementation of the country's infrastructure development program and plans.

PT Sarana Multi Infrastruktur ("SMI"): is an infrastructure financing company established in 2009 as an SOE under the Ministry of Finance ("MoF"). SMI plays a key role in enabling infrastructure development in Indonesia by acting as both project sponsor and financier/investor. In its role as project sponsor, SMI provides a range of advisory services, including project development and preparation, transaction structuring and advisory. SMI finances infrastructure projects across a range of sectors, including power, water supply and toll roads. SMI is a key player in plans to establish an Indonesian infrastructure development bank.

PT Penjaminan Infrastruktur Indonesia: known as the Indonesian Infrastructure Guarantee Fund ("IIGF"), was also established in 2009 as an SOE under the MoF. IIGF plays a key role in enhancing the bankability of infrastructure projects by acting as a single window for the provision of guarantees on obligations of government agencies under contractual arrangements for PPP projects. IIGF has also been assigned by the MoF to facilitate PPP project preparation.

Indonesia Infrastructure Finance ("IIF"): is a private Non-Bank Financial Institution established in 2010 through cooperation between the Indonesian government (via the MoF), the World Bank, the Asian Development Bank ("ADB") and other international multilateral agencies. IIF provides both advisory services and project financing for infrastructure projects in Indonesia which to date have been provided across a range of sectors including water supply, toll roads, power plants and telecommunications.

Committee for Acceleration of Priority Infrastructure Delivery ("KPPID"): as indicated, was established in 2014 under Presidential Regulation No. 75/2014 regarding Acceleration of Priority Infrastructure Provision to coordinate the preparation and delivery of strategic infrastructure projects. The KPPID's scope of work includes:

- establishing strategies and policies to accelerate priority infrastructure development
- monitoring and controlling the implementation of strategies and policies in order to accelerate priority infrastructure development

- facilitating capacity improvements for apparatuses and institutions related to priority infrastructure development.

PPP Joint Office: given that cross-sector and cross-agency coordination is crucial to the implementation of PPP projects, a PPP Joint Office was established in 2016. The role of the PPP Joint Office is to assist government agencies and investors to answer queries relating to PPP implementation. Effectively the PPP Joint Office works as a coordinating body to provide a "one stop service" to support the acceleration of PPP implementation.

The members of the PPP Joint Office are BAPPENAS, the MoF, the Coordinating Ministry of Economic Affairs, Coordinating Ministry for Maritime Affairs and Investment, the Ministry of Home Affairs, BKPM, the National Public Procurement Agency ("LKPP") as well as IIGF.

Indonesia Investment Authority ("INA"): is a relatively new Indonesian sovereign wealth fund established in November 2020 under the framework of the 2020 OMNIBUS Law. INA is wholly owned by the GoI and focuses on four priority sectors: transport and logistics, healthcare, RE, digitalization and digital infrastructure.

Daya Anagata Nusantara Investment Management Agency ("Danantara Indonesia"): is a new institution established by the President Subianto administration effective February 2025 to oversee State-owned assets and optimize their utilization.

Danantara Indonesia is projected to oversee seven (7) SOEs and INA, managing total assets of up to USD 600 billion (or c.IDR 9,720 trillion). The seven (7) SOEs expected to be managed under this "superholding entity" are: PT Pertamina (Persero) ("Pertamina"), PLN, PT Bank Rakyat Indonesia (Persero) Tbk ("BRI"), PT Bank Negara Indonesia (Persero) Tbk ("BNI"), PT Bank Mandiri (Persero) Tbk ("Mandiri"), PT Telekomunikasi Indonesia (Persero) Tbk ("Telkom") and Mining Industry Indonesia ("MIND ID").

In addition to managing SOE assets, Danantara Indonesia will also be responsible for managing investments outside of the State budget, operating similarly to INA as a sovereign wealth fund but with a broader scope. The government has a vision for Danantara Indonesia to function "like a GIC or Temasek²⁾"; the Singapore government-owned sovereign wealth funds or investment vehicles which focus on global investments.

Other participants in the government sector are players some of which have already been referred to in this chapter and include the MEMR, PLN, MoF, Ministry of Environment and Forestry (MoEF), Ministry of Public Works and Housing and Mol. There are also private players: IPPs which operate under Power Purchase Agreements (PPAs) with PLN, and various financiers and lenders including commercial banks, the World Bank and Export Credit Agencies (ECAs).

Note: 2) GIC Pte. Ltd. ("GIC") and Temasek International Pte. Ltd. ("Temasek")

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04

Investment

Introduction

Indonesia welcomes foreign investment on its own terms. Government policies aim at ensuring that foreigners work with Indonesians to assist in development of the country's economy and skill-base. There is a general recognition that in certain industry sectors and functions, Indonesia needs the development capital, the technical and management skills of foreigners.

Government regulation of foreign investment in Indonesia operates in a variety of ways, for example:

- through government, ministry and regulatory body laws and regulations, including approvals and supervision
- certain fields of business are restricted or "Closed" to investment by foreigners, however more industry sectors are now "Open" to Foreign Direct Investment ("FDI") than ever before
- companies can employ only a limited number of expatriates, and are required to demonstrate plans for replacement of those expatriates by Indonesians, with the exception of expatriate Board of Directors ("BoD") and Board of Commissioners ("BoC")
- foreign individuals are permitted to acquire land or land rights with a number of restrictions

A "foreign investor" is usually a foreign company incorporated under the laws of its host nation, however foreign individuals are also accepted.

Investment Law: Direct and indirect investment

Law No.25/2007 concerning Capital Investment (the "Investment Law") defines investment as Direct investment and Indirect investment. Indirect investments, also known as portfolio investments, are transactions made through the domestic capital markets and stock exchanges of a country.

The Indonesian equity market is highly institutionalized. In 2024-2025 domestic investors accounted for c.60% of total transactions on the Indonesian Stock Exchange ("IDX") holding 52% of shares, while foreign investors account for 48%.

The Ministry of Investment and Downstream Industry which is also more commonly known as the Investment Coordinating Board (BKPM), serves as an investment promotion agency and regulatory body in charge of approving planned investments in Indonesia. It is usually the first point of contact for foreign investors, particularly in

manufacturing, diversified industrials and other non-financial services sectors. To conduct business in Indonesia in almost all industry sectors, foreign investors must be incorporated as a foreign-owned limited liability company (PMA) through the Ministry of Law & Human Rights ("MoLHR"). Once incorporated, a "PMA Company" must fulfill what are now more routine corporate business licenses and permits through a Risk-Based Online Single Submission (OSS) system administered by BKPM. In the financial service industry and other more regulated sectors, separate technical ministry industry licensing approvals are needed: refer to related discussion on Establishment in Chapter 5.

Economic Policy Packages

Over the three-year period from 2015 until 2018 the government announced 16 Economic Policy Packages developed to improve national industry competitiveness, maintain economic stability as well as to promote Indonesia's investment climate and support economic growth. The issuance of these Economic Policy (or "Stimulus") Packages was also designed to harmonize regulations, simplify bureaucratic process, promote law enforceability, support employment and generally stimulate the economy. In addition to the 16 Economic Policy Packages, on 20 July 2020 the government issued Presidential Regulation No. 82/2020 on Committee for Handling of COVID-19 and National Economic Recovery (as amended by Reg. No. 108/2020).

Whilst many of these Economic Policy Packages had direct and indirect impacts on investment, detailed coverage of these is now no longer relevant given the passing of time and developments detailed overleaf.

OMNIBUS Law and investment "Positive List"

Background and history

As the cornerstone of foreign and domestic investment in Indonesia, the Investment Law regulates FDI by granting a right of entry to foreign businesses through the government licensing procedures principally controlled by BKPM. Historically foreign investors could generally hold between 49% to 100% ownership in companies operating in various industries unless "Closed" to FDI, but this varied across industry sectors or business fields.

To invest in Indonesia prior to 2021, an investor must first have looked at the Investment "Negative List" which attached to the Investment Law under Presidential Regulations and was updated with policy changes under the Investment Law. If a business field was not mentioned in the Negative List, it was generally regarded as "Open" to foreign investment, but ministerial cross-referencing was (and still is) often needed.



The Negative List evolved over time and was generally issued every 3 years under the Investment Law. In terms of historical context, in April 2014 the government's then long awaited modifications to the Negative List became effective under Presidential Regulation ("PR") No. 39/2014 on List of Business Fields Closed to Investment and Business Fields Open with Conditions to Investment, revoking the previous Negative List under PR No. 36/2010. The 2014 Negative List did not provide for any real liberalization but an actual tightening of foreign investment restrictions in key sectors. When the 2016 Negative List was issued under PR No.44/2016 on List of Business Fields that are Closed or Conditionally Open to Investment, there was at least "on paper" a widespread liberalization of sectors previously restricted to FDI, however this generally did not translate to any significant increase in FDI flows something attributed at the time to ongoing legal and regulatory uncertainty.

The OMNIBUS Law

On 2 November 2020 a draft version of a new Law No. 11/2020 on Job Creation, commonly referred to as "the OMNIBUS Law" was signed, designed to attract foreign investment, create jobs and improve ease of doing business by relaxing licensing procedures, harmonizing numerous laws and regulations to improve the general business and investment landscapes for investors, companies and businesses. A specific key aspect was also counteraction of impacts of Law No. 22/1999 on Regional Government and unwinding prior decentralization policies which had elevated levels of uncertainty around central and regional government jurisdictions with multiple layering of laws and regulations, including taxes.

The OMNIBUS Law was and is still viewed as one of the most significant and important legislative reforms in the Indonesian investment, regulatory and economic landscapes. It is seen as a very significant step to boost investment through reforms to doing business, business licensing and permitting and by significantly loosening restrictions on FDI. The OMNIBUS Law is viewed as a remarkable achievement being the first single law of its kind and which amends 76 other laws, and sends a strong positive signal to foreign investors that the government is committed to improving the regulatory environment and is supportive of FDI. However despite the positive changes, a reality "on the ground" is that the regulatory burden can still be substantial and ongoing work is needed to improve the investment landscape, including socializing the legislated legal, regulatory and administrative licensing reforms down and across government bodies.

On 2 February 2021 a number of government and other regulations were enacted as implementing regulations to the OMNIBUS Law.

The Positive List

One of the key implementing regulations to the OMNIBUS Law is Presidential Regulation No. 10/2021 on Investment Business Fields ("PR No. 10/2021") or the Investment "Positive List" which was issued on 2 February and effective 4 March 2021. This was slightly amended by PR No. 49/2021 on Amendment of PR No. 10/2021 on Investment Business Fields ("PR No. 49/2021") which was issued very shortly after on 24 May 2021 (see overleaf).

PR No. 10/2021 revoked PR No. 44/2016 and the previous Negative List and also PR No. 76/2007 on the Criteria and Requirements for the Categorization of Closed Business Fields and Business Fields Open with Requirements in the Field of Investment. In line with the OMNIBUS Law, PR No. 10/2021 and the new "Positive List" are designed to attract and increase investment.

The new 2021 "Positive List" liberalized over 245 business lines or fields, including important sectors such as transportation, energy and telecommunications. The Positive List is structured in a similar way to previous Negative Lists using Indonesia Standard Industrial Classification (KBLI) codes of which there are many sitting under various wider business lines or fields.

The transition from the 2016 Negative List to the 2021 Positive List has been well received by stakeholders as it opens up a substantial number of business sectors for FDI. Some sectors that had been completely closed to foreign investment are now 100% "Open"; other ownership restrictions are relaxed and a range of sectors prioritized for FDI with tax incentives. Key aspects of the Positive List and PR No. 10/2021 are set out in the Investment Law (Art. 12) as amended by the OMNIBUS Law.

In terms of foreign investors and their investments, PR No. 10/2021 sets the following general investment value requirements:

- foreign investors are only allowed to engage in large-scale business activities with investment values that exceed IDR10 billion (excluding values of land and buildings used); however
- the value of foreign investments in technology-based start-ups may amount to less than IDR10 billion if undertaken within a special economic zone (SEZ)

Six business fields unlikely to significantly impact FDI are still closed to investment:

- class-I narcotics cultivation and trading
- all forms of gambling and/or casino activities
- illegal fishing of endangered species
- utilization of coral or natural reefs for certain uses
- chemical weapons manufacturing
- industrial chemicals and industrial ozone-depleting substance industrial activity

Also activities that may only be carried out by the central

government are those public service-based in nature or that relate to strategic defense and security. Cooperation with third parties is also prohibited.

PR No. 10/2021 specifically stipulates 4 categories of business fields open to investment:

1. Priority business fields – 245 fields (183 fields for tax allowance facility, 18 fields for tax holiday and 44 for investment allowance facility) and must be:
 - included as a part of nationally strategic programs/projects
 - capital and/or labor-intensive
 - utilizing advanced technologies
 - categorized as pioneering industries
 - oriented towards export/import substitutions; and/or
 - oriented towards R&D and other innovative activities.

Various benefits are provided to those looking to invest in priority business fields in the form of:

- a. Fiscal incentives: tax holidays, tax allowances, investment allowances and import-duty exemptions; and/or
 - b. Non-fiscal incentives: ease of business licensing, provision of supporting infrastructure, energy, guaranteed availability of raw materials, immigration, employment and others
2. Business fields that are allocated to or that require partnerships with cooperatives and micro, small and medium-scale enterprises ("MSMEs") – 89 fields. Key qualifying criteria is that the investment must:
 - not use advanced technologies or must only utilize simple technologies
 - involve specific processes, must be labor-intensive and must be characterized by special and hereditary cultural heritage
 - involve business capital that does not exceed IDR 10 billion (excluding any land and buildings used for places of business)

Business fields that involve large-scale businesses working in mandatory partnerships with cooperatives and MSMEs shall:

- be mostly occupied by cooperatives and MSMEs
 - aim to scale-up operations in order to enter the supply chains of large-scale businesses
3. Business fields with certain requirements – 46 fields.

This category includes business fields that are open to all investors (including MSMEs) but that are subject to:

 - investment requirements for domestic investors
 - investment requirements with limitations placed on foreign investment ownership capital:

- a. Investments that are carried out within certain business fields that were approved prior to the issuance of PR No. 10/2021
- b. Investors which have secured special rights based on agreements between their countries and Indonesia
- investment requirements that involve special licensing or permits

These business lines are listed in Attachment III to PR No. 10/2021. Requirements in business fields with certain requirements are not applicable to investments in SEZs and Indirect Investments that are undertaken through the IDX (see overleaf)

4. Business fields with categories other than above-mentioned are generally considered to be open to all investors without any additional requirements.

As can be seen, PR No. 10/2021 and the Positive list significantly reduces the number of lines of business in various sectors in which foreign shareholding was closed, restricted or otherwise limited under the 2016 Negative List. Among others, the following lines of business (which often attract foreign investors) are not included in Attachment III to PR No. 10/2021 and therefore it is considered that these should also be open to 100% foreign shareholding:

- oil & gas construction services
- oil & gas support services
- small-scale power plants with a capacity of 1 – 10 MW
- power plants with a capacity of > 10 MW
- geothermal power plants with a capacity of ≤ 10 MW
- operation and maintenance of electric power installations
- department stores (malls) with a sales floor area 400m² – 2,000m²
- warehousing
- provision of security guards, money and valuable goods transportation, security services using animals
- private hospitals
- distribution of medical equipment
- pest control/fumigation services
- non-production trade goods distribution
- electric vehicle battery business

The 2021 Positive List under Presidential Regulation No.49/2021

As indicated, Presidential Regulation No. 49/2021 on Amendment of PR No. 10/2021 on Investment Business Fields or “PR No. 49/2021” was issued in May 2021, only three (3) months after issuance of PR No. 10/2021. This followed public discontent on the inclusion of the alcoholic beverage industry among business lines open

for investment. This led to the issuance of PR No. 49/2021 which introduced a number of revisions to the Positive List, including reversals and additional restrictions, but nothing of any significant substance or conceptually at odds with PR No.10/2021.

PR No. 10/2021 states that all business lines (except for those that are closed or reserved for the central government) were open for investment, while PR No. 49/2021 clarifies that only business lines of a commercial nature fall under this category.

Additionally, PR No. 49/2021 specifically “closes” the following industries to investment:

- alcoholic beverage industry
- wine industry
- beverages containing malt industry

PR No. 49/2021 also amends the Positive List attaching to the Annexes of the regulation, which include:

- addition of new business lines eligible for government incentives
- reallocation of business lines from Annex 3 (businesses with certain requirements) to Annex 2 (allocated for or requiring partnership with MSMEs), such as the batik and traditional medicine industries
- addition and/or removal of some business lines from the Positive List

Business lines open for investment continue to be classified under four (4) categories:

1. Priority business lines
2. Business lines allocated to or requiring partnership with Cooperatives and MSMEs
3. Business lines open with certain requirements
4. Other business lines open to all investors without restrictions

The number of business lines with certain requirements in category 3 above decreased from 46 to 37, including those:

- open to FDI but with a foreign ownership cap
- open to FDI but requiring special ministerial approval or licenses
- 100% reserved for domestic investors
- business lines that are monitored and stringently regulated under separate regulations on the control of alcoholic beverages. This is an additional classification introduced under PR No. 49/2021, which includes:
 - wholesale trade of alcoholic beverages
 - retail trade of alcoholic beverages
 - small-scale retail of alcoholic beverages



Additionally, changes in the number of business lines in category 1 and 2 were:

- priority business lines increasing from 245 to 246
- business lines allocated for Cooperatives and MSMEs increasing from 51 to 60, and the number of business lines requiring partnership with Cooperatives and MSMEs increasing from 38 to 46

Some industry sector-specific adjustments at KBLI level were made in the e-commerce as well as courier and postal services sectors.

Government Regulation in Lieu of Law No. 2/2022 regarding Job Creation ("Reg. No. 2/2022")

In December 2022 the government issued Government Regulation in Lieu of Law No. 2/2022 regarding Job Creation ("Reg. No. 2/2022") to amend several laws that the OMNIBUS Law had previously amended, however changes are not significant and the content is mainly similar to the OMNIBUS Law.

Four sections of the OMNIBUS Law amended by Reg. No. 2/2022 are:

1. Employment:

- Outsourcing: provisions in Article 64 of Law No. 13/2003 regarding Labor ("the Labor Law") and Minister of Manpower Regulation No. 19/2012 regarding Requirements for Outsourcing Part of the Work to Another Company, were revoked resulting in removal of boundaries between core and non-core business activities that could be outsourced. This allowed all types of work, including core business functions, to be outsourced freely which previously was not the case. The government is yet to issue a planned new regulation to determine which business activities are eligible for outsourcing, creating legal ambiguity

- Minimum wage formula: Article 88F was added to the Labor Law to allow the central government to determine the minimum wage formula under certain but undefined special circumstances

2. Tax: aligns the OMNIBUS Law with more recent tax laws and regulations. Tax provisions that weren't amended or revoked in the OMNIBUS Law have been removed in Reg. No. 2/2022
3. Water resources: in relation to authority for diversion of river flow by government institutions or a private business entity involved in national strategic infrastructure projects such as dams, reservoirs and hydropower plants
4. Halal products: around validity of Halal Certification, establishment of a Halal Fatwa Committee and Electronic Halal product assurance services

Law No. 6/2023 regarding the Stipulation of Government Regulation in Lieu of Law No. 2/2022 on Job Creation into Law

In March 2023 the Parliament approved Reg. No. 2/2022 and thus the OMNIBUS Law to have permanent legal enforceability and become law by issuing Law No. 6/2023 regarding the Stipulation of Government Regulation in Lieu of Law No. 2/2022 on Job Creation into Law ("Law No. 6/2023").

The backstory to this is that on 25 November 2021 the Constitutional Court of Indonesia declared that the OMNIBUS Law violated the 1945 Constitution of Indonesia due to legislative procedural errors. According to the Constitutional Court decision, the OMNIBUS Law was conditionally unconstitutional, and as a result the law had no legally binding effect until it was "fixed" and within two (2) years. The decision clarified that the OMNIBUS Law remained in effect until the "fix" was put in place.

The "fix" was completed with the above-mentioned enactment of Law No.6/2023 and the government "jumping over" the last legislative hurdle needed to ensure the "replacement" OMNIBUS Law was constitutional, in force and a reliable legal framework for investors.

Grandfathering

Grandfathering provisions continue to apply to existing investments regardless that some new foreign investment limitations or closures have been introduced in PR No. 10/2021. Laws and regulations in Indonesia when issued or enacted do generally not operate retroactively.

Similar to the previous Negative Lists, PR No. 10/2021 also contains some specific “grandfathering” related clauses in Article 6 paragraphs (4) and (5). Foreign shareholding limits based on PR No. 10/2021 do not apply to:

- a. capital investments approved for a certain business line before the issuance of PR No. 10/2021 as stated in the business license, unless the provisions of PR No. 10/2021 are more beneficial for that investment; or
- b. capital investments for which special rights have been obtained under an agreement between Indonesia and the investor’s home country, also unless the provisions of PR No. 10/2021 are more beneficial

PR No. 10/2021 also states that in the event of a merger, acquisition or consolidation between companies operating in the same business line:

- a. the foreign shareholding limit in the surviving entity stated in its business license applies
- b. the foreign shareholding limit in the acquired entity stated in its business license applies; or
- c. the foreign shareholding limit in the new entity due to a consolidation is that which applies under applicable regulations operating at the time of the original corporate establishment.

Publicly listed companies

Based on the elucidation to Art. 2 of the Investment Law, the historical position and practice has been that foreign investment limitations and restrictions in the Negative List did not apply to Indirect Investments made through share portfolio transactions on the capital market, and thus publicly listed target companies regardless of the industry sector. BKPM had many years ago communicated that this position was still subject to review.

BKPM Regulation No. 5/2013 regarding Guidelines and Procedures for Capital Investment Licenses and Nonlicenses dated 12 April 2013 (“BKPM Reg. No. 5/2013”) introduced new requirements for capital investment regulation and licensing, in particular formalizing prior “rules of thumb” and policies applied by BKPM. BKPM Reg. No. 5/2013 aligned with BKPM policy regarding a controlling share ownership in a public company as a Direct investment and not an Indirect (or Portfolio) Investment, thus triggering an obligation to convert to a PMA company and a potential requirement to comply with the old Negative Lists.

In late 2013 BKPM issued Head of BKPM Regulation No. 12/2013 on “Head of BKPM Regulation No. 5 of 2013 on Guidelines and Procedures for Licensing and Non-licensing matters in relation to Investment.” BKPM Regulation No.

12/2013 revoked the position regulated in BKPM Regulation No. 5/2013 being that a public company did not need to convert to PMA status regardless of it having a foreign shareholder. It is understood that the revocation of this key (and other mostly procedural aspects) of BKPM Reg. No. 5/2013 was due to a recognition that elements of detail in the drafting of the regulation had been overlooked.

More recently PR No.10/2021 Article 9 states foreign ownership restrictions do not apply to investments made indirectly of through portfolio investment transactions conducted through the capital markets, essentially a restatement of the above-mentioned Elucidation in Article 2 of the Investment Law. Reference also needs to be made to: i) OJK Regulation No. 4/2024 on Reports on Ownership or Any Changes in Ownership of Shares of Public Companies and Activities of Pledge of Shares of Public Companies and the requirement or otherwise for a public company to register or list foreign shareholdings in the Articles of Association; as well as ii) BKPM Regulation No. 4/2021 on Guidelines and Procedures for Risk-Based Businesses Licensing Services and Investment Facilities in the context of public companies needing to convert to PMA Companies and related obligations of subsidiaries. In short, the current position still appears to be that shares held by foreign investors in a publicly listed company can be treated as portfolio investments.

Transactions involving acquisitions of publicly listed target companies by foreign (and domestic) investors occur but are less common relative to those involving privately-owned and operated target companies. Investors should seek legal advice from a capital markets lawyer before proceeding on publicly listed deals.

Local joint venture partner

Notwithstanding all the detail in the OMNIBUS Law and Positive list, on a more general or commercial basis foreign investment will usually require a joint venture (“JV”) arrangement between the foreign investor and at least one local partner. The selection of a reliable and understanding local Indonesian shareholder and business partner is essential. Unsuccessful foreign investment ventures can be associated with a background of tense relationships between local and overseas foreign shareholders. Once an investment is made, it can be a difficult, costly and painful exercise to extract or divest.

BKPM and industry regulators or government ministries may maintain lists of potential local partners in certain fields from time to time, while investment banks and accounting firms can often provide information of a similar nature. In addition, accounting and investigation services firms can undertake independent, confidential corporate intelligence checks into the background and integrity of prominent or low-profile local corporates, shareholders and individuals.



Minimum investment and equity participation

Divestment rules

The old Foreign Investment Law No. 1/1967 through Reg. No. 20/1994 on Share Ownership in Companies Established for Foreign Investment Purposes which was issued as an implementing regulation expressly provided for where 100% foreign ownership is initially permitted, for the foreign shareholder to divest a minority share to an Indonesian shareholder within 15 years, and that 5% is the intended minimum divestment.

The Investment Law which revoked Law No. 1/1967 when issued in 2007 is silent on divestment obligations. However, the general view is that Reg. No. 20/1994 remains valid, and thus the statutory obligation to divest. However, based on BKPM Circular Letter No. 23/SE/11/2008, a PMA company established under the Investment Law is no longer required to divest whilst older companies established pre-2007 Investment Law, with BKPM approval letters containing a divestment obligation, are still required to divest.

In practice, BKPM appears not to be enforcing any divestment obligations for PMA Companies incorporated in the late 1990's operating in a business field where 100% foreign ownership is permitted and now reaching 15 years to divest.

Article 14 on "Obligation to Divest" of BKPM Regulation No. 4/2021 on Guidelines and Procedures for Risk-Based Businesses Licensing Services and Investment Facilities still deals with this principal of divestment by 100% foreign

owned qualifying PMA companies, but at the same time clearly "waters down" the obligation. So whilst this issue is still theoretically "hanging around", in practical terms it can probably be considered largely obsolete now, especially given the enactment of the OMNIBUS Law.

Note that separate specific foreign ownership divestment rules in the mining industry regulated by the MEMR exist and continue to constrain appetite for large scale capital intensive foreign investment, in what has evolved over time as a very domestic or nationalized industry.

Foreign investment: Other industries

As indicated earlier, foreign investment in certain industries is not administered by BKPM but fully or partially by relevant technical ministries or regulatory authorities. These industries include financial services (commercial banking, multifinance and other non-bank financial institutions ("NBFIs"), insurance, payments, securities brokerage and asset management), mining, oil & gas and power generation. While BKPM has some role in the approval of mining and forestry licenses, the principal approvals are granted by the MEMR and the Ministry of Forestry. Shipping, seaports and telecommunications are other industries where regulation of foreign investment and related approval applications are complicated by involvement and approvals needed through more than one ministry or government body.

Other industries where foreign investment regulation is to varying degrees under the control of technical ministries through separate laws and ministerial regulations or decrees include construction, plantations, healthcare and pharmaceuticals.

Investment statistics: FDI and domestic

FDI realization by country of origin in 2024

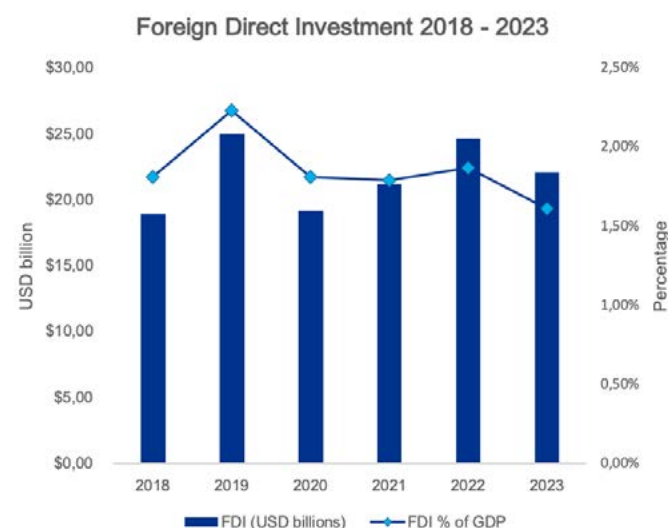
Investment Realization Ranking by Top 20 Country of Origin (January-December 2024)			
FDI			
No.	Country	Investment (USD million)	# of Projects
1	Singapore	20,075.2	32,285
2	Hong Kong	8,216.4	8,896
3	China	8,106.9	21,464
4	Malaysia	4,244.0	6,554
5	United States of America	3,696.8	4,831
6	Japan	3,463.9	12,823
7	South Korea	2,987.7	11,210
8	Netherlands	1,977.1	5,706
9	British Virgin Islands	772.9	1,596
10	United Kingdom	745.4	3,941
11	Australia	739.1	6,772
12	Canada	492.7	1,103
13	Thailand	389.7	1,068
14	Taiwan	344.8	1,619
15	Germany	343.3	3,235
16	France	328.1	6,437
17	Bermuda	293.0	32
18	Russia	262.8	9,671
19	Switzerland	244.9	1,731
20	West Samoa	218.6	316
Total		60,014.0	166,650

Source: BKPM Press Release 31 January 2025: Investment Realization Performance January-December 2024

The Japanese have been serial investors in Indonesia since the 1970s and generally have not been dissuaded by economic conditions, regulatory uncertainty or other country investment risks. With domestic organic and M&A growth opportunities in Japan having been shrinking for many years, Japanese corporates are always actively looking for outbound expansion opportunities. The Japanese know emerging markets well and are warmly received in Indonesia and other Southeast Asian emerging market countries. South Korea and China are also key investors into Indonesia. Positions in the "Top 10" FDI Country of Origin rankings can also be a function of domestic economic conditions and/or political landscapes in these countries as much as the investment and economic climates in Indonesia. Note the ranking of the United States of America is likely to be more a function of large-scale capital expansions relating to existing mining and other investments rather than fresh FDI inflows.

For many years foreign investors from numerous countries, as well as Indonesian domestic investors, have structured transactions through group holding companies or other entities in Singapore, Hong Kong and other jurisdictions for tax and other reasons, including geographical proximity to Indonesia. This distorts the top rankings of Singapore and Hong Kong in the country foreign investment stakes realizations. The British Virgin Islands also falls into a similar category. The Netherlands has a very favorable tax treaty, as does the United Kingdom.

Therefore FDI inflows reported by BKPM can be distorted to the extent reported capital flows are investments originating in other countries, but structural through others, or there is "round tripping" of Indonesian capital flows. It is also difficult within the scope of this publication to make any further analysis on country FDI or M&A trends amidst the interplays between global geopolitical developments and tensions, US trade policy and fluctuating tariff announcements, interest rate volatility and other economic uncertainties, all of which are all "moving" as of the date of this publication.



Source: MacroTrends: Indonesia Foreign Direct Investment

FDI inflows have still not recovered to pre-COVID-19 levels and this is a condition also seen in other Southeast Asian countries.

Historical FDI inflows into Indonesia have long been running at levels below what they should be due to the parcel of country investment risks that soften appetites of foreign investors from some countries, constraining economic growth rate levels to c.4-5% when otherwise levels China achieved at its peak of 6-7% would be possible. The impacts of the OMNIBUS Law gaining traction will help drive economic growth to be achieved.

FDI and DDI realization by sector in 2024

Investment Realization Ranking by Sector (January-December 2024)							
FDI				DDI			
No.	Sector	Investment (USD million)	# of Projects	No.	Sector	Investment (USD million)	# of Projects
1	Basic Metal, Metal Goods, Non-Machinery and Equipment Industry	13,556.9	2,695	1	Transportation, Warehousing and Telecommunications	120,082.6	36,026
2	Mining	5,188.4	2,353	2	Mining	106,858.7	14,568
3	Paper and Printing Industry	4,777.1	1,324	3	Housing, Industrial Estates, and Offices	76,517.4	20,017
4	Transportation, Warehousing and Telecommunications	4,654.2	6,810	4	Other Services	66,337.0	75,529
5	Chemical and Pharmaceutical Industry	4,126.1	3,380	5	Food Industry	65,941.3	15,474
6	Other Services	3,632.3	31,465	6	Trade and Repairs	65,299.5	206,932
7	Food Industry	3,462.5	5,260	7	Electricity, Gas and Water	46,311.8	10,170
8	Housing, Industrial Estates and Offices	3,089.5	17,818	8	Food Crops, Plantations and Livestock	45,501.6	9,248
9	Motor Vehicles and Other Transport Equipment Industry	2,503.1	2,101	9	Chemical and Pharmaceutical Industry	35,915.7	6,173
10	Electricity, Gas and Water	2,469.1	1,696	10	Basic Metal, Metal Goods, Non-Machinery and Equipment Industry	35,087.6	4,253
11	Machinery, Electronics, Medical Instruments, Electrical Equipment, Precision Instruments, Optics and Watches Industry	2,089.3	3,201	11	Forestry	33,463.7	2,945
12	Trade and Repairs	2,007.1	53,169	12	Construction	33,398.8	108,854
13	Food Crops, Plantations and Livestock	1,827.2	2,529	13	Hotels and Restaurants	24,137.7	30,441
14	Non-Metallic Mineral Industry	1,142.0	797	14	Paper and Printing Industry	9,002.8	3,267
15	Textile Industry	947.9	2,567	15	Rubber and Plastic Industry	8,692.6	2,877
16	Hotels and Restaurants	944.2	16,699	16	Motor Vehicles and Other Transport Equipment Industry	8,189.9	2,078
17	Rubber and Plastic Industry	926.9	1,956	17	Non-Metallic Mineral Industry	8,045.4	3,427
18	Leather and Footwear Industry	903.6	1,231	18	Textile Industry	7,217.6	3,357
19	Construction	767.4	4,147	19	Machinery, Electronics, Medical Instruments, Electrical Equipment, Precision Instruments, Optics and Watches Industry	4,933.7	5,388
20	Other Industries	552.3	2,801	20	Other Industries	4,909.9	6,636
21	Fisheries	218.0	753	21	Wood Industry	4,712.8	2,671
22	Wood Industry	143.6	1,213	22	Fisheries	1,815.7	7,764
23	Forestry	85.5	325	23	Leather and Footwear Industry	1,643.8	515
Total		60,014.0	166,650	Total		814,017.7	578,610

BKPM classifies investment into three categories: i) FDI; ii) Domestic Direct Investment (“DDI”); and iii) Non-direct investment which includes foreign and local domestic expenditure on housing and commercial buildings, transportation, machinery and heavy equipment. Both FDI and DDI will comprise the following investment types:

- Merger & Acquisition (“M&A”)
- Greenfield
- Existing capital expansions

In 2024 the Basic Metal, Metal Goods, Non-Machinery and Equipment Industry ranked highest in FDI, securing c.USD13.6 billion across 2,695 projects. This is followed by the Mining sector with c.USD5.2 billion, and the Paper and Printing Industry with c.USD4.8 billion. The Trade and Repairs sector recorded the highest number of FDI projects at 53,169, despite ranking 12th in investment value. On the lower end, not surprisingly sectors such as Fisheries, Wood Industry and Forestry received the lowest FDI.

The Transportation, Warehousing and Telecommunications sector led DDI in 2024 with c.IDR120.1 trillion and 36,026 projects, followed by Mining at c.IDR106.9 trillion, and Housing, Industrial Estates and Offices at c.IDR76.5 trillion. The Trade and Repairs sector recorded the highest number of DDI projects at 206,932 despite being sixth in total investment value. Fisheries, and Leather and Footwear Industries again received the lowest DDI, with each recording under IDR2 trillion in investment.

Investing in Indonesia: Other observations

Foreign investments and market-entry

Foreign investors have a number of options in terms of market-entry:

- share acquisition (100% buy-out, majority and minority) through M&A
- asset acquisition deals or transfers through M&A (which can often involve complex “carve-out” transactions)
- greenfield through establishment of a “NewCo JV” PMA company
- partnership arrangements under distribution agreements with an Indonesian distributor or importer.

Analysis and discussion of the benefits, risks, challenges, opportunities and pitfalls surrounding each of the above is outside the scope of this publication and legal, tax, financial and commercial advice is needed: refer to related discussion in Chapter 5 on Establishment.

Country Investment risks and practical insights

Political instability and economic uncertainty together with a relatively large parcel of other country risks that prevailed post-Asian economic crisis and in the years leading up to the 2008 global financial crisis (“GFC”) have largely disappeared, with the major remaining country investment risks perceived to be around the following, despite the issuance of the OMNIBUS Law:

- regulatory risk around foreign investment and other laws; underpinned by
- legal uncertainty from unclear, conflicting laws and regulations and delayed law changes. This also applies to the tax regime; and

- a judicial system subject to ongoing reform. Enforcing rights under contracts and agreements in the Indonesian courts is not a preferred route for foreign or Indonesian investors.

In addition, infrastructure development is still largely concentrated on Java Island and is also otherwise being rolled out on a geographically “uneven” basis with further and ongoing development progress being crucial to sustained long-term economic growth. This includes basic road infrastructure as the platform for other primary and secondary infrastructure where deficiencies continue to hamper development across the country. Logistics and other cost structures and the international competitiveness of Indonesian companies is also adversely impacted. Investment in education and healthcare social infrastructure is also important to maintain sustained levels of economic growth: refer to related discussion in Chapter 3 on Infrastructure.

A key country investment risk that emerged post-Global Financial Crisis (“GFC”) after 2010 is the human capital shortage which is restricting Indonesian companies from reaching their potential, and is also a potential key constraint to economic growth. This is a function of deficiencies in the formal and tertiary education sectors as well as vocational segment which would benefit from investment by foreign higher education strategic corporates. There are some specific FDI regulatory policy challenges here however for foreign investors.

Foreign currency risk has resurfaced as a potential country investment risk with a progressively depreciating IDR against the USD and other foreign currencies continuing through 2024 and 2025, adversely impacting the operating performance of foreign exchange risk exposed Indonesian companies.

Corruption is still endemic in some government circles, but not uncommonly viewed by many foreign investors as being manageable, particularly those which have had a presence in Indonesia or Asia for a long time. What are considered common practices forming part of day-to-day business in Indonesia in order to “get things done” might not pass corporate governance standards of some foreign investors or in developed western markets. Efforts by recent governments to tackle corruption have generally been commended.

What are still uncompetitive labor laws create challenges for employers, particularly those operating in highly labor-intensive industries. The OMNIBUS Law did not bring the anticipated amendments to what is still a very employee friendly Labor Law: refer to Chapter 8 on Labor and Employment.

Common complaints from foreign investors and demands for reform largely relate to day-to-day problems still present “in the field”; a condition acknowledged by BKPM:

- overlapping and conflicting or competing laws and regulations despite a lot of this condition being “cleaned up” under the OMNIBUS law
- complicated, overly compliance driven and documentary based tax regime, and some unclear tax policies and procedures

- diffident handling mechanisms for imported goods and prolonged difficulties around customs clearance
- uncertain outcomes on immigration procedures
- unpredictability of licensing and permitting rules and regulations, including “red tape”

There is also an onerous minimum capital requirement of IDR10 billion (c. USD650,000) to establish a PMA company

Concluding comments

Indonesia has an abundance of foreign capital lining up for investment, but sometimes a relative lack of easily identifiable targets and deals to invest in many sectors to enable this capital to be deployed. Indonesia is characterized by a lack of information in the public domain compared to western or more developed markets and other Southeast Asian countries and there are a combination of contributing factors here, including no private company search function and resulting lack of financial information on private, not publicly listed companies.

As a function of this and some other reasons, deal origination, execution and completion can present challenges right across the transaction cycle for foreign and domestic investors alike. Sustained investment interest and transaction activity are accompanied by perceived high deal execution risks relative to some other Southeast Asian countries. A not uncommon condition complicating deal origination and closure is transaction “pricing mismatch”.

Despite all the challenges, for foreign investors that “get it right” by finding the right local Indonesian partner, and the right “best fit” target company at the right acquisition purchase price consideration, a not uncommon story is that a foreign multinational’s Indonesian investment can be its most profitable and “favorite” in Southeast Asia.

Many foreign strategic corporates and international trading houses from diverse countries have prioritized Indonesia as one of their preferred FDI destinations in Southeast Asia. A number of governments have also openly signaled that Indonesia is their country’s preferred investment destination. Whilst there is a number of local private equity (“PE”) firms, for reasons above Indonesia is still yet to achieve status as a global or regional PE firm destination of choice, but has all the attributes to become one.

Previous “willingness to sell” barriers have been alleviating now for some time. A “prodigal son” or daughter returning from overseas studies and/or business experience is usually more approachable and commercial than his or her more reclusive parent, also bringing home a recognition that partnering with the right foreign investor can deliver scale, expertise, a new customer platform or other value to a business operating in a competitive Indonesian domestic environment to preserve is longevity. Also business strategy planning assistance is recognized as being needed in company’s that historically have not needed to worry about this until the awareness of shrinking sales and market share surfaces. Many family owned and operated private companies or groups are now being managed by a third generation son and/or daughter.

To conclude, there are risks and challenges in investing and doing business in this emerging, high growth market, and Indonesia continues to be a difficult country in which to do business, relative to western or more developed Asian markets. A successfully planned and executed investment however can be very rewarding. Foreign investors, of course, take a country’s investment risk profile into their overall investment models and decision-making policies and processes. Indonesia is no different. To successfully invest in Indonesia and reap the benefits, including large market share in absolute value terms from a large, rapidly expanding population and all the upside of a quite remarkable economic growth story, having a measured degree of risk appetite is fundamental.

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05

Establishment

The Company Law

Law No. 1/1995 regarding Limited Liability Company issued in 1995 stipulated the legal framework for companies. Previously, business was regulated by the provisions of the Indonesian Commercial Code and Indonesian Civil Code which were drafted based on old Dutch Colonial Law. In August 2007, Law No. 1/1995 was amended by Law No.40/2007 concerning Limited Liability Company (“the Company Law”).

The Company Law was more recently amended by Law No. 6/2023 regarding the Stipulation of Government Regulation in Lieu of Law No. 2/2022 on Job Creation into Law (“Law No. 6/2023”) and in this regard refer to related discussion on “the OMNIBUS Law” in Chapter 4 on Investment.

Legal entities for doing business

There are a number of legal forms of entities that can engage in business in Indonesia:

- sole proprietor: proprietor has unlimited liability
- general partnership (FA or *Firma*): partners have joint and several unlimited liability
- limited partnership (CV): silent partners are liable to the extent of their capital contribution, while managing partners have unlimited liability
- state-owned corporation (SOE or BUMN): company owned by the government and reliant upon the State to fund any deficits
- branch of a foreign corporation or Representative Office: foreign companies cannot, in most cases, establish operations in Indonesia through a locally-registered Representative Office or branch, with commercial banking, upstream oil & gas and construction being the only exceptions
- limited Liability Companies (PT or “*Perusahaan Terbatas*”): shareholders have limited liability. Law No. 6/2023 or the OMNIBUS Law slightly clarifies corresponding provisions in the Company Law, stating that a PT is a legal entity that constitutes a partnership of capital established based on an agreement and conducts business activities with a capital base consisting of shares, or an individual entity that meets the criteria for micro and small enterprises.

An older Dutch form of limited liability company known as an *Naamloze Vennootschap* or “NV” no longer exists with all having been converted to PTs.

In terms of investing in Indonesia, the most common and relevant legal entity form is a PT. As indicated in Chapter 4, a PT company formed with a foreign shareholder in accordance with the requirements of the Investment Law and Investment Coordinating Board (“BKPM”) rules and regulations is referred to as a Foreign Investment Company or a PMA (“PMA Company”). PTs with domestic investment status are known as Domestic Investment Companies or a “PMDN”. A “PT *Biasa*” is a term given to a local Indonesian private company administered by the Ministry of Trade (“MoT”) which is unlikely to be directly relevant to foreign investment.

For foreign investors, a “PMA Company” is the only form of Direct Investment permitted under the Investment Law. However, foreigners may have a presence other than through a PMA Company, and this is discussed later in this chapter.



Deed of establishment, authorized and paid-up capital

A Deed of Establishment is required for every company and needs the approval of the Ministry of Law & Human Rights ("MoLHR") which will ensure that the terms do not contradict the Company Law, or other laws, regulations and government policies. The MoLHR has issued standard forms of establishment deeds to simplify approval requirements.

The Deed of Establishment can be drafted by a lawyer or a notary public who will attend to the requisite approvals and registrations.

The provisions relating to a PT are contained in its Articles of Association ("AoA") which form an integral part of the Deed of Establishment along with other foundation documentation or details. A company's AoA typically address, among other things:

- rights and duties of shareholders
- rights and duties of commissioners and directors
- name of the company, its purpose, duration, domicile
- authorized capital and the division into shares
- number of shares taken by founders
- dividends

There are requirements under the Company Law that at least 25% of the authorized capital must be subscribed at the time of establishment, and all issued shares must be fully paid-up before business licenses are obtained. The Company Law also stipulates minimum authorized share capital to be IDR50 million, of which at least 25% must be issued and fully paid-up.

However with the issuance of OMNIBUS Law the requirement of minimum authorized share capital of IDR50 million has been removed for PMDN companies (along with a minimum two shareholder exemption: see later in this chapter). The OMNIBUS Law stipulates that the amount of authorized capital shall be based on agreement of the company's founders.

Foreign investment: PMA Company

However for a PMA Company the corresponding minimum capital requirements are different than for PMDN companies and more onerous. As indicated in Chapter 4, PR No. 10/2021 or the OMNIBUS Law introduced new provisions which provide for foreign investors only being allowed to engage in large scale investment activities that exceed investment values of IDR10 billion with accompanying minimum authorized and paid-up capital requirements of IDR10 billion.

In this regard, based on BKPM Regulation No. 1/2020 on Guidelines on the Provision of Integrated Electronic Business Licensing Services ("BKPM Reg. No. 1/2020") which was issued in April 2020, a PMA Company is required to meet the following capital and investment-value requirements:

- the total investment value should exceed IDR10 billion (excluding land and buildings) per Indonesian Standard Industrial Classification ("KBLI" or "KBLI Code") business line or field per project location
- the amount of issued capital must be equivalent to the relevant paid-up capital and should amount to at least IDR2.5 billion; and
- share ownership percentages should be calculated based on the nominal value of shares.

BKPM Reg. No.1/2020 was revoked by BKPM Regulation No. 4/2021 on Guidelines and Procedures for Risk-Based Business Licensing Services and Investment Facilities ("BKPM Reg. No. 4/2021") which restated that a PMA Company is required to adhere to applicable investment requirements with a minimum investment value of IDR10 billion and by per five-digit "KBLI Code" and per project location (excluding the appraised value of land and buildings). As part of the amendment, the minimum paid-up capital amount increased to IDR10 billion from IDR2.5 billion.

Compliance with these investment requirements is assessed by BKPM during the business licensing application process. The investment requirements apply only to the KBLIs registered in the baseline business license or Business Identification Number ("NIB"), and not to any other KBLIs that may be included in a PMA Company's AoA but are not registered in the NIB. The KBLI system begins with two-digit codes that are further subdivided into three-to five-digit codes. The five-digit KBLI Codes are used to determine the minimum investment requirements.

BKPM provides certain exemptions to the investment requirements under BKPM Reg. No.4/2021 which are in the form of relaxation around application of the above KBLI rules, but limited to the following industry sectors:

- wholesale trading
- food and beverage services
- construction services
- industrial business
- property development and management

As indicated in Chapter 4, the introduction through the OMNIBUS Law for a PMA Company establishment to be made with a minimum capital requirement of IDR10 billion (or c. USD650,000) is being seen as a significant deterrent to foreign investment, particularly for smaller scale businesses and investments which carry too much up-front capital investment risk.



Establishment and application procedures for incorporation of a PMA

Introduction

Once the nature of the project and size of investment have been established, corporate registration must be made with BKPM.

Historically the registration needed to be filed with BKPM, the MoLHR, the Indonesian Tax Office ("ITO") and relevant ministries or government institutions that regulate specific industries, with overall administration under the Office of the Coordinating Ministry for Economic Affairs. This prolonged the time involved for PMA Company corporate establishment, typically between 3 to 4 months. Timelines could be further protracted, and still can be, where industry specific technical ministerial licenses are needed to be issued.

However in 2019 business and investment application procedures were simplified with BKPM still as the main contact for potential investors but under an automated system known as the Online Single Submission ("OSS System") to manage the entire business application tracking and approval process.

The OSS System was established by Reg. No. 24/2018 on Electronically Integrated Business Licensing Services ("Reg. No. 24/2018") which came into effect on 21 June 2018. Responsibility for the operation of the OSS System was officially transferred to BKPM effective 2 January 2019.

In 2021 the OSS System was upgraded to an Online Single Submission Risk-based approach ("OSS RBA System") which is addressed overleaf.

Licenses and permits

The OSS System and now OSS RBA System is integrated with various platforms hosted in relevant ministries or government institutions. The main licenses and permits which have been consolidated within the OSS System include:

1. NIB which is the first license to be obtained for a new company before securing business, commercial and operational licenses from relevant ministries or government institutions that regulate specific industries. The NIB also functions as:
 - Company Registration Certificate ("TDP")
 - Import Identification Number ("API")
 - Customs Access Rights
 - Initial report in relation to mandatory employment reporting; and
 - Indonesia National Standards ("SNI")
 - Proof of participation in the social security schemes for health ("BPJS Kesehatan") and manpower ("BPJS Ketenagakerjaan") programs
2. Business and commercial/operational licenses for specific regulated industries. There are four types of business and commercial/operational licenses:
 - a. License without commitment fulfilment (Type 1): where the business license becomes effective immediately upon issuance via the OSS System
 - b. License with technical requirements (Type 2)
 - c. License with fee requirements (Type 3)
 - d. License with technical and fee requirements (Type 4)

Other than the Type 1 license, the business license issued via the OSS System will become effective upon the fulfillment of relevant commitments and be validated by relevant ministries or government institutions that regulate specific industries, where relevant.

Process and procedures

As referred to above, before the establishment of a company, shareholders must identify the intended business activities and corresponding KBLI Code(s). Usually one 5 digit KBLI Code corresponds to one business line, and if a PMA Company has more than one business line, it must apply for more than one KBLI Code. A notary should then cross-check the KBLI Code(s) against the Positive List (previously Negative List) attaching to the OMNIBUS Law (refer to Chapter 4) to identify whether it is subject to restrictions or a limitation on Foreign Direct Investment ("FDI"). After identifying the relevant KBLI Code, an investor can proceed to the establishment process. The establishment of a company in Indonesia until it is ready for commercial operations generally involves 2 stages:

a. Establishment:

At corporate establishment stage, several steps will be taken:

1. Checking the availability of the proposed legal entity name for the company
2. Signing a Deed of Establishment which contains the AoA
3. Signing of Statement Letters related to the establishment
4. Filing for MoLHR Approval on the Deed of Establishment. At this stage, the shareholders, BOD and BOC must prepare and submit all of the relevant documents to the Notary
5. Obtaining MoLHR approval to establish the company as a legal entity. A PMA Company obtains its legal status as a limited liability company upon issuance of MoLHR approval

b. Post-establishment:

The Post-establishment stage centers around obtaining other licensing for the PMA Company to conduct its business activities. The following are the general steps to be taken:

1. Obtain a Taxpayer Identity Number ("NPWP") from the ITO. The registration of NPWP can be done immediately by the notary after the issuance of MoLHR approval
2. Obtain right of access (password) from the OSS RBA System
3. Obtain Business Identification Number ("NIB") from OSS RBA System
4. Obtaining other required business and commercial operational licenses for the PMA Company, as relevant, via the OSS RBA System
5. Obtain ancillary licenses from the relevant government institutions such as Ministry of Manpower and other issuing authorities for ancillary and supporting licenses.

As indicated, the above excludes obtaining technical ministry industry licenses direct from relevant ministries which is a separate exercise outside the process administered by BKPM.

The OMNIBUS Law eliminates the need for a company to obtain a Location Permit. A company will only need to ensure that a business location conforms to a Detailed Spatial Plan ("RDTR"). If the location conforms to the RDTR, a company will only need to input the business location coordinates into the OSS RBA System. The OMNIBUS Law also amends the procedures for building construction approvals, environmental approvals and the need for Function Feasibility Certificates. Requirements for Nuisance Permits have been discontinued.

Whilst the introduction of the OSS and then OSS RBA Systems simplified and automated processing with accompanying speed and streamlining, lawyers will also refer to the benefits of physical meetings with BKPM under the old system to discuss business field KBLI classifications and practical interpretations of BKPM regulations and rules. Most dialogue exchanges are now done online or through outsourced telephone calls with outcomes sometimes unclear.

Risk-based business licensing

The OMNIBUS Law introduced a new business licensing regime, known as the risk-based approach, with the objective to further simplify Indonesia's business licensing requirements. Under the risk-based approach, the number of business licenses and permits required are based on assessed business risk levels determined by a scale of "hazards" that a business has the potential to create and the risks posed by the business activities.

As indicated, the OSS RBA System is a more advanced version of the original OSS System and was introduced in February 2021 under Reg. No. 5/2021 on the Implementation of Risk-Based Business Licensing. Unlike the previous OSS System under Reg. No. 24/2018 which applied the same licensing processes to all businesses, the OSS RBA System classifies businesses based on risk levels and issues licenses accordingly, thus further automating compliance and streamlining the process. For example, low-risk business activities only require an NIB, while high-risk businesses require both an NIB and a business license issued by the relevant government ministry or institution, regional authority or government agency.

The risk level of a business under the OSS RBA System is determined by several factors:

- identifying the relevant business activity
- assessing the hazard level
- assessing the potential occurrence of hazards
- determining the risk level and business scale rating
- determining the type of business license

By taking the above including health, safety, environmental and resources aspects into account, Reg. No. 5/2021 or the OMNIBUS Law differentiates business risks into three risk categories: (1) Low Risk, (2) Medium Risk (Medium-Low and Medium-High Risk); and (3) High Risk:

1. Low Risk:

- Businesses are required to obtain a NIB to commence commercial operations and business activities
- NIB also functions to operate as other licensing documentation referenced earlier

2. Medium Risk:

a. Medium-Low Risk

- Prior to commencing business operations, companies are required to obtain (i) NIB; and (ii) a Standard Certificate

- The Standard Certificate is an independent statement of compliance with the standard requirements submitted through the OSS RBA System under Articles 13 (1) and (2) of Reg. No. 5/2021

b. Medium-High Risk

- Before commencing preparation-stage operations, companies are required to obtain: (i) NIB; and (ii) Unverified Certificate of Standards. Preparation-stage operations involve procurement of the property, recruitment of employees and fulfillment of other pre-operating requirements
- A company can begin commercial operations once the central or relevant regional government has issued a verified Certificate of Standards, based on compliance with the standards of business activity implementation under Articles 14 (1) and (2) of Reg. No. 5/2021

3. High Risk:

- Businesses are required to obtain: (i) NIB; (ii) Business License, and, if necessary, (iii) Standard Certificate
- The licenses are issued once a company has fulfilled certain conditions and verifications set out by the central or regional government, which may include an Environmental Impact Analysis ("AMDAL")

More recently Law No. 6/2023 or the OMNIBUS Law provides for further changes to reorganize and simplify licensing requirements and procedures. The law removes the risk-based licensing prerequisites for certain businesses as previously stipulated under Reg. No. 5/2021.

Shareholders, directors and employees

Historically both a PMA Company and PMDN companies must have had two shareholders upon establishment.

However as indicated, this requirement has been amended under the OMNIBUS Law which provides for new types of PMDN and other domestic PT companies to be exempted from the minimum two shareholder requirement: i) Regional-owned enterprises; ii) Village-owned enterprises; and moreover iii) companies that meet criteria of micro and small enterprises. As such, it is now allowable for an individual to form a single-shareholder legal entity in the form of a PT company if the business qualifies under the above criteria. Once the PT company no longer meets the qualifying criteria, it must be reclassified as an ordinary type of PMDN company under applicable regulations.

Companies may have one or more directors, one of whom must be the President Director. The Board of Directors ("BOD") oversees the day-to-day operations. The Directors are usually full-time employees of a company or a related party or group company. Under the Company Law, a company is also required to have a Board of Commissioners ("BOC") who are non-executives which oversee the activities of the BOD, including supervising corporate governance aspects and other policies. Under certain circumstances, they may perform some executive functions on a temporary basis if all the members of the BOD have been dismissed or there are no members of the BOD available for whatever reason.

Minimum requirements are one BOD and one BOC member, and these cannot be the same person. Both the director and commissioner can be foreign or Indonesian nationals.

Employment and labor matters are addressed in Chapter 8.

On-going accounting and reporting requirements

A public register of PT companies is maintained by the MoLHR, and companies are required to register relevant information in a data registration system under Article 29 of the Company Law as amended by the OMNIBUS Law. There are also annual corporate filing obligations.

It is relevant however that the corporate filings are relatively thin on information and that no private company search function exists in Indonesia.

For certain entities under Financial Services Authority ("OJK") supervision, there are additional regulatory reporting requirements and requirements to publish Annual Reports (that includes the audited financial statements) on a company's website.

The BOD is required to present a company's Annual Report after it has been examined by the BOC at a general meeting of shareholders ("GMS") within six months of a company's financial year-end. Generally, financial year-ends are the 31 December calendar year, however companies that are not under OJK supervision can have different financial year ends with relevant regulatory approvals.

The Company Law requires annual and extraordinary GMSs to be convened in accordance with the AoA. Unless stated to the contrary in the Deed of Establishment, shareholders will hold one vote for each share, and a simple majority is all that is needed for voting purposes. The Company Law prohibits the directors from voting on behalf of shareholders. Directors acting as proxies of any shareholders will have no voting rights.

Companies are required to keep accounting records and prepare annual financial statements in accordance with Indonesian Financial Accounting Standards ("IFAS") which are adopted from and generally align with International Financial Reporting Standards ("IFRS").

Tax regulations require the books to be maintained in Indonesian language and IDR currency. However, in certain cases companies may seek permission from the Ministry of Finance ("MoF") to maintain records in other languages and USD currency.

Financial statements, statutory filing and audit obligations

Companies exceeding certain financial parameter thresholds and foreign-owned companies are required to prepare annual statutory financial statements in accordance with IFAS.

The Company Law, as well as regulations issued by the Ministry of Trade ("MoT") set out requirements for the filing of annual financial statements.

Under the Company Law (Article 68), financial statements of a private company with assets and/or turnover exceeding IDR50 billion are required to be audited. In addition, MoT Regulation No.25/2020 regarding Submission of Annual Company Financial Reports ("MoT Reg. No. 25/2020") stipulates that a private company with assets of at least IDR25 billion is required to submit annual audited financial statements to the Ministry of Trade at the latest six (6) months after each financial year end. Under the Company Law, the appointment of external auditor needs to be ratified at an annual GMS.

MoT Reg. No. 25/2020 also requires every company which are:

- publicly listed entities
- companies involved in accumulating funds from the public (such as banks and insurance companies)
- companies issuing debt instruments
- companies with assets of IDR25 billion or more
- bank debtors whose financial statements are required by the bank to be audited
- foreign company domiciled and conducting business in Indonesia, including branch offices, auxiliary offices, subsidiaries as well as agents and representatives of those companies having the authority to enter into an agreement
- state-owned enterprises (SOEs)

to submit annual audited financial statements to the MoT within six months of an entity's financial year-end. Annual audited financial statements are to be filed online through an Integrated Licensing Information System ("SIPT") which has been integrated to the OSS RBA System. The Directorate General of Domestic Trade will issue an annual financial statement submission receipt within five days after submission. Previously a company had to physically submit annual financial statements to the Directorate of Business Development & Company Registration at the MoT.

MoT Reg. No. 25/2020 also acknowledges annual financial statement submissions required by other government institutions. Therefore if a company has submitted its annual financial statements to: (i) regulators, (ii) authorities regulating submission of financial reports, (iii) Minister of State-Owned Enterprises, and/or (iv) the MoF, the company will be deemed to have submitted its annual audited financial statements to the MoT.

Options open to foreigners other than incorporating a PMA company

Background

In Chapter 4 the opportunities for foreign investors to seek approvals for investment in sectors open to foreigners was discussed. Foreigners can also have a business presence in Indonesia through entities other than PMA Companies.

Representative office

Trade promotion can be encouraged through the establishment of a representative office. The head country representative may be a foreign expatriate or an Indonesian national. The representative office is not usually permitted to carry out any direct business activities, such as accepting orders, bidding for tenders, importing, exporting, signing contracts or distributing. The activities of a representative office are restricted to the issue and collection of information, and the provision of assistance to local agents and distributors as well as marketing and promotional activities.



Representative office applications are generally made to BKPM. Some foreign investors initially enter the Indonesian market through a representative office, and later as business opportunities grow, apply for establishment of a PMA Company in order to commence proper trading activities. Care must be taken in establishing a representative office due to the possibility or risk that group company transactions otherwise not taxable in Indonesia may become assessable due to the existence of a Permanent Establishment (or “PE”) for tax purposes.

An exception applies to representative offices of foreign companies engaged in construction services. Foreign companies have been allowed for some time to provide construction services in Indonesia under a Joint Operation (“JO”) arrangement with a local construction company.

Minister of Public Works and Housing Circular Letter No. 22/SE/M/2019 concerning Guidelines for the Licensing of Foreign Construction Services Business Entities now articulates general procedures and provisions for the application, extension or revocation of construction business licenses for foreign investment construction companies and a foreign construction company representative office. The Circular Letter stipulates that the issuance and extension of construction business licenses shall be made through the OSS RBA System. An effective construction business license lasts for three years if the foreign construction business has been established as a representative office in cooperation with an Indonesian construction company, or indefinitely if the foreign business has incorporated a legal entity in a Joint Venture (“JV”) with an Indonesian construction company, provided the JV undertakes at least one project every three years.

Branch

As indicated in Chapter 4, the upstream oil & gas sector and foreign commercial bank branches are exceptions granted for the need for foreign investors to do business in Indonesia without the need to establish a PMA Company. No foreign bank branch licenses have been issued since 2003.

Agent or distributor

A foreign company that wishes to sell its products in Indonesia will usually appoint one or more Indonesian agents or distributors. The agent or distributor may apply for a work permit for the employment of an expatriate, who is familiar with the foreign company’s products.

Technical assistance or franchise agreement

A local Indonesian PMDN company may sign a contract with a foreign party to supply technical assistance and management services or support. It would be normal for the local company to employ foreign experts, supplied in accordance with the agreements, and for fees to be charged based on an agreed mechanism or structure.

Government contracts

Where technology or expertise is not available domestically, the government can enter into contracts with foreign companies. A company would normally enter into a contract in conjunction with local contractors or may act as a subcontractor to a local contractor. The contract permits the company to establish a presence in Indonesia for the purpose of undertaking the project.

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06

Foreign exchange



Introduction

The IDR is freely convertible into foreign currency and Indonesia has no restrictions on foreign exchange and the repatriation of foreign currency denominated funds. Though Indonesia does not restrict the transfer of foreign currency to or from foreign countries, incoming investment capital inflows require reporting and approval. All foreign exchange transactions between an onshore entity and an offshore counterparty must be reported to the Central Bank, Bank Indonesia ("BI"). Many commercial banks are licensed to carry out foreign exchange transactions.

Note that BI has recently issued new regulations to consolidate many previously scattered foreign exchange market rules as part of efforts to streamline foreign exchange markets and support the economy. Regulations, rules and policy around foreign exchange transactions have been evolving and professional advice in this specialized area is recommended. Current positions may differ from what is presented in this chapter. For these and other reasons, regulation of digital currencies is excluded from the scope of this chapter.

The Currency Law

The Indonesian Parliament passed Law No.7/2011 concerning Currency ("the Currency Law") in June 2011 requiring mandatory use of the IDR for all domestic transactions conducted in Indonesia. In the absence of an implementing regulation scheduled to have been issued in June 2012, most investors, banks and business owners had been relying on a MoF Guidance Note that limited the operation of the law to cash transactions.

On 31 March 2015 BI Regulation No. 17/3/PBI/2015 ("PBI 17/2015") was issued which together with Circular Letter 17/11/DKSP ("Circular Letter 17") expressly provide for resident and non-resident parties to transact in IDR on a broad range of cash and non-cash domestic Indonesian transactions and clarifies uncertainty in the Currency Law on international financing and other commercial transaction exemptions.

Key requirements include:

- application to non-cash (effective 1 July 2015) as well as cash transactions (at odds with the Guidance Note)
- pricing to be stated or "quoted" in IDR in addition to actual payment transactions made.

Exemptions include:

- international trade transactions involving export and import of goods and trade transactions related to services conducted by way of cross border supplies (including goods, services and expert manpower) or "export services"
- certain transactions related to state budget, income and grants from/to foreign countries

- foreign currency savings in banks
- international financing and trade transactions
- acceptance or provision of grants from or to overseas
- transactions in foreign exchange conducted pursuant to relevant laws and regulations
- strategic infrastructure projects
- certain ad-hoc exemptions, upon BI approval.

BI Reg. No. 17/2015 and Circular Letter 17 also prohibit the use of dual price denomination using IDR and another currency. This prohibition applies to:

- price labels, such as price labels on products
- fees, such as fees of real estate agents, for tourist services and consultancy services
- rent for apartments, houses, offices, buildings, land, warehouses and transportation
- tariffs for unloading containers in ports, air tickets, cargo
- price lists, such as restaurant menus
- contract and agreement pricing clauses
- offers, loan documents, pricing on invoices, delivery orders, purchase orders
- evidence of payment, such as receipts.

The Currency Law had initially resulted in concerns of adverse consequence of conducting business. It has been clear now for some time how the law generally operates in practice, with domestic transactions needing to be conducted in IDR, with transactions qualifying as export services or transactions able to be conducted in USD or other foreign currencies.

Foreign exchange controls

Indonesia maintains an open capital account, but with some transaction limitations. Only authorized banks may carry out foreign trade-related exchange operations. BI requires the submission of evidence of underlying transactions to support the purchase of a foreign currency against the IDR through banks exceeding USD100,000 per month per party. This represents a significant increase from the previous USD25,000 threshold to facilitate smoother foreign exchange market transactions and introduced effective July 2022 under BI Regulation No. 24/7/PBI/2022 regarding Transactions in the Foreign Exchange Market. Certain prohibitions and restrictions exist in conducting foreign exchange transactions with foreign counterparts are also regulated under the above 2022 BI Regulation (which replaced BI Regulation No. 18/19/PBI/2016).

Exporters in Indonesia must repatriate their export earnings from offshore banks to domestic banks within 90 days from the date of an Export Declaration Form, and some new restrictions on trade related payments have been introduced for companies operating in selected natural resource industry sectors (see overleaf) to manage volatility of capital flows. BI also requires borrowers to conduct foreign currency borrowings through domestic banks registered with BI. This applies to borrowings in cash, non-revolving loan agreements and debt securities.



New BI Regulation on foreign exchange traffic

In July 2023 Member of Board of Governors Regulation No. 5/2023 on the Monitoring of Foreign Exchange Traffic Activities by Banks and Customers was issued ("Regulation No. 5/2023"). This regulation amended an earlier corresponding regulation with the objective to improve efficiency of foreign exchange transaction activity mostly around export proceeds and import payments. In short:

- Banks are no longer required to submit Export Transaction Details Reports and other reporting and supporting documents to BI.
- There are reduced reporting obligations by BI to the MoF, customs office and other institutions.
- An exemption of reporting obligations by banks and customers is introduced for small export transactions up to USD10,000.
- Some changes in reporting format and BI reporting and correspondence systems were made.
- Some other amendments were introduced on export related activities.



Repatriation of capital, profits and remittance of royalties and fees

Consistent with the above, the Investment Law grants the right to transfer abroad various types of funds by guaranteeing foreign investors the right to transfer (in original currency, at the exchange rate from the time of investment) all current after-tax profits, certain costs, depreciation of capital assets and (in the event of nationalization) compensation. In certain circumstances, convertibility is also guaranteed for capital repatriation.

Proceeds from an investment's sale are remitted at the exchange rate at the time of transfer unless a company's investment agreement specifies another rate. Reinvested profits receive the same treatment as initial capital.



New Government Regulation on foreign exchange export proceeds for natural resources companies

Government Regulation No. 36/2023 on the Foreign Exchange Export Proceeds from the Business, Management, and/or Processing of Natural Resources ("Reg. No. 36/2023") was introduced on 12 July 2023 replacing a previous 2019 Government Regulation and updates policies regarding the handling of foreign exchange export proceeds in relation to natural resources ("DHE SDA"). The primary aim was to retain these proceeds in Indonesia's financial systems to support economic growth, optimize natural resource use and manage capital flows.

Under Reg. No. 36/2023 at least 30% of the proceeds of exported goods in the following sectors: (i) mining, (ii) plantation, (iii) forestry, and (iv) fishery; must be retained in Indonesia for at least three months. The proceeds must be placed in a special account at the Indonesian export financing agency ("LPEI") and/or a foreign exchange bank.

The obligation applies to an exporter where qualifying export values in Export Customs Notification documentation is at least USD250,000. The GoI incentivizes exporters by way of granting certain tax incentives.

The MoF, BI, and the financial services authority ("OJK") will supervise compliance. Exporters which fail to comply may face suspension of export services.

Then on 17 February 2025 a new Government Regulation No. 8/2025 on Foreign Exchange Export Proceeds from the Business, Management, and/or Processing of Natural Resources ("Reg. No. 8/2025") was introduced, which took effect on 1 March 2025. This regulation supersedes the above Reg. No. 36/2023 and mandates that exporters in specified natural resource sectors must retain 100% of foreign exchange export proceeds within the Indonesian financial system for a minimum of 12 months. The regulation aims to strengthen Indonesia's foreign exchange reserves and stabilize the national currency.





Key provisions of Reg. No. 8/2025 are:

- **Mandatory Retention of Export Proceeds:**
 - Exporters are required to deposit 100% of foreign exchange earnings from natural resource exports into the Indonesian financial system. These funds must be retained for a minimum of 12 months in a special foreign exchange account at a national bank
 - This requirement applies to the mining sector (excluding oil & gas), plantations, forestry and fisheries
- **Utilization of Retained Foreign Exchange:** to ensure business continuity, exporters are allowed to use foreign exchange proceeds held in the dedicated bank account for the following purposes:
 1. Conversion to IDR at the same bank to fund operational activities
 2. Payment of tax obligations, non-tax state revenues and other government obligations in foreign currency
 3. Dividend payments in foreign currency
 4. Procurement of goods and services (including raw materials, auxiliary materials or capital goods) in foreign currency, if such materials are not available domestically with basic qualifying criteria
 5. Repayment of loans for the procurement of capital goods in foreign currency
- **Administrative Sanctions for non-compliance by exporters** exist by way of which include the potential suspension of export services

Regulatory continuity exists for companies operating in the mining and oil & gas sectors which are still required to deposit foreign exchange from exports under Reg. No. 36/2023.

Hedging regulations on offshore loans and reporting

Offshore foreign currency loan hedging requirements were introduced in late 2014 under Regulation No. 16/20/PBI/2014 on the Implementation of Prudential Principles in Managing Offshore Borrowings by Non-bank Corporations ("Reg. No. 16/20"). The purpose of the regulation was to require Indonesian debtor companies that have offshore borrowings to meet three key criterias:

- i. hedging ratio
- ii. liquidity ratio, and
- iii. credit rating.

The regulation is understood to have been issued in response to significant increases in Indonesian corporate offshore, foreign currency denominated debt.

BI then issued Regulation No. 16/21/PB/2014 ("Reg. No. 16/21") which revoked Reg. No. 16/20, and also issued a Circular Letter No. 116/24/DKEM/2014. Reg. No. 16/21 provides clarification around three key requirements in Reg. No. 16/20, the underlying principles of which remain in place:

- **Minimum hedging ratio:** if foreign exchange obligations exceed foreign exchange assets, the hedge must cover 25% of the differential.
- **Minimum liquidity ratio** of 70% calculated based on foreign exchange assets and liabilities with maturities less than three months.
- **Minimum credit rating** of BB- (or equivalent). Credit ratings of related parties can be used under certain conditions.

Exemptions exist for government and institutional infrastructure loans, refinancing with thresholds, institutional bilateral or multilateral guaranteed loans and trade credits.

The rules came into force on 1 January 2015, and starting from 1 January 2017, a company's foreign currency hedging instruments must be acquired from a local Indonesian bank, presumably to allow time for local banks to prepare their financial instrument systems and product offerings internally.

BI Regulation No. 16/22/PBI/2014 on Foreign Activities Reporting and the Application of the Prudential Principle in Managing Offshore Loans for Non-bank Companies Reporting ("Reg No. 16/22") has two reporting requirements:

- foreign exchange activities report
- the prudential principle report.

Non-compliance can attract administrative sanctions including a BI warning letter.

Foreign currency assets and liabilities are clearly defined by regulation.

There is a minimum threshold policy which provides for a net foreign currency liabilities position (calculated after deducting foreign currency assets) of less than USD100,000 not needing to be hedged.

Exception from hedging requirements

Exceptions from hedging (but not liquidity) requirements exist for non-bank companies which have financial reporting in USD and fulfill the below requirements:

- have export revenues exceeding 50% of total revenues in the preceding calendar year
- have permission from the MoF to have USD financial statements reporting.

Other foreign exchange-denominated liabilities

In March 2019 BI issued Regulation No. 21/1/PBI/2019 on Offshore Debts and Other Bank Obligations in Foreign Currencies ("Reg. 21/2019"). Reg. 21/2019 includes foreign exchange-denominated other bank liabilities and adds more detail into what comprises offshore debt.

Offshore debt includes loan agreement-based debts, debts securities (including letters of credit, bonds, commercial papers), demand, time and savings deposits and call money, as well as other forms of debt.

Foreign exchange-denominated other bank liabilities include domestic foreign exchange-denominated bonds and risk participation arrangements. Risk participation agreements must:

- be conducted between a bank as grantor, and a non-resident as participant
- be accompanied by a flow of funds when the arrangement is funded by the non-resident
- not involve an assignment of claims from the bank to the non-resident (which would otherwise be treated as offshore debt).

Reg 21/2019 emphasizes that prudential norms must be adhered to in respect of offshore bank debts and foreign exchange-denominated other liabilities. Applicable prudential norms differ depending on whether the debt or liability is short- or long-term, which are defined by regulation with corresponding BI approval and reporting requirements.

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An aerial photograph of a tropical island, likely in the Maldives, showing a dense forest of palm trees, several small buildings with blue roofs, and a long pier extending into the turquoise water. The sky is filled with soft, colorful clouds from a sunset or sunrise. The image is partially covered by a blue and purple geometric overlay on the left side.

07

Domestic and foreign trade

Trading in Indonesia

The trade sector includes import, export and distribution in the domestic market for imported and locally produced goods. In The trade sector includes import, export and distribution in the domestic market of imported and locally manufactured or produced goods. In general, PMA companies engaged in manufacturing are permitted to:

- import or purchase on the domestic market: capital equipment, spare parts and raw materials for internal consumption in production
- export own products and processed goods of other PMA and domestic PMDN companies
- sell direct or distribute own products to other companies in Indonesia
- import complementary goods from affiliates outside Indonesia, and sell these into the domestic market (production companies only)
- sell own products directly to large-scale retailers.

Overseas based foreign companies which export into Indonesia will need to establish a relationship with local import agents and trading company distributors. Relationships can be facilitated by seconding foreign experts to assist the local trading company in business, technical and management matters. Another alternative is to establish a representative office to conduct market research and promote the parent company's product range, but as indicated earlier, no core business activity can be carved out.

The government is progressively introducing and increasing local content rules and requirements across various industry sectors as part of a downstream value-added agenda in the domestic manufacturing industry. Companies which import goods and/or components are transitioning to meet challenges which require alternative local sourcing and other strategies to be implemented.

Imports: Customs licensing and registration

Importing into Indonesia

Importation of goods into Indonesia must be declared with the Indonesian Directorate General of Customs and Excise ("Customs Office") using an Import Declaration Form.

PMA and PMDN companies can only import if they obtain an import license. This may be a general importer identification number ("API-U") issued to importers which import goods for trading or transfer to other parties, or a producer importer identification number ("API-P") issued to importers which import goods for own internal consumption or use, such as raw and supporting materials and/or to support production in manufacturing activities. Goods imported using API-P are prohibited from being traded or transferred unless the capital goods were new when imported under an API-P and have been used for at least two years from the date of import customs notification.

An API is valid as long as the importer remains in business. The license is applicable for the entire Indonesian customs territory. An electronic data interchange ("EDI") enables a company to administer its customs affairs online.

The EDI enables the exchange of data among all key players engaged in the overall import and export processes: customs, relevant government ministries or offices involved in seaport and airport handling, banks, shipping lines and freight forwarders. Introduction of the EDI improved the collection of international trade data and facilitated discontinuance of the need for physical contact between business people and customs officers. The EDI also helps to minimize risks of under-invoicing of imported goods.



Import licensing revisions

As part of the implementation of the OSS system outlined in Chapter 6, the MoT issued Regulation No. 36/2023 regarding Import Policies and Arrangements as lastly amended by Regulation No. 8/2024 regarding The Third Amendment on MoT Regulation No. 36/2023, which revoked previous Regulations No. 20/2021 and No. 75/2018. Key changes include the use of business identification number ("NIB") as API-U or API-P. By obtaining NIB, importers are no longer required to obtain API from the MoT.

There are still relatively onerous layers of pre-requisite licensing as part of the overall import license registration. There are no significant direct licensing application costs.

Import goods clearance lanes

Registered importers are assigned Red, Yellow or Green lane importing status depending on the risk profile of the importer as determined by the Customs Office which is a function of the nature of the goods or commodities being imported and country of origin. [There is also a main-partner priority ("MITA") or Priority lane.]

The different processes and procedures involved for releasing imported goods are:

- Red lane involves a more onerous process of physical examination of imported goods attaching to a customs import declaration ("PIB") and verification of documentation before any goods are cleared
- Yellow lane process is without physical inspection of goods but involves verification of the PIB documentation before goods are released
- Green lane process is without physical inspection and PIB documentation is verified after goods are released

- Priority (MITA) lane goods are subject to no physical inspection or document surveillance and examination. Only companies with the cleanest track records qualify, including SOEs or government bodies operating business activities in the national interest, for example.

A qualifying Green lane company can be given an automatically computer generated, random Red lane determination on a single import transaction basis but revert back to Green for the next PIB import transaction.

In terms of costs, the difference between Red and Green lanes comes down to storage and fees at port. [Companies with Green lane status can have goods cleared in four hours. Red status can take five to seven days or more.]

Companies are subject to periodic customs audits administered by the Customs Office which typically resemble tax audits conducted by the ITO.

Fast-track customs clearance

BKPM has introduced a fast-track custom clearance facility as part of the Indonesian government's overall efforts to improve the foreign investment climate.

The specific objective of the facility is to assist investors in the construction phase of the investment cycle in order to bring commissioning of plants and projects in on schedule. BKPM pre-approved imported machinery is to enjoy faster customs clearance of 30 minutes compared to three to five days; and qualifying companies:

- receive direct access to the Green lane
- can demonstrate that construction is in progress and compliance with other administrative requirements is adhered to.

[This fast-track clearance facility is different to the Priority (MITA) lane]



Certain goods subject to import restrictions

In order to protect local industry and/or to maintain economic and political stability, restrictions on imports are generally imposed at three levels:

- Prohibited - for example, motorized vehicle tires, electric light bulbs, matches, certain types of textiles, batteries, iron sheets, fully assembled automobiles and motorcycles, radio and television sets, explosives, narcotics and certain traditional Chinese medicines
- Restricted to SOEs - such as fuel for vehicles, ships and aircraft
- Restricted to sole agencies who must be approved by the GOI, including completely built up ("CBU") motor vehicles of a type not assembled in Indonesia.

The classification of goods subject to import restrictions periodically changes. Intending importers should consult with the MoT.

By way of example, some selected new importing regulations and provisions recently issued or introduced by the MoT and other government ministries include the following (note that some of these are currently subject to possible government review and revision):

- MoT Regulation No. 36/2023 on Import Policies and Arrangements (as lastly amended by Regulation No. 8/2024) ("Regulation-8/2024") was introduced to regulate provisions for a range of imported goods, more notably: a) non-new lithium batteries; and b) non-hazardous and toxic waste such as raw materials. Allowance to import used lithium batteries reflects a government agenda to support development of the electric vehicle ("EV") industry sector. The usual various qualifying and other provisions exist around import approvals.
- An Implementing Regulation attaching to the above new import regulations, Ministry of Industry ("MoI") Regulation No.4/2024 on Procedures for Issuing Technical Considerations for imports of Traditional Medicines, Health Supplements, Cosmetics and Household Health Supplies ("Regulation 4/2024"). Import limitations are intended to support growth of the local domestic health and cosmetic goods industry.
- MoT Regulation No.7/2024 as an amendment to Regulation 3/2024 regarding Entry of Hand-carry on Passenger Goods, with entry now relaxed for both commercial and personal use. Qualifying conditions applying, including charging of import duties.
- A Ministry of Environment and Forestry introduced Regulation No.7/2024 on Procedures for the Issuance of Recommendations for Import Approval of Ozone-Depleting Substance and Hydrofluorocarbons. This regulation sets out the procedures for importing of ozone layer-depleting substances ("BPO") and hydrofluorocarbons ("HFC") with the objective to reduce global warming. Very clear rules are set out for importers of BPOs and HFCs which must obtain separate import approvals.

Indonesian Customs Tariff Book (BTKI)



[The Indonesian Customs Tariff Book ("Customs Book" or "BTKI") was implemented by the government in 1989 to integrate the country into the global trade system. The Customs Book contains Indonesia's classification of the wider global Harmonized System ("HS") Code for interpreting the classification of goods. The HS Code is a mechanism for classifying goods that is used uniformly throughout the world based on an HS International Convention on The Harmonized Commodity Description and Coding System ("HS Convention") and is used for tariff purposes, statistics, rules of origin, monitoring of import/export commodities and other purposes.

The Customs Book is updated every five years to accommodate changes in global trade patterns and economic conditions. In April 2022 MoF Regulation No. 26/PMK.010/2022 on the Implementation of the Goods Classification System and the Imposition of Import Duty Tariffs on Imported Goods ("BTKI 2022") superseded a previous regulation. BTKI 2022 now includes 11,552 tariff items]

BTKI 2022 outlines the import duty rates and applicable import taxes on imported goods which can be found in the Indonesia National Trade Repository website by inputting applicable HS Codes from the Customs Book and includes:

- records and structure of goods classification compiled based on an HS Code
- ASEAN Harmonized Tariff Nomenclature ("AHTN"). AHTN is a goods classification system that is applied uniformly in ASEAN countries based on the Protocol Governing the Implementation of AHTN and is prepared based on the interests of each ASEAN country.

In summary the Customs Book operates to streamline and facilitate international trade by simplifying the process of classifying goods. The Customs book helps businesses by making it easier to navigate customs procedures and ensuring the correct duties, taxes and tariffs are applied based on goods classification, which follows international standards like the HS and the AHTN. Notwithstanding, for certain industries this can be a complex exercise to navigate.

The duty, tax and tariff items and rates in the BTKI are determined by the MoF and are compiled based on inputs from various government ministries and agencies.

Recent updates to BTKI 2022 have been introduced in 2024 under an MoF regulation around provisions for import tariff for battery-based electric motor vehicles in line with the government's EV agenda.



Exports

Exporting from Indonesia

Any corporation or organization that possesses a principle (manufacturing) license or business (trading or services) license is permitted to export. PMA companies may be formed for the purpose of exporting Indonesian products and manufactured goods.

Goods in the following categories are subject to export restrictions:

- Prohibited: goods including some categories of [rubber, scrap metal and antiques] are prohibited from being exported due to considerations such as preserving nature, guaranteeing supply of raw materials for small industries or craftsmen and preserving goods with historic and cultural value.
- Allowed only for certain approved exporters: textiles, plywood and coffee.
- Allowed for approved exporters only: certain basic commodities can only be exported if domestic demand has been met. Examples are [flour, palm oil, sugar and petroleum.] Approval is also required for certain metals: [silver, gold, copper and aluminum.]

Taxes on exports

Commodities such as palm oil, rattan and wood are subject to export duty. The export duty is calculated based on the export reference price which is set by a decree of the MoT and valid for a certain period of time. Export duties are aimed at meeting objectives, such as guaranteeing fulfillment of domestic demand, protecting natural resources and maintaining stability of local market prices of certain commodities. Export duty is calculated based on the export duty tariff and a harmonized system classification. The MoF is authorized to determine which goods are exempted from export duty.

Customs procedures that apply to exports

Exported goods are subject to inspection in Indonesia only in the following circumstances:

- where application has been made for restitution or exemption from duties and taxes of imported components
- where suspicion exists that goods are subject to ban or restriction.

Export incentives

The government has stated a clear agenda of encouraging exports. A number of incentives exist, including:

- The foreign exchange proceeds from import of sales abroad may be retained or released through transaction with third parties by the exporter.
- VAT on exports is at the rate of zero percent, enabling exporters to claim refund of input VAT.

Import duties may be reimbursable, or not payable on imports, under various special schemes for export manufacturers.

Bonded Logistic Centers

Government Regulation ("GR") No. 85 of 2015 dated 25 November 2015 ("Regulation 85") and MoF Regulation No. 272/PMK.04/2015 concerning Bonded Logistic Center dated 31 December 2015 as amended with MoF Regulation No. 28/PMK.04/2018 dated 26 March 2018 were introduced as part of a second economic stimulus package and provided for the introduction of Bonded Logistic Centers as the seventh type of Bonded Storage Place, a qualifying site area used to store imported goods:

1. Bonded Warehouse
2. Bonded Zone
3. Bonded Exhibition Area
4. Duty Free shop
5. Bonded Auction place
6. Bonded Recycling Zone
7. Bonded Logistic Center

The Bonded Logistic Center concept expanded the functionality of a Bonded Warehouse through relaxation of goods storage time and opens entry to non-imported goods. Also Bonded Zone goods must be subject to manufacturing or other industrial activity of some description whereas Bonded Logistic Center goods do not.

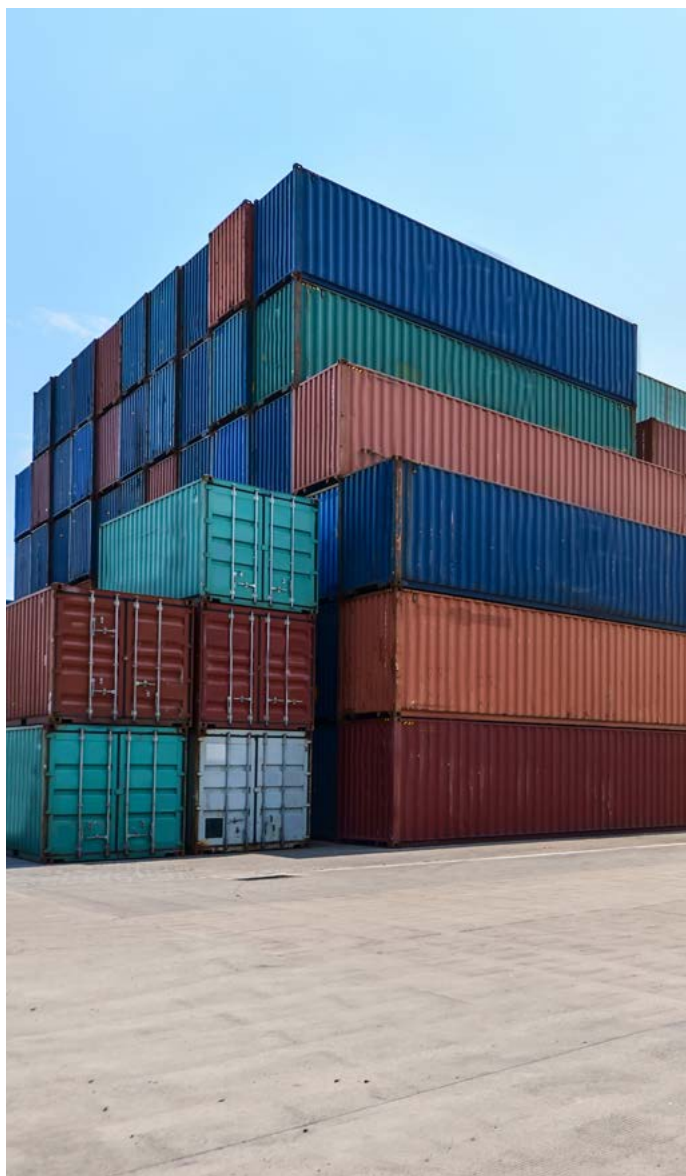
A key feature of a Bonded Logistic Center is the ability of a business to store imported overseas or other goods originating domestically in a separate area in Indonesia customs for later export or distribution into the domestic market. Historically, the bulk of goods imported by Indonesian companies were stored in Singapore or Malaysia.

A Bonded Logistic Center is designed to facilitate a reduction in logistics costs in Indonesia which are high relative to other neighboring Southeast Asian countries.

Imported or goods from other Bonded Logistic Centers, other Bonded Storage Places, Special Economic Zones ("SEZ"), free trade areas ("FTAs") or other economic zones as well as from other places in the Indonesian customs area are granted a combination of customs and tax relief. The facilities available depend on whether goods are designated for export or domestic markets, origin of the goods and whether intended to be consumed internally within the Bonded Logistic Center:

- postponement of import duty
- non-collection of VAT, sales tax on luxury goods ("STLG") and Article 22 Income Tax on imports
- excise duty exemption
- non-collection of VAT or VAT and STLG.





The MoF regulation sets out criteria to be met for areas to qualify as a Bonded Logistic Center and for issuance of operator licenses in order for an operator to become a Bonded Logistic Center entrepreneur.

Regulation 85 amended GR No. 32 of 2009 on Bonded Storage Places, and also introduced various other changes around definitions of Bonded Zones, expansion of places of entry to/from a Bonded Storage Place, location of duty-free shops in airport terminals and others.

In March 2016, the Indonesian President inaugurated 11 Bonded Logistic Centers, mostly in Java. As of October 2024 based on Indonesian Bonded Logistic Centers Association/*Perkumpulan Pusat Logistik Berikat Indonesia* ("PPLBI") data, there are 66 Bonded Logistic Centers operated by 36 companies across Java Island (54), Sumatra Island (5), East Kalimantan Province (6) and West Papua Province (1).

Eleventh Economic Stimulus Package: Shorter port dwell times for import and export of goods

Introduction of an Indonesian Single Risk Management ("ISRM") mechanism in assessing import and export permits on 29 March 2016 was designed to reduce historically excessive dwell times and resulting high logistics costs at the country's ports. As part of this, companies will be issued with a single identification ("ID") for import and export permit applications through a licensing portal referred to as Indonesian National Single Window ("INSW").

Integration of import and export data managed by and approvals needed from multiple different ministries, agencies and governmental institutions including Ministry of Transportation, ITO, Custom Office, Immigration and Quarantine Agency, Drug and Food Control Agency, is targeting to reduce average dwell time at seaports.

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08

Labor and employment

Indonesian labor laws, regulations and landscape

The main employment law in Indonesia is contained in Law No.13/2003 on Manpower ("the Labor Law"). There is also Government Regulation No. 36/2021 on Wages; Law No.2/2004 on Industrial Relations Dispute Settlement; Law No.21/2009 on Labor Unions; Law Number 40/2004 on National Social Security System; Law Number 24/2011 on Social Security Implementing Agency (superseding a 1992 law) as well as other subsequently issued employment laws, implementing regulations and ministerial or other decrees, rules or guidelines. These are all generally designed to safeguard interests of employees, balanced with the rights of employers.

The main regulatory authority is the Ministry of Manpower ("MoM") sometimes also referred to as "Manpower Affairs" and/or the Ministry of Employment.

As indicated in Chapters 4 and 5, the OMNIBUS Law was introduced in 2020 and ratified as law in 2022, with a number of government implementing regulations issued from February 2021. These implementing regulations included Reg. No. 35/2021 on Fixed Term Employment Agreement, Working Time and Rest Time and Termination of Employment ("Reg. No. 35/2021") which included various amendments to the Labor Law. Whilst the reference to "Job Creation" in the OMNIBUS Law was intended to reflect the importance of labor law reform and driving improved business operating conditions, generally employers had mixed views with the changes, with the main reforms being limited to: i) relaxation of outsourcing provisions which now allow all types of work to be outsourced. Under previous provisions relatively significant restrictions were in place. A new regulation articulating which business activities can be outsourced has not yet been issued; and ii) inclusion of prescribed statutory minimum wage increment calculation formulas.

As indicated in Chapter 4, from 2015-2018 the government introduced a number of economic policy or "Stimulus Packages" with the fourth and seventh stimulus packages related to employment and labor, including issuance of Reg. No. 78/2015 concerning Wages. These have also been overhauled or superseded by the OMNIBUS Law and/or other employment laws and regulations.

Employers generally consider the Labor Law places onerous obligations on employers, particularly in respect of ability to terminate and the level of severance and termination benefits payable. For companies operating in highly labor-intensive industries, this can make wage and benefit levels uncompetitive compared to other neighboring countries. A lack of training, cultural issues and difficulty in terminating non-performing or excess workers often means that staff

numbers can reach higher levels than are operationally commercial. Attempts by governments to make aspects of the Labor Law more friendly to employers has led to street demonstrations and is politically sensitive.

Note that in 2024 a Constitutional Court decision was issued in Decree No. 168/PUU-XXI/2023 ("Decree No. 168/2023") following a Judicial Review case brought by labor unions relating to 49 articles of the amended Labor Law of which 21 rulings resulted in further amendments. Changes primarily related to utilization of foreign workers, fixed term employment contracts, outsourcing, minimum wage components and wage structures as well as termination. In addition, the Court made reference to risks of uncertainty from overlapping provisions but moreover to issuance of a new Labor Law within two years. Whilst findings in Decree No. 168/2023 were not overly significant and are to varying degrees already fundamentally reflected in the existing amended Labor Law, it does signal further legislative labor law reform may be on the way.

Resource pool of skilled Indonesian workers

Overview

As of 2024 Indonesia's working age population aged 15-64 is reported at 193.07 million (2020: 203.97 million; 2019: 197.91 million; 2018: 194.78 million; 2017: 192.08 million). This is a large pool of workers notwithstanding a lower relative 2024 reported labor force of 152.11 million people, and a labor force participation rate of 70.63 percent, although these labor force statistics are up from 2020 at 138.22 million and 67.77 percent. Importantly, this data excludes the self-employed in the informal sector which involves a significant number of people which are self-employed, unpaid family workers and informal employees, with numbers higher in rural areas engaged in agriculture or low skilled services industry street vendors, small shop owners and transport operators. Estimates of the actual numbers are difficult to make and vary, but are likely to be upwards of 30 million. With the high birthrate and the drift away from traditional village life, the size of the economically active workforce has been growing year on year. The Indonesian workforce is heavily concentrated in Java and Bali, and workers continuously migrate from rural to urban areas in search of jobs.

Despite the large population, the country's resource pool is being "stretched thin" with corporate demand for skilled and experienced Indonesian professionals and technicians across various disciplines and industries outstripping supply. This is considered to be a function not only of sustained economic growth but deficiencies in the education system. Remedying these deficiencies is a long-term, challenging exercise.

A commonly communicated concern expressed by industry leaders and acknowledged by government is the preparedness of Indonesian university graduates to enter the professional and corporate segments of the labor market. Whilst there is a plentiful supply of graduates, many fail to meet employer expectations in terms of talent and future longer-term employability. Government commissioned reports and other private studies undertaken have identified improvements needed in practical day-to-day business skills (communication, problem solving, critical thinking and people management) and a lack of ability to work in teams.

Despite the large domestic labor force there are also challenges for companies and businesses operating in highly labor-intensive manufacturing and other industries, including: i) growing risks of escalating annual increases in and what could potentially become uncompetitive statutory minimum wage levels; ii) onerous labor laws and regulations by general international standards; and iii) employee level and overall market productivity. Notwithstanding Indonesia's current general wage cost competitiveness relative to other Southeast Asia and Asian countries, Indonesia has now by no means the lowest labor costs, and there are other considerations. Challenges exist for employers to execute involuntary terminations for commercial or performance-based reasons, and when achieved, severance compensation payments can run at over c. 10 percent of an employee's annual salary for each year of service. Foreign investors may include a worker productivity review in any country market-entry and location assessment strategy.

English language skills are also found to be deficient but are better than some other neighboring Asian countries.

English language proficiency

Based on a 2024 Education First English Proficiency Index ("EPI"), Indonesia's scored 80th on a worldwide ranking of 116 countries. In terms of Southeast Asian countries, Indonesia ranks 5th behind Singapore, Philippines, Malaysia and Vietnam; but scores higher than Thailand, Myanmar and Cambodia. This represents a decline from 2019 of 74th and previously 61st, notwithstanding increases in number of countries surveyed from 100 in 2019 to 116 in 2024.

The EPI is a global English language skills ranking index which analyses relationships between a country's English learning trends and proficiency and economic competitiveness. Media articles have reported the concerns of economists and education analysts who have sounded warnings on the ability of Indonesia's people to compete with those of some other ASEAN countries. As indicated, criticism has been leveled at a lack of change and development in the country's national education system and language curriculum. Remedial actions have been looked at, but no real visible reforms or progress is yet to be made. English language and education analysts have called for the retraining and upskilling of English teachers at junior high school level where the relative decline in students English language proficiency starts.



The formal and vocational education systems

There are direct links between labor markets, employment skilling and the education system in Indonesia. As indicated, there are deficiencies in the formal education system, and whilst a well established vocational education system exists this is probably being under deployed or utilized and is under invested. This accompanies corresponding complications on FDI in the formal education (and parts of the vocational) sector arising from the existence of Not-for-profit Foundation or “Yayasan” operating and corporate structures. Both foreign and domestic investors should seek legal advice on proposed investment activity in education in Indonesia, both formal and vocational sectors, where there are multiple laws and regulations.

Levels of wages and benefits

Introduction and history

Basic salary and wage levels can vary considerably across geographic regions and industries, including statutory minimum wages. Under the Labor Law, an employer is prohibited from paying below the minimum wage which covers basic salary and a fixed allowance, the salary component comprising at least 75 percent.

Working hours are seven or eight hours per day depending on whether five or six working days per week, with additional hours considered overtime which is calculated based on formula in the amended Labor Law. The OMNIBUS Law extends the overtime working hours from a maximum of three hours per day and 14 hours per week to maximum of four hours per day and 18 hours per week. The OMNIBUS Law also introduces the exemption of a working hours provision applicable to certain business sectors or works. The implementation of working hours in a company shall be regulated in employment agreements, company regulations and/or a collective labor agreement (“CLA”) where union membership exists. While there is an increase in overtime hours, an employee must agree to and approve of any overtime request made.

Regulation of the minimum wage was historically stipulated in Articles 88, 89 and 90 of the Labor Law.

Once a year each provincial government adjusted minimum wage levels based on a governor decree. A Remuneration Council, a non-structural tripartite organization which consists of government, entrepreneur associations and labor union or organization representatives made recommendations on minimum based on a “decent living needs survey”.

Indonesia’s statutory minimum wage: OMNIBUS Law

Overview

Articles 89 and 90 of the Labor Law have been superseded by the OMNIBUS Law and an amended Article 88C provides that governors must determine provincial minimum wages (“UMP”) and may also determine regency/city minimum wages (“UMK”) if district-level calculated UMK exceeds the provincial level and subject to assessment of regional economic growth and inflation, general economic and manpower conditions based on Indonesia Bureau of Statistics (BPS) data. Previously Art.88 provided for a broader principle-based foundation for wage rights and policies, including minimum wage provisions but without specific calculation formulae or mechanisms. Art.88C introduces a detailed formula-based approach that regulates how minimum wages are calculated, applied and enforced.

In practical terms, despite the changes to various provisions regulating minimum wage, these should not significantly impact employers. The governor of each province is still required to determine minimum wage as the case has been historically under the Labor Law, and employers are required to comply with minimum wage requirements. Note that micro and small business are now exempted from the provisions on minimum wages which are determined based on agreement between the employer and the employee with conditions referencing consumption and the poverty line at the provincial level.

Governors are required to determine provincial minimum wage (UMP) no later than 21 November each year, and may determine the regency/city minimum wage (UMK) generally no later than 30 November. The UMK is determined after the UMP, and the UMK should be greater than the UMP. The UMP and UMK both become applicable on 1 January.

Provincial and regency/city minimum wages are set to be adjusted every year.

In this regard and by way of example, the MoM issued Circular Letter No. B-M/383/H.1.01.00/XI/2021 on Submission of Economic and Employment Data in Determining Minimum Wages in 2022 as a mandate under Regulation No. 36/2021 on Wages (“Reg. No. 36/2021”). The Circular Letter summarizes data provided by the BPS on economic and labor conditions used in determining 2022 minimum wages. Further:

- MoM Regulation No. 18/2022 on Minimum Wages Stipulation for 2023 set minimum wages to increase up to 10% based on new formulae. Prior to this MoM regulation, minimum wage was regulated only under Reg. No.36/2021, as indicated above
- MoM Regulation No. 16/2024 on Determination of 2025 Minimum Wages introduced another new formula for minimum wage calculation which was set to increase by 6.5%

Note that Article 88F of the amended Labor Law allows

the central government to determine wage formulae in certain but undefined special circumstances. There is also allowance for general relief from paying the minimum wage in exceptional circumstances like national disasters.

Indonesian labor unions will likely monitor compliance with minimum wage requirements where employee union membership exists within a company.

The OMNIBUS Law and wage structures

The OMNIBUS Law introduced an obligation on employers to implement more detailed wage structures and policies. Under the Labor Law, an employer was required to arrange the structure and scale of employee wages by taking into account a company's "ability and productivity." Now under Art. 92(1) of the amended Labor Law a wage structure and scale also needs to consider "class, position, length of service, education and competence." It was argued that the previous provisions weakened the bargaining power and negotiating positions of employees. Based on Art. 79(1) of Reg. No.36/2021, employers that violate wage structure requirements are subject to escalating administrative sanctions ranging from written warnings and reprimands up to suspension of business activities.

Employers are required to develop, implement and apply the structure and scale of wages for employees with one or more years of service.

Indonesia historical minimum wage increases and regional comparisons in Asia

As indicated every year general minimum wage levels in Indonesia increase with actual historical average low and high levels ranging between around:

- IDR1.3 million to IDR3.4 in 2017; up to
- IDR2 million to IDR5.4 million in 2025

Jakarta's provincial UMP is the highest in Indonesia, increasing by 38% from IDR3.9 million in 2019 to IDR5.4 million in 2025.

Notwithstanding annual recurring increases in statutory minimum wages, Indonesia still has competitive average minimum wage rates relative to other countries in Southeast Asia and Asia, in line with Indonesia's low cost of living measurements.



The Indonesian Employer's Association ("APINDO") referred to a 2024 average Indonesian minimum wage of c. USD 329/month (equivalent) which compares to an "ASEAN-5" (Malaysia, Indonesia, Philippines, Thailand and Vietnam) average of USD302, the Philippines the same as Indonesia at USD329, Thailand at USD313 and Vietnam the lowest at USD209/month.

Indonesia's 2024 monthly minimum wage level of c. USD329 is higher than other neighboring labor-intensive manufacturing countries of Bangladesh (USD119) and India (USD65).

Statutory 13 month bonus or religious festivity allowance: "THR"

MoM Regulation No. 6/2016 on Religious Festivity Allowance for Employees in Companies replaced a previous 1994 Regulation. Reference also needs to be made to Reg. No. 36/2021.

This allowance which is commonly referred to as "THR" is a mandatory benefit for all employees provided to coincide with the religious holiday or festivity recognized by an employee. All employees are entitled to THR at minimum of one month salary.

Changes in the OMNIBUS Law to these regulations are not significant. Chinese New Year is formally recognized as a religious event in addition to existing holidays for Idul Fitri (Islam or Muslim); Christmas; Seclusion (Hindu) and Vesak or "Waisak" for Buddhists. Employers who fail to provide THR are subject to monetary fines and administrative sanctions which also include written warnings up to suspension of business activities.

In March 2024 the MoM issued Circular Letter No. M/2/HK. 04/111/2024 which essentially reinforced general worker THR policy and provided various specific guidelines.

Other labor and employment aspects

Other aspects of the Labor Law deal with workers social security (addressed later in this chapter), employee facilities, annual leave as well as various other paid leave including sickness, marriage, maternity and death benefits and these areas generally remain unchanged in the OMNIBUS Law and under the amended Labor Law, except that a "Long Leave" benefit has been introduced which may be given by certain companies to employees under agreement.

Note that the Labor Laws and regulations provide for employee compensation and benefits to be higher or better under corporate policy than what is regulated in the Labor Law, but cannot be worse or below.

It is relevant that Article 153 of the Labor Law on sick workers and sick leave prohibits an employer from terminating an employee for absence due to sick leave,

provided the employee has a doctor's certificate and the period of absence does not exceed a continuous period of 12 months. During the twelve-month period, the employer is obligated to pay salary and benefits to the employee under a sliding scale of 100 percent to 25 percent of full salary and benefits.

The Labor Law is structured around two main types of employment: indefinite (permanent) and definite period (contract and other) employment.

Permanent employees (indefinite period employment)

Permanent employment status is the more commonly used type of employment in most industries, but there has been gradually increasing use of contract employment.

Under Art. 156 of the Labor Law a company has an obligation to pay severance, gratuity and other compensation to permanent employees:

- in the general occurrence of employees resigning voluntarily or terminating working relations with the employer in the normal course, but only if company policy provides for this. Following a Ministerial Letter issued in 2005, employers are no longer legally obligated to provide this benefit on voluntary resignation, and few companies have formal policy providing for this
- to employees being involuntary terminated or retrenched when a company is demonstrably committed to either termination before the normal retirement age, or providing termination benefits as a result of an offer made in order to encourage voluntary redundancy

Termination and severance payments need to be the higher of that provided under the Labor Law, company regulations or a CLA. In general terms, minimum severance pay is based on one month's salary or wages for each year of service, up to a maximum of nine-months pay.

The involuntary termination of employees needs to be handled carefully. Most employment contracts or agreements provide for an initial three-month probation period, after which an employee may be terminated only on strong grounds and usually only after several written warning letters. Termination by notice or salary in lieu of notice or "Termination-at-Will" is not permitted in Indonesia, and historically terminations have always needed to involve negotiations in bipartite meetings, mediation or conciliation, and Labor Court approval as a last measure. An employee also has a right of appeal to the Industrial Relations Court. In practice, negotiations normally occur with the objective of an employee agreeing to termination terms and benefits in writing.

There is no change of any substance in the amended Labor Law under the OMNIBUS Law with Art. 151 regulating disputes to go through a settlement process involving tripartite negotiations and mediation and/or Labor Court proceedings under Law No.2/2024 on Industrial Relations Dispute Settlements.

Formulae prescribed to calculate amounts of termination and severance compensation payments generally remains the same under the OMNIBUS Law, except that it now excludes a "Housing, Medical and Healthcare Allowance" component previously determined at 15% of the total termination and severance compensation. The OMNIBUS Law has also reduced multipliers on termination and severance compensation benefits in relation to termination of employment in specific conditions: efficiency measures; mergers & acquisitions; change of ownership (see later in this chapter); consolidations and spin-offs plus other specific employee related events.

Contract employees and daily workers (definite period employment) and outsourcing

Introduction

There is more flexibility around ease of termination or non-renewal of working agreements for contract employees, daily workers, and outsourced personnel compared to permanent employees which can make employment of such employees, workers or personnel attractive to employers in certain industries in terms of managing employee profiles and labor cost structures.

Contract employees

A contract employee is employed under a working agreement for a specified period ("Work Contract"). The Labor Law provisions generally reflect the following:

- "Definite period employment agreements" or work contracts can only be made for certain jobs which according to kind and characteristics of activities will be completed in a specified period. These are jobs expected to be completed in a short-time frame, seasonal jobs or jobs related to new products or activities which are still in trial run or exploration stage, work that its type or its activities are non-permanent or temporary in nature
- Work contracts are usually reserved for non-core or supporting roles, and generally cannot be applied to regular jobs which need to be held by permanent employees, unless clearly project-based and thus temporary
- No probation is allowed for work contracts
- Period of time or completion of certain work for work

contracts shall be determined based on an employment contract. Work contracts for a specified period can be extendable and renewable for work which are estimated to be completed not over a long time period

If the MoM identifies any non-compliance with the Labor Law on the appropriate employment of contract employees, it could result in the employees being classified as permanent and thus be entitled to all the rights and benefits afforded to permanent employees.

There are no significant changes to regulation of contract employees under the amended Labor Law. These are limited to:

- Removal of a stipulated maximum term of fixed employment agreements, but reference is still made to a preclusion of work that is permanent in nature. Note that Decree No. 168/2023 refers generally to a maximum period of 5 years, with conditions
- Introduced new provisions for compensation payments to be given to contract or "fixed-term" employees upon the completion of fixed-term contracts based on completed periods of service

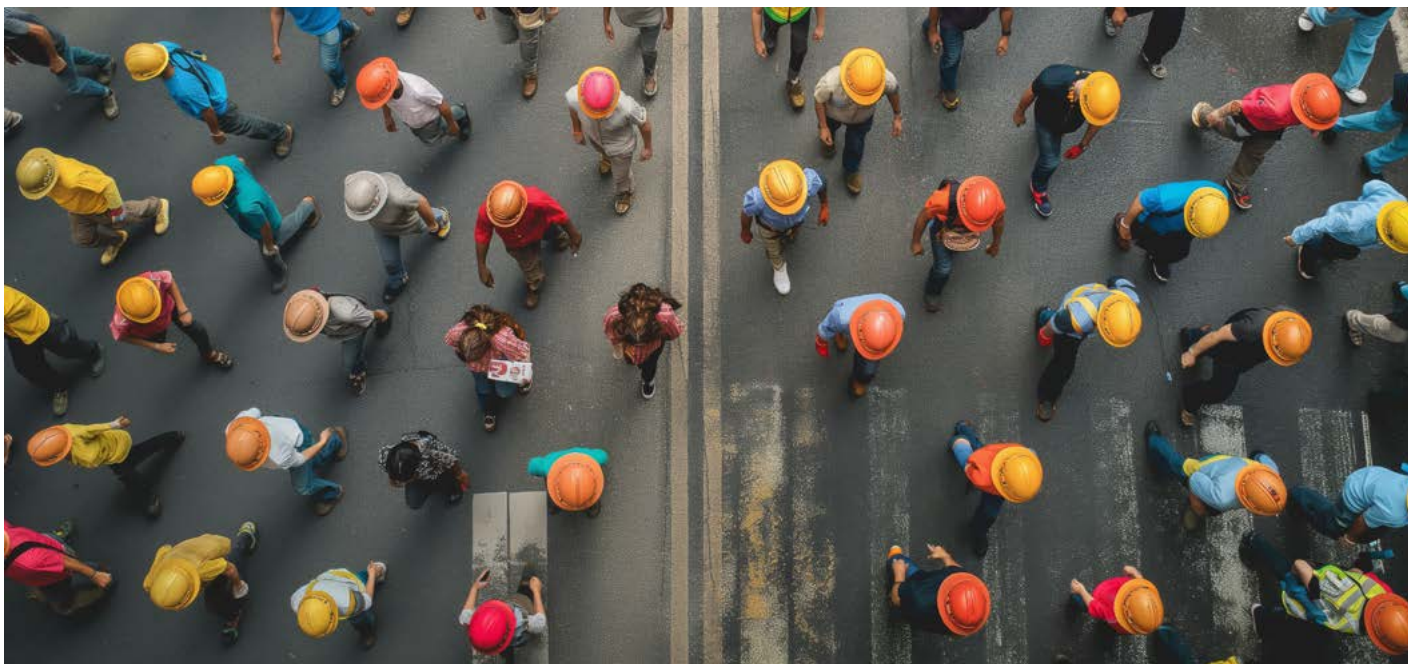
Further provisions on fixed-term employment agreements and compensation pay is to be set but in a government regulation yet to be issued.

Daily workers

Under MoM Decree No. Kep.100/MEN/VI/2004 regarding the Implementing Regulation on Definite Period Employment Agreement, the employment of a daily worker is appropriate where the volume of work and the period within which a certain job is to be performed is irregular in nature and changes from time to time. Wages are paid based on daily presence at work, which must be completed in a relatively short period of time (three months) with a maximum of 20 working days per month. A daily worker is not bound by general working hours applicable in a company and receives his or her salary based on daily presence at a work site. If a daily worker is employed for 21 days per month for three consecutive months then the worker must be converted to permanent or contract employment.

The OMNIBUS Law through Reg. No. 35/2021 makes reference to a Daily Employment Agreement, the same 21 day permanent employment conversion threshold and also a new mandatory termination compensation payment based on period of service, and this includes payment upon contractual extension.

Daily workers are commonly seen in the plantation and other agriculture industry sectors.



Outsourcing

In a significant change, the OMNIBUS Law revokes most of the provisions related to outsourcing as previously regulated under the Labor Law. As indicated in Chapter 4 on Investment, four sections of the OMNIBUS Law were amended by Reg. No. 2/2022 and one of these involved employment outsourcing. Outsourcing provisions in Article 64 of the Labour Law and MoM Regulation No. 19/2012 regarding Requirements for Outsourcing Part of the Work to Another Company were revoked resulting in removal of boundaries between core and non-core business activities that could be outsourced. This allows all types of work, including core business functions, to be freely outsourced to actual service providers which previously was not the case.

The amended Labor Law however is silent on and has no specific articulation of the type of activities that can be outsourced. Consequently, it is reasonable to take a view that the current position is that all activities of a company can be outsourced provided certain requirements which are referenced in the OMNIBUS Law and Reg. No. 35/2021 are fulfilled: i) the service provider is a legal entity; ii) definite period employment agreements contain certain protective clauses for outsourced services provider “employee” rights. Note that “outsourced personnel” are not “employees” of a company but of the outsourcing service provider entity.

It remains to be seen if and when a new MoM or government regulation is issued on what activities can be outsourced, and until this occurs legal ambiguity continues to exist, notwithstanding for now companies are legally entitled to freely outsource all business activities and functions.

To provide context, particularly in light of a risks of a potential transition back to the previous position under the original Labor Law, selected key aspects of the previous old outsourcing provisions of the Labor Law are summarized below.

Article 64 of the Labor Law allowed a company to delegate part of its work to other legal entities or service providers by way of: i) Sub-contracting; or ii) Outsourcing.

Article 65 stipulated that sub-contracted work must meet the following requirements:

- The work can be done separately from the main activity
- The work is to be undertaken under either a direct or an indirect order from the party commissioning the work
- The work is an entirely auxiliary activity of the enterprise
- The work does not directly inhibit the production process.

Under Article 66(1), outsourcing was only able to be approved for activities which are not directly related to a company’s production process. The elucidation of Article 66(1) states such supporting activities to be:

- cleaning services
- catering
- security
- oil & mining supporting services
- transportation services for workers.

Regulation No.19/2012 on Conditions for Outsourcing the Implementation of Work to Other Companies also reflected the then provisions of the Labor Law, maintaining outsourcing of work to “supplemental,” and the outsourcing of labor is limited to “supporting activities.”

In addition, work contracted out must have been conducted separately from the main activities of a company.

Worker's social security scheme: BPJS

History

Under Law No. 3/1992 on Workers Social Security, companies with a payroll exceeding IDR1 million per month, or employing 10 or more people, needed to enroll the employees in the JAMSOSTEK program.

JAMSOSTEK was a government social security scheme, mandatory by law, to which an employee and employer made monthly premium contributions based on a percentage of basic salary for:

- i. Work accident insurance
- ii. Retirement benefit fund
- iii. Life insurance
- iv. Healthcare benefit coverage

The first three were mandatory. Healthcare benefit contributions were payable only if the employer did not provide equivalent or better health benefits.

Contribution fees needed to comply with the standard provisions in Reg. No. 14/1993 concerning the Implementation of the Workforce Social Security Program. Premium contributions varied across job classifications and industries, but generally fell in a range of 4 to 6% of basic salary. Employee contributions were made by the employer, except for retirement benefit insurance to which the employee also contributed.

All permanent and contract employees as well as daily workers needed to be covered by JAMSOSTEK. Expatriates were required to be enrolled unless covered by an equivalent scheme in his or her home country.

Transition to BPJS scheme: 1 January 2014 – BPJS Ketenagakerjaan and BPJS Kesehatan

The government established the new and current Social Security Agency (*Badan Penyelenggara Jaminan Sosial* or “BPJS”) to operate the new “BPJS” social security system or scheme effective 1 January 2014 based on Law No. 24/2011 regarding Social Security Agencies which builds on Law No. 40/2004 regarding the National Social Security System. BPJS *Ketenagakerjaan* became the new social security administration body or workers social security agency.

The compulsory requirements to join the new social security scheme (both worker's social security and healthcare) cover all employees (not outsourced personnel), including Expatriates who have been working in Indonesia for more than six months. Starting 1 January 2014, BPJS *Ketenagakerjaan* administered worker's social security comprising workplace accident, old age, death and pension benefits, while BPJS *Kesehatan* administered healthcare benefits.

All participants of the worker's social security program under JAMSOSTEK automatically became participants of BPJS *Ketenagakerjaan* with the same benefits effective 1 January 2014. The BPJS social security scheme expanded to include Pension benefits effective 1 July 2015 when Indonesia introduced a new statutory social security pension plan (BPJS Pension) under BPJS *Ketenagakerjaan*. Corresponding additional payroll contributions were required to be made on basic salary and fixed allowances.

According to Presidential Regulation No. 12/2013 as amended by Presidential Regulation No. 111/2013 regarding Healthcare Benefits, effective 1 January 2014:

- All employees covered by healthcare benefits under JAMSOSTEK transitioned to a national healthcare benefits program (*Jaminan Kesehatan Nasional*) or “JKN” under BPJS *Kesehatan* (BPJS Healthcare)
- There was no “opt-out” clause for companies who already provided healthcare benefits for employees and their dependents via self-administered plans or health insurance programs or a combination of the two. Small, medium and large enterprises or companies as well as SOEs were obligated to register their employees with JKN by 1 January 2015. Companies could and can continue providing private healthcare coverage but also make the corresponding contributions to BPJS *Kesehatan*.

Employers and employees of private companies are required to make monthly premium contributions for each social security program, which have historically ranged between 0.2 to 4% of basic salary or wages. The calculation of JKN is subject to maximum basic salary or wages of IDR12,000,000 per month. The cap is subject to potential change. The mandatory premium covers a husband, wife and three dependents.

In February 2022 a new regulation was issued on cashing out old age security benefits. MoM Regulation No. 2/2022 on the Procedures and Conditions for the Payment of Old age Security Benefits (“MoM Reg. No 2/2022”) provided for this entitlement to only be received by an employee at 56 years of age, regardless of when they resigned. Objections from employees and unions resulted in a revised MoM Regulation No. 4/2022 being issued which revoked MoM Reg. No.2/2022.

Job loss security coverage

The OMNIBUS Law introduces a new Unemployment Security social security program also referred to as Job Loss Security Coverage. Workers who experience termination of employment events are entitled to obtain unemployment security. The unemployment security is being administered by BPJS *Ketenagakerjaan* and the central government. The program provides for unemployment benefits given to terminated employees to be in the form of cash, access to job market information and job training.



Under Regulation No. 6/2025 on the Implementation of the Job Loss Security Program, the Job Loss Security (JKP) program is fully funded by the central government, meaning neither employers nor employees bear any cost. The contribution for JKP is set at 0.36% of monthly wages, consisting of 0.22% funded by the central government's budget and 0.14% reallocated from BPJS *Ketenagakerjaan*'s Occupational Accident Insurance (JKK) program. This funding structure ensures the program does not impose any additional burden on employers or employees. The regulation also stipulates the cash benefit for eligible workers to be equal to 60% of their last reported wage for up to six months, subject to a maximum wage cap of IDR5 million.

Summary

In summary, the BPJS social security scheme now comprises the following:

BPJS scheme summary		
No	Name	Coverage
1	BPJS Workforce or Manpower (BPJS <i>Ketenagakerjaan</i>)	Old age, work accident, pension, death and unemployment security
2	BPJS Health (BPJS <i>Kesehatan</i> or JKN)	Healthcare

Source: BPJS website and related publication and data

Starting 1 July 2015 BPJS has monitored companies operating in Indonesia to ensure mandatory registration of employees into the scheme is complied with, and has authority to enforce the law and proceed with litigation. Penalties and other sanctions can also apply.

Failure to comply with the employer registration and premium contribution obligations of BPJS may lead to various sanctions from administrative to criminal in the form of:

- i. Written warnings
- ii. Fines of up to IDR1 billion
- iii. Impediment to receive certain public services which may include refusal to grant business licenses, building permits (IMB) and land title certificates
- iv. Imprisonment for up to eight years.

In practice, requests for compliance remediation should usually be made before sanctions are imposed.

Employee entitlements and benefits relating to change in ownership

Employee change of ownership compensation obligations exist in respect of a change in control or “ownership” of an employer; usually on an M&A transaction. Historically this was regulated by Article 163 of the Labor Law. A change in ownership of a company triggers severance, gratuity and other compensation for employees who voluntarily elect not to continue their employment or if the employer decides to involuntarily terminate employment.

The potential compensation obligations are not required to be brought to account as a provision on the balance sheet in a company's financial statements under Indonesian Financial Accounting Standards (IFAS) unless there is a known and demonstrated commitment to make redundancies. This condition rarely exists in the context of a transaction.

Art. 163 required the amount of severance, gratuity and compensation to be calculated as follows:

- Art. 163 (1) – “scenario (a)”: employee elects to resign – voluntary resignation. Employee entitled to one time severance, one times gratuity and compensation rights comprising: (i) 15% compensation payment of total severance and gratuity, (ii) unused annual leave that has not expired, (iii) costs or fees to return home for workers/laborers and their families; and (iv) other matters stipulated in an employment contract, company regulation or CLA
- Art. 163 (2) – “scenario (b)”: employer decides to terminate employee – involuntary termination. Employees entitled two times severance, one time gratuity, and also the compensation rights comprising (i) – (iv) above

The major transaction risk on a buyer on an acquisition of a target company is under scenario (a) where potential “Day 1” post-transaction risks exist if key or large numbers of employees elect to voluntarily resign and receive a one-off “windfall” termination severance payment not normally received until retirement age. And then easily obtain alternate employment. Whilst scenario (b) offers a unique opportunity for a willing seller and the buyer on a bilateral “friendly” transaction to rationalize an inefficient workforce (for example), this is usually not practicable within typical M&A transaction timelines and thus uncommon, and virtually impossible on competitive multiple bidder transaction.

The OMNIBUS Law and Reg. No. 35/2021 Articles 42 (1) and 42 (2) prescribes slightly new formulae for calculation of minimum benefits on cessation of employment under a change of ownership. The new minimum benefits are slightly lower than the above under Art. 163 of the Labor Law. Changes are not significant. As referenced earlier, Reg. No. 35/2021 removes the 15% compensation payment of total severance and gratuity; and the multipliers of the severance, gratuity and compensation set out in Reg. No. 35/2021 are lower than the corresponding one and two times multipliers under Art. 163.

Art. 41 also regulates instances of an employer conducting a merger, consolidation or spin-off.

The MoM some time ago issued guidelines on its interpretation of a “change of ownership” under Article 163(1) which are:

- a “take-over” of target company as defined in Law No. 40/2007 on Limited Liability Company (“Company Law”)
- The change of ownership that results in:
 - a change in control of a target company, in conjunction with;
 - a reorganization of the work force, changes in working conditions and employee rights and obligations.
- if there is no reorganization of the work force even with a change in control, then employees may not have the right to exercise Article 163 (1)

In practice and for most industries, changes in ownership usually do not trigger mass resignations. These resignations may only be limited to certain employees who consider a relatively large compensation payment attractive. Also, the more sophisticated the employee, generally the less likely an election will be made for involuntary resignation and an earlier but smaller “windfall” compensation payment. An issue and risks can sometimes exist however in industries where there is strong demand for scarce, quality resources like in financial services. Also, experienced, competent middle management can be difficult to retain and recruit across many industry sectors.

Labor unions have been known to intervene with the process and take overly aggressive positions on behalf of employees around interpretations of the law and statutory compensation benefits payable.

Industrial relations and labor unions

Industrial relations court

The Industrial Relations Court is a specialized court within the District Court system, empowered to examine, adjudicate and deliver decisions on industrial relations disputes, including employment. It was formally established under Law No. 2/2004 concerning the Settlement of Industrial Relations Disputes ("Law No. 2/2004").

According to Article 57 of Law No. 2/2004, the Industrial Relations Court's jurisdiction includes:

- disputes over worker rights — handled at first instance
- disputes over interests — resolved at first and final instances, with no possibility of appeal
- disputes regarding termination of employment — handled at first instance
- intra-company union disputes — resolved at first and final instances

Labor unions

The reformation in labor politics in Indonesia started with the issuance of Ministerial Regulation No. 5/1998 concerning Labor Union Registration, which ended the monopoly of the all-Indonesian workers union confederation ("KSPSI"). Following enactment of Law No.21/2000 concerning Trade/Labor Union, many local labor unions representing many different industries have emerged and registered their establishments with the MoM.

Union membership is not compulsory for employees. The majority of Indonesian workers are not unionized and this may at least be partly a function of Indonesian labor laws being relatively friendly in terms of accommodating employee benefits and rights.

The Indonesian Labor Movement Council ("MPBI") was established in May 2012 to launch a strong resistance movement against Indonesian labor issues and exploitation. It comprises of three main labor confederations: KSPSI, KSPI and the Confederation of Indonesian Prosperous Labor Unions ("KSBSI"), as well many small unions. After being inactive for many years, the MPBI was reactivated in 2020, coinciding with the issuance of the OMNIBUS Law.

In 2011 the government enacted Ministerial Regulation No. Per.16/MEN/XI/2011 concerning Procedures for the Formulation and Ratification of Company Rules and the Preparation and Registration of Collective Labor Agreement. A company that employed at least 10 workers must have registered a company regulation (which documents working policies and requirements) and a CLA where relevant. There are various provisions around union and employee representation thresholds for CLA related negotiations.

Ministerial Regulation No. PER.16/MEN/XI/2011 was

revoked by Minister of Manpower Regulation No. 28/2014 (of the same name) which introduced several key changes to improve the governance of company regulations and CLAs:

- introduction of an online submission system, for both company regulations and CLAs to be submitted and processed via an official portal. Despite this digital transition, in-person submission is still permitted
- expanded flexibility for worker representation by allowing a single labor union to represent subsidiaries under the same parent company if those subsidiaries do not have their own unions—an option that was not provided in the previous 2011 regulation
- new defined negotiation procedures, such as appointing up to nine representatives from each party (employer and employee) and requiring both sides to agree on negotiation protocols
- imposition of tighter registration timelines, mandating that finalized CLAs be submitted to a local labor office which must respond within four working days with either approval or rejection

In accordance with the Labor Law, a labor strike is legal and recognized as a fundamental right of workers and their unions in Indonesia but, which must be staged legally, in an orderly and peacefully manner and also as a result of failed negotiations. Article 140 (1) of the Labor Law stipulates that within a period of no less than seven days prior to an intended strike being staged, workers or laborers and trade or labor unions are under an obligation to give written notification of the intention to the employer and the local MoM office. MoM Decree No. 232/MEN/2003 concerning the Legal Consequences of Illegal Strike is designed to prevent occurrences of sudden and illegal strikes.

In Indonesia major labor unrest and strikes are not common and have historically tended to be brief and factory-specific, although country-wide demonstrations have occurred in relation to perceived improper use of contract employees, outsourcing of workers and cheap labor policy. Employers have also reported occurrences of labor problems relating to minimum wage increases and comparisons to the cost of living.



Employment of expatriates

Overview

The government classifies jobs into those closed to foreigners, those open only while Indonesian nationals are being trained and those open for other reasons. The MoM regulates the employment of foreign citizens for certain positions and for certain time periods only as determined and specified in MoM Decree No. 349/2019 concerning Certain Positions that are Prohibited from being occupied by Foreign Workers which revoked a similarly titled 2012 MoM Decree. Expatriate employment requires government approvals and foreigners must obtain a Limited Stay Visa ("VITAS"), Limited Stay Permit Card ("KITAS") and also until recently a separate Work Permit (or "IMTA") through their sponsoring employer. Certain other more routine documentary administrative and formalities are also normally required. Once an expatriate has a KITAS, he or she can bring a spouse and children to Indonesia.

The amended Labor Laws to the OMNIBUS Law eliminates the requirement of obtaining a Work Permit or "IMTA." Employers which employ foreign workers have always been required to prepare and submit a Foreign Manpower Utilization Plan ("RPTKA") which is ratified by the central government, but in practice by the MoM. This RPTKA now also serves as the Work Permit (IMTA) for the foreign employee. Moreover, an employer is required to give notification on the hiring of the foreign employee to the MoM after the RPTKA is granted. The RPTKA typically contains information on the position that will be held by the expatriate, the number of expatriates required by the employer, the duration for employing the expatriate, the proposed commencement date for employing the expatriate and details on the Indonesian worker appointed as the counterpart (position, education and work experience).

Under the OMNIBUS Law and amended Labor Law, an RPTKA is now not required for: i) board of commissioners ("BOC") or board of directors ("BOD") members in statutory positions or shareholders; ii) diplomats or consulates at embassies or other foreign country offices; or iii) foreigners needed for halted production activities due to emergencies and other qualifying conditions.

MoM Regulation No. 8/2021 concerning Reg. No. 34/2021 on the Use of Foreign Workers: Work Permits and RPTKA

The specific regulatory backdrops to aspects of the above is MoM Regulation No. 10/2018 on Procedures for Utilization of Foreign Manpower ("MoM Reg. No. 10/2018") which revoked a previous 2015 regulation previously setting out the arrangements for an expatriate work permit.

Other articles and provisions of MoM Reg. No. 10/2018 related to Work Permit structure; Application processes and systems; Payment of government compensation for the use of foreign manpower (DKPTKA); Training, insurance, technology transfer obligations; Expatriate work qualifications; General types and validity of RPTKA as well as Supervision and enforcement.

MoM Reg. No.10/2018 was revoked by MoM Regulation No. 8/2021 concerning Government Implementing Regulation No.34/2021 on the Use of Foreign Workers ("Reg. No.34/2021"). Apart from the changes referenced earlier relating to RPTKA and work permits, other changes in MoM Reg. No. 34/2021 are not significant and mostly at a procedural or process level on: i) payment of DKPTKA online; ii) DKPTKA fees and assessment or approvals, including exemptions; iii) stricter training and related obligation enforcement as well as fines and sanctions; iv) skill transfers and fixed term contract employment agreements; v) categories of RPTKA; and vi) more focused guidance, oversight and enforcement with sanctions for non-compliance.

Training for foreign workers

The fundamental conceptual position in the Labor Law is that the government expects the number of expatriates in any organization to reduce over time, and may require employers who employ foreign workers to:

- Appoint workers of Indonesian citizenship as accompanying working partners for expatriates to facilitate transfer of knowledge, technology and expertise
- Educate and train workers of Indonesian citizenship until they have the qualifications required to hold the positions currently occupied by expatriates

MoM Regulation No. 10/2018 mandated for employers to facilitate Indonesian language education and training for long-term expatriate work permit non-BOC or BOD positions. The language training is also not required for foreign workers using a short-term or urgent/emergency work permit. The Indonesian language education and training may be conducted by the employer or in collaboration with any Indonesian language training institution. Failure to facilitate Indonesian language education and training may result in a temporary cessation of the licensing process of a foreign worker or workers.

There are no significant changes or amendments of substance in the OMNIBUS Law.

Expatriate employment positions

MoM Regulation No. 228/2019 concerning Positions that can be Occupied by Foreign Workers set out a new list of positions in which expatriate workers can be employed in Indonesia. This revoked a previous 2018 Presidential Regulation.

Below a summary of key provisions of MoM Reg. No. 228/2019:

1. International Standard Classification of Occupation: positions that may be occupied by expatriates are classified under specific sectors by reference to the International Standard Classification of Occupation ("ISCO") issued by the International Labor Organization. The ISCO has been adopted by the GOI under the Indonesian Standard Classification of Positions ("KBJI")
2. Director and Commissioner position: expatriates are now clearly allowed to occupy the position BOC and BOD to the extent that such position does not relate to human resource matters. This matter was not previously specifically regulated and thus raised questions
3. Non-listed positions: where an intended position to be occupied by an expatriate is not listed in Attachment 1 to MoM Reg. No. 228/2019, the MoM may nonetheless grant an employment permit to the expatriate at its discretion
4. Periodic evaluation: the list of positions that can be occupied by expatriates, as well as the requirements for such positions (as set out in Attachment 1 to MoM Reg. No. 228/2019), to be periodically evaluated (at least every two years) or more regularly if deemed necessary.
5. List of positions that can be occupied by expatriates: attachment 1 to MoM Reg. No. 228/2019 contains a list of positions (and the corresponding requirements) that can be occupied by expatriates across 18 business sectors:
 - a. Construction
 - b. Real estate
 - c. Education
 - d. Processing industry
 - e. Water management waste-water management, waste management and recycling, and remediation activities
 - f. Transportation and warehousing
 - g. Arts, entertainment, and recreation
 - h. Provision of accommodation and provision of food and beverages
 - i. Agriculture, forestry and fisheries
 - j. Renting and leasing without option rights, employment, travel agents and other supporting business
 - k. Financial and insurance activities
 - l. Human health activities and social activities
 - m. Information and telecommunications
 - n. Mining and excavation

- o. Procurement of electricity, gas, hot water/vapor and cold air
- p. Wholesale and retail, reparation and maintenance of cars and motorcycle
- q. Activities involving other services; and
- r. Activities in the professional, scientific and technical sectors

MoM Reg. No. 228/2019 includes several new open sectors for expatriate employment which previously were not specifically regulated.

If an intended position to be occupied by an expatriates is not listed in Attachment 1, then the employer should engage with the MoM and seek advice.

Concluding comments

The number of expatriates employed in Indonesia has for a long time been subject to government review as it seeks to find the right balance between two competing

considerations. On the one hand, the government wants to create more job opportunities for Indonesian workers given the country's long term problem of unemployment and underemployment, particularly among young people. On the other hand, the government also wants to attract foreign investment, and as part of this recognizes that:

- i. Indonesian workers do not always have the skills and experience required by companies (whether foreign owned or domestically owned); and
- ii. Foreign investors understandably often want to have home country employees whom they know and trust, and have the proven skillsets to fill key positions in their Indonesian subsidiaries

Finding in the right balance has proved to be an ongoing challenge and government agenda for which ministerial policy has varied from time to time, and as indicated the issuance of new specific MoM or government regulations on foreign workers some time in the near to mid-term is a realistic outcome.

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09

Tax

Summary data

Corporate tax rates

Rate (%)	Applicable year
22 (flat rate)	from 2020

Listed companies which meet certain conditions are eligible for a 3% reduction of the Corporate Income Tax (CIT) rate.

A company with gross turnover less than IDR50 billion is eligible for up to a 50% reduction on the CIT rate based on the percentage of taxable income which results when IDR4.8 billion is divided by gross annual turnover.

If gross turnover is below IDR4.8 billion, the 50% reduction applies on all taxable income.

Article 31E Law Number 36/2008.

Personal tax rates

Rate (%)	Taxable income
5	< IDR60 million
15	IDR60 million – IDR250 million
25	IDR250 million – IDR500 million
30	IDR500 million – IDR5 billion
35	> IDR5 billion

Article 17 Law No. 7/1983 as lastly amended by the Government Regulation in lieu of Law No. 2/2022.

General

In Indonesia, taxes are levied under three laws that were introduced in December 1983 as amended several times and the latest one by the Government Regulation in lieu of Law No. 2/2022 regarding Job Creation Law (or “the OMNIBUS Law”). These cover:

- General tax provisions and procedures
- Income tax
- Value Added Tax (“VAT”) on goods and services, and Sales Tax on Luxury Goods (“STLG”).

With certain exceptions, withholding tax (“WHT”) is imposed on payments to onshore and offshore parties, including payments, such as dividends, interest, royalties and fees paid for services. The GOI also collects taxes on land and buildings, stamp duty and import duties. Local governments collect various other taxes.

The official tax year runs from 1 January to 31 December. Companies may adopt different year-ends in their Articles of Association (“AoA”) and may change financial years with prior approval from the Indonesian Tax Office (“ITO”) also sometimes referred to interchangeably as the Indonesian tax authorities and/or Directorate General of Tax (“DGT”). A financial year cannot exceed 12 months for tax purposes.

Indonesia has a self-assessment taxation system under which returns are considered final if not queried by the ITO within five years, being the statute of limitations.

Residence

All organizations incorporated in Indonesia are subject to taxation. Corporate organizations include limited liability companies, other companies, partnerships, cooperatives, foundations, pension funds and associations.

Individuals present in Indonesia for more than 183 days a year and corporate organizations incorporated overseas receiving or accruing income from Indonesia are subject to taxation. These corporate organizations are obliged to register for tax purposes if they have a permanent establishment (“PE”) in Indonesia. Certain types of income payable to non-residents by resident taxpayers are subject to WHT.

Representative offices of foreign companies are also required to register as taxpayers, even though they may not have a PE. This is necessary as the representative office will have to withhold tax on payments to employees and third parties and lodge relevant tax returns.

VAT registration is available only to registered taxpayers.

Permanent establishment

A PE generally covers representative offices, management base offices, branch offices, office buildings, plants, warehouses, dependent agencies and may also include construction projects, mines or other places of extraction of natural resources, as well as consultants providing services in Indonesia.

This is very broadly defined so that the presence of an employee in Indonesia performing work for a foreign company is sufficient to establish the existence of a PE. Foreign companies should be beware of inadvertently creating a PE and should take positive steps to enter into one of the formal establishment arrangements permitted in Indonesia.

Significant economic presence permanent establishment and electronic transaction tax

Overseas e-commerce companies which have a significant economic presence in Indonesia will be deemed to have a PE for tax purposes. The significant economic presence will be further determined by the Ministry of Finance ("MoF") based on the following factors:

- consolidated gross revenue
- sales amounts in Indonesia; and/or
- the size of active members in Indonesia.

If the concept of a deemed a PE as stated above cannot be applied because of available tax treaty exemptions, an Electronic Transaction Tax ("ETT") will be imposed on sales to Indonesian buyers/users. As of August 2021, the new rules have not been implemented and, therefore, do not yet apply.

Capital gains

Capital gains, regardless of the reason for the disposal of the asset, are taxable. A taxable gain, except for land and buildings, is defined as the net proceeds less the adjusted tax basis at the time of disposal. The tax rate is 22% for corporate taxpayers and progressive rates for individual taxpayers (this income is reported together with regular income in annual tax returns).

Losses from a sale or transfer of property or rights used in a business to earn income are deductible unless the transaction is subject to final tax.

Disposals of land and buildings are subject to a 2.5% final income tax based on the selling price or the deemed tax market value of the property, whichever is higher. The acquirer is also required to pay a 5% levy or Transfer Title Tax ("BPHTB") on the purchase price.

Capital gains on the sale of shares listed on the Indonesian Stock Exchange ("IDX") are subject to a final tax rate of 0.1% of gross proceeds, plus an additional 0.5% for founder shares on the share value at the time of an Initial Public Offering ("IPO"). However, certain types of venture capital companies are not required to pay tax on capital gains under certain circumstances. There is also a final tax, being 5% of gross proceeds, on the sale of unlisted shares held by a foreign shareholder in an Indonesian company, unless exempt under a Double Tax Agreement ("DTA") or "tax treaty" subject to certain requirements.

Dividends

Dividends and other shares of profit derived by resident limited liability companies, cooperatives or SOE enterprises from participation in the capital of an enterprise established in Indonesia are excluded from taxable income. Dividends and shares of profits from other sources, including that sourced offshore, may be exempt under certain conditions. A foreign tax credit is allowed for any tax withheld on foreign-source dividends. A credit is however not available for foreign tax on underlying profits.

Dividends from private foreign companies will be tax exempt if the amount reinvested in Indonesia is at least 30% of the foreign companies' profit after tax, proportionally to the amount of shareholding ownership. Dividends from listed foreign companies is exempt if reinvested in Indonesia. The reinvestment period is 3 years for all scenarios.

Losses

The carry forward of tax losses is limited to five years, commencing the first year after the loss was incurred. This period may be extended for up to 10 years under special facilities available for certain regions and/or industries. No provision for the carry-back of losses exists. Changes in shareholders do not affect the validity of the carried forward losses.

Capital losses are treated the same as operating losses provided that the losses are reasonable based on sound market practice. No foreign sourced losses can be included in the tax computation.

Grouping/consolidation

No provision exists for group or consolidated income tax returns under Indonesian tax law.

Tax depreciation/capital allowances

Depreciable property is defined as tangible property owned and used in a business or owned for the production, recovery and securing of income, which has a useful life of more than one year. Land is not depreciable, except for companies operating in certain industries.

Buildings and other immovable property are depreciated using the straight-line method. For all assets other than buildings and other immovable property, depreciation is calculated using either the declining balance or the straight-line method at a company's option. These assets must be grouped into categories defined by the tax regulations, as there are the useful lives to be applied in calculating tax depreciation for each category.

Once applied, taxpayers are not allowed to change the method of depreciation without ITO approval. Special rules apply in the oil & gas and mining sectors.



Amortization of expenditure

The acquisition price of intangible property with a useful life of more than one year must be amortized consistently using either the straight-line or declining balance method over the useful life of the asset, following the rates of depreciation for tangible assets. For companies operating in mining industries, forestry and other natural resources sectors, the taxpayer must use the unit of production method with a maximum of 20% per year. It should be noted that any newly declared assets under the Tax Amnesty Program, which ran from 1 July 2016 until 31 March 2017 (see further below) cannot be depreciated or amortized for tax purposes.

Tax depreciation/amortization periods for buildings/intangible assets having more than 20 years of useful life may follow the actual economic useful life in accordance with the approach(es) adopted in the taxpayer's financial accounting reporting treatment.

Interest

Interest on funds borrowed by a company for the purposes of obtaining, collecting and maintaining income is tax deductible from gross income (subject to thin capitalization rules). However, where funds are used to derive income subject to final tax or non-taxable income (such as interest on domestic bank deposits, dividend and others.) no deduction is available.

Interest may also be disallowed as a deductible item if such charges might be considered excessive, such as interest rates in excess of commercial rates. Interest-free loans from shareholders may in certain cases create the risk of the imposition of deemed interest and WHT obligations for the borrower if certain conditions are not met.

Carbon tax

The implementation of a carbon tax will be made in stages with the earliest stage effective on 1 April 2022. Carbon tax is imposed on carbon emissions which have a negative impact on the environment. Further details on carbon emissions that are subject to carbon tax shall be regulated under an implementing regulation which will be reviewed regularly. The OMNIBUS Law determines that the rate of the carbon tax is to be not less than IDR30/ kg. The appropriateness of this rate is to be also subject to regular review. Until now, however, no further implementing regulation or guidelines have been issued on this carbon tax.

Tax administration

Registration

Registration shall be made through the new Core Tax Administration System ("CTAS"), which is an integrated service administration system that streamlines all core tax administration processes, including taxpayer registration, tax return reporting, tax payments, audits, and collections started 1 January 2025. Tax rights and obligations are now exercised electronically through electronic channels (a taxpayer's portal) and websites or applications integrated with the ITO's administrative systems and contact center.

All taxpayers are required to register for income tax purposes. A non-resident foreign company is only obliged to register if it has a PE as defined in the domestic tax law or applicable DTA. Upon registration, a Tax File Number ("NPWP") is obtained. The ITO may register any entity or person which, in its opinion, should be registered as a taxpayer. Subsequently, that entity or person must meet all obligations stated in the tax law and regulations.

A taxpayer must deregister with the ITO when it ceases to be a taxpayer in Indonesia. The ITO will generally perform a tax audit in order to ensure that the taxpayer has met all obligations. Until the ITO deregisters a company, all obligations stated in the tax law continue to apply.

Tax installments

Corporate and individual taxpayers must pay monthly income tax installments. For most taxpayers, installments are based on the income tax payable reflected in the annual income tax return of the prior year. Banks and other taxpayers which are required to submit periodical financial reports should base their installments on such reports, as adjusted for tax purposes.

Returns

Companies are required to self-assess and lodge annual CIT returns. Consolidated returns for commonly owned entities are not permitted. The returns must be lodged with the ITO within four months after the end of the calendar year and tax year, this deadline may be extended for two months by notifying the ITO.

Withholding taxes - Transactions between residents

WHT is imposed at various rates on various amounts payable either by a resident corporation, a PE of a foreign company or certain individuals appointed as WHT collectors, to other residents. In most cases, the withholding liability arises when the expense is incurred, not when the payment is made. This WHT is generally prepaid tax (except for final tax WHT) and to be offset against annual tax payable. If claiming this prepaid tax results in tax overpayment, the taxpayer can ask for a refund, which will trigger an automatic tax audit.

The regulations are numerous and the following is a summary of the main types of transactions subject to WHT and the related WHT rates:

*Amounts payable to resident **individuals**:*

- Compensation for work or services: 5-35% (special rates may apply for pensions)
- Dividends: 10% (final) or generally exempt provided that it is reinvested in Indonesia
- Royalties: 15%
- Interest:
 - bank interest: 20% (WHT is final on interest from local banks)
 - bonds and certain other securities: 15% (final)
 - other interest: 15%
- Rental and other income relating to the use of real property: 10% (final)
- Prizes and awards - lotteries: 15%

*Amounts payable to **resident companies** and **PEs**:*

- Royalties: 15%
- Interest:
 - bank interest: 20% (WHT is final on interest from local banks)
 - bonds and certain other securities: 15% (final)
 - other interest: 15%
- Rental and other income relating to the use of real property: 10% (final)
- Rental of equipment and vehicles: 2%
- Services: 2% (includes technical services, management services, other services)

- Amounts payable to local banks are exempt from WHT
- Dividends to resident companies: exempt (dividends to PE's are deemed to be distributed to the foreign company).

The purchase of goods is generally not subject to WHT, except for certain goods as stipulated by the ITO.

Disposal of property

Tax is also imposed at source on proceeds from disposal of property:

- Shares listed on the IDX - 0.1% (final tax)
- Founders' shares are subject to an additional 0.5% (final tax) upon listing
- Transfer of title of land and buildings – 2.5% income tax (final tax) for the seller and 5% title transfer tax (duty/ BPHTB) for the buyer
- Sale of unlisted shares held by a foreign shareholder in an Indonesian company - 5% of proceeds (final tax), unless exempt under a DTA.

Exemption

Where the WHT is a prepayment of the recipient's income tax liability, the recipient may be able to apply for an exemption from withholding in certain circumstances.

Trading of crypto assets

Note that "crypto asset" is deemed as an intangible good for tax purposes and not as a legal and valid currency (fiat money). The income tax treatment on the trading of crypto assets depends on the identities of the parties involved, as delineated by MoF Regulation No. 68/2022 concerning Value Added Tax and Income Tax on Crypto Asset Trading Transactions. They are:

- Traders of crypto assets, including physical traders that have a license from the Supervisory Agency for Commodity Trading ("BAPPEBTI") and non-physical traders;
- Buyers of crypto assets;
- Crypto asset miners – individuals/corporate entities which conduct verification of crypto asset transactions and are compensated with crypto assets, either individually or in a mining pool; and
- Electronic Platform Providers ("PPMSE") – parties providing an electronic platform to facilitate the trading of crypto assets.

Profits earned from the trading of crypto assets, including those earned by PPMSEs and crypto asset miners, constitute taxable income for Indonesia income tax purposes. Some profits are subject to Final Tax and some are subject to the normal CIT computations. Note that the revenue on trading of crypto assets is also subject to VAT obligations.



Tax incentives

Takeovers, mergers and acquisitions

Assets may be transferred at book value and thus tax neutral as part of a merger or in the context of certain other corporate reorganizations, subject to prior approval from the ITO. A VAT exemption may apply as well. In addition, there may be relief from the 5% transfer of title tax on land and buildings and full relief from the 2.5% income tax on the transfer of land and buildings.

Tax holidays

Tax holidays may be available for significant investments in companies operating in certain industry sectors which qualify as “pioneer” industries. That is industries that have significant relevance, provide high added value and externalities, introduce new technologies and have strategic value to the national economy) and which include:

- integrated upstream basic metals
- integrated oil and gas refinery
- integrated petrochemicals from oil, gas or coal
- integrated inorganic basic chemicals
- integrated organic basic chemicals from agriculture, plantation or forestry products
- integrated pharmaceutical raw materials
- irradiation, electro medical or electrotherapy equipment
- main components of electronics or telematics equipment
- machinery and main components of machinery
- robotics components that support the creation of manufacturing machinery
- main components of power plant machinery
- motor vehicles and main components of motor vehicles
- main components of vessels
- main components of trains
- main components of aircraft and activities supporting the aerospace industry
- agricultural, plantation or forestry-based processing that produce pulp
- economic infrastructure
- digital economy which includes data processing, hosting and related activities.

The eligible industries are published in a separate list of Indonesia Standard Industrial Classification (“KBLIs”) by the Investment Coordinating Board (“BKPM”). Non-listed business sectors may still be eligible to apply for a tax holiday if all requirements have been fulfilled. To qualify, applicants must invest a minimum of IDR100 billion. The potential tax holiday percentage and duration depends on the investment amount. For investments between IDR100 billion and IDR500 billion, a 50% tax reduction may apply for a five-year period and a 25% reduction for the following two years after expiry.

For investments as from IDR500 billion up to IDR30 trillion and more, a 100% tax reduction applies for a period of five to 20 years and a 50% reduction for the following two years after expiry. The tax holiday starts at the time that commercial production has started. This will be assessed by the ITO during a field audit. Submission of the application should be done through the Online Single Submission (“OSS”) system. Taxpayers applying for a tax holiday for not listed business sectors should file their application with BKPM. The BKPM will subsequently discuss eligibility with the relevant ministries. If eligible, the BKPM will forward the application through the OSS system.

The MoF should issue a decision within five working days after receiving the complete application proposal via the OSS.

Note that the 100% CIT reduction will be impacted by a new rule on global minimum tax that will be effective in fiscal (or tax) year under which the income tax rate will be at a minimum of 15%. This is a result from applying the Organization for Economic Cooperation and Development (“OECD”)’s Base Erosion and Profit Shifting (“BEPS”) Pillar 2: see related paragraph on this matter.

Direct tax incentives for new enterprises

New entities established under the Foreign Investment Law may apply for an exemption from tax payable on the importation of capital goods and raw materials. New enterprises must secure an exemption certificate from the ITO where the new entity is registered. The exemption is granted for capital goods indicated in the BKPM master list and must be applied for each year.

Investment in certain businesses and/or certain regions

Income tax relief is available for investments in 33 selected sectors (166 sub-sectors) irrespective of the geographical location in Indonesia. In addition, there are seven business sectors (17 sub-sectors) that qualify if located in specific locations in various regions (mostly outside Jakarta). Investors should consult with the ITO or their tax advisors as qualifying sectors and geographical regions may change from time to time.

The tax relief for the selected sectors/regions comprise of four incentives:

- Additional tax deduction of 5% on the realized capital investment (depreciable and non-depreciable assets) each year up to six years (revoked if the assets are transferred during facility period)
- Option to use accelerated tax depreciation at double normal rates
- The period for carry forward tax losses may be extended to a maximum of 10 years (instead of five years)
- WHT on dividends to non-resident shareholders is reduced to 10% (or a lower DTA rate).

The selected industry sectors are those that have high economic priority on a national scale, particularly in respect of boosting exports, employment creation or local content ratio. The selected regions are geographically remote regions, which are potentially economically worthy of development but where economic infrastructure is generally inadequate and access by public transport is difficult, including maritime waters with a depth of over 50 meters where the seabed has mineral reserves, including natural gas.

The application to obtain the income tax benefits should be submitted electronically, utilizing the OSS system, together with an application for a business identification number or within one year after OSS system has issued a business license for the investment and/or expansion.

Special economic zones (SEZ)

Companies conducting business in a SEZ may make use of tax facilities comparable to the direct tax facilities like a tax holiday and tax allowance. The SEZs are specifically regulated in a government regulation.





Investment in industries with certain features

Tax facilities exist for investments in labor-intensive industries, for human resources development in certain competencies and for certain research and development (“R&D”) activities in Indonesia. It regards facilities creating a deduction of net income of 60% of the amount invested in tangible fixed assets over a certain period or a reduction of gross income of up to 300% of the amount spent for a qualifying activity.

Free trade zones and free port areas

Free Trade Zones (“FTZ”) and Free Port Areas (“FPA”) are treated as if they are outside of the Indonesian customs territory. There are no import duties and other taxes on the importation of goods. Goods delivered to other locations within Indonesia are treated as imports and are subject to normal customs and other impositions.

The regulations provide specific area coordinates and boundaries, including maps of the area coverage of the FTZ and FPA.

Business activities conducted in an FTZ and FPA include trading, maritime, industry, transportation, banking, tourism and other activities. Other activities are subject to further stipulation by separate government regulations. The regulations stipulate that the economic development of the FTZ and FPA must be conducted in accordance with a Regional Master Plan. These government regulations do not revoke any agreements or cooperation arrangements or any licenses or facilities granted prior to the stipulation of the 2007 government regulations. These will still apply until expiration.

Aid-funded projects

Goods, materials and construction equipment imported by a main contractor in connection with an approved government project funded by foreign loans or grants are entitled to the following relief:

- Exemption from import duty
- No collection of VAT and STLG
- Income tax is borne by the government for primary contractors, consultants and suppliers working on such projects.

Imported goods

The duty and tax relief available on the importation of goods is summarized later in this chapter under “Indirect and Other Taxes.”

International tax

Double tax relief

Indonesia grants a credit for WHTs directly paid on income received or accrued in a foreign country. There is no credit for taxes on underlying profits. The credit is only granted if the income is taxable in Indonesia as being part of worldwide earned income. The credit is limited to the lesser of the tax payable in Indonesia on the foreign income or the amount of the foreign tax paid, or the maximum tax rate stated in the relevant DTA.

If the foreign tax is reduced or refunded, the credit will be reduced and the tax payable in Indonesia will have to be increased by the amount of the reduction or refund in the year that such refund or reduction is made.

Withholding taxes

Transactions with non-residents

WHT is imposed at 20% on various amounts payable to non-residents, unless the non-resident has a PE in Indonesia, whereby the rates applicable to payments to residents apply. The WHT may be reduced if the foreign resident is exempted or eligible for a reduced WHT rate by virtue of a DTA.

In order to qualify for any relief under a DTA or relevant "tax treaty", non-residents must provide a certificate from the tax authority in their country of residence using a standard form (Form Directorate General of Taxes or "Form DGT") issued by the ITO. The foreign competent authority must acknowledge this Form DGT either by signing Part II of the form or by using a standard certificate of domicile.

WHT applies to the following:

- Dividends
- Interest, including premiums, discounts and compensation for loan guarantees (interest on fixed income securities is subject to 10% WHT instead of 20%)
- Royalties
- Rent and other income connected with use of property
- Cross border leases
- Gifts and awards

- Compensation for work by individuals or services or activities by overseas entities (applies irrespective whether services are performed outside or inside Indonesia)
- Insurance premiums (the rate of tax is reduced depending on the nature of the transaction)
 - Insured - 10%
 - Insurance company - 2%
 - Reinsurance company - 1%
- Disposals of shares in unlisted Indonesian companies. The effective rate of tax is 5%. If a foreigner is buying the shares in a company, the company must pay the WHT before the transfer of ownership can be recorded.

Branch profits tax

PE's of foreign enterprises are subject to 20% WHT on their after-tax income unless eligible for a reduced rate by virtue of a DTA.

Double tax agreements

In July 2025, Indonesia has DTAs in force with 72 countries. In addition, Indonesia signed a Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (Multilateral Instrument or "MLI") on 17 June 2017. The MLI allows jurisdictions to swiftly modify their tax treaties with the aim of reducing multinational tax avoidance and is a key component of the Organization for Economic Cooperation and Development ("OECD")'s Base Erosion and Profit Shifting ("BEPS") project. It was ratified by Indonesia on 12 November 2019. The MLI came into force and was effective as of 1 January 2021 for WHT and as of 1 November 2020 for the other provisions.



Anti-avoidance rules

Introduction

The income tax law contains specific anti-avoidance provisions. Where the ITO considers that transactions have not been conducted at arm's length due to the existence of a "special relationship" between the parties, the consideration paid may be adjusted. The ITO's powers extend to all domestic and cross border transactions.

In addition to the powers of the ITO to adjust transfer prices, there are "thin capitalization" considerations and controlled foreign company rules. These are summarized below.

Transfer Pricing

The regulations and guidelines which have been issued with regard to transfer pricing are now largely in line with the OECD Transfer Pricing Guidelines.

A "special relationship" includes:

- A relationship between two or more taxpayers that are under common ownership or control, whether directly or indirectly, including through managerial functions, technological utilization, and financial interdependencies
- A relationship between a taxpayer that owns 25% or more of the capital of another party, or a relationship between a taxpayer that owns 25% or more of two or more parties, and the relationship between the two or more parties last mentioned
- A family relationship, either of the same blood or by marriage in one straight descent line and/or one degree sideways.

The above Transfer Pricing rules apply to domestic as well as cross-border transactions.

There is a standard Transfer Pricing questionnaire. This extensive questionnaire is not only sent to taxpayers that are under tax audit but also to other taxpayers.

A taxpayer may request for a mutual agreement procedure ("MAP"), should a Transfer Pricing adjustment lead to double taxation.

The ITO may also enter into advance pricing agreements ("APA") on prices with companies and other tax jurisdictions. Data published on the ITO's website indicates that Indonesia has negotiated a number of APAs and MAP's and that many requests are pending.

Local file, master file and country-by-country reporting

Consistent with the OECD BEPS Action 13 initiative, all taxpayers are required to prepare three documents regarding related party transactions:

- i. A master file ("MF"), containing general information on the group
- ii. A local file ("LF"), containing specific information on operations in Indonesia; and
- iii. A country-by-country Reporting file ("CBCR"), containing detailed financial and other information on each of the members of the group.

The MF and LF must be available upon request four months after each fiscal year-end, in either Indonesian or English language (for taxpayers having approval to maintain bookkeeping in English language, but it must be accompanied by an Indonesian language translation). The LF and MF must be submitted within one month if requested by the ITO for compliance monitoring or when there is a tax audit.

The CBCR submission is due within one year after each fiscal year-end.

Thresholds for preparing and maintaining master files and local files

An MF and LF are mandated if a taxpayer meets any of the following thresholds in a fiscal year (some of the explanations are KPMG's interpretation on this regulation):

A taxpayer conducting:

1. any related-party transactions and gross revenue is above IDR50 billion (c. USD3.4 million) in the previous year - there is no threshold on the total amount of related party transactions; or
2. related party tangible goods transactions (sale and purchase of goods, materials) of more than IDR20 billion (c. USD1.4 million) in the previous year; or
3. related party non-tangible goods transactions (interest, royalties and/or services) of more than IDR5 billion (c. USD345 thousand) in the previous year; or
4. related party transactions of any amount with a related party in a jurisdiction which has a corporate tax rate lower than Indonesia's CIT, currently 22%. As there is no threshold for the level of related party transactions, all such transactions, however small, are covered under this provision. A list of countries meeting this criteria has been published by the ITO.



Thresholds for preparing and maintaining CBCR files

A CBCR is mandated if a taxpayer meets either of the following thresholds in a fiscal year (some of the below is KPMG's interpretation on this regulation):

1. It is a parent entity with consolidated group revenue of more than IDR11 trillion (c. USD759 million) which applies to Indonesian group companies; or
2. It is a part of a foreign parent entity that:
 - i. Is not required to submit a CBCR, or
 - ii. Is in a country that does not have an information exchange agreement with Indonesia, or
 - iii. If the ITO is unable to obtain a CBCR through an information exchange agreement.

The ITO has published a list of countries that have a suitable exchange of information arrangement with Indonesia.

Furthermore, this regulation includes an extensive list of the information to be disclosed in the CBCR. However, in most cases Indonesian subsidiaries of multinational entities are only required to file an online notification relating to the CBCR.

Penalties: MF, LF and CBCR

A taxpayer that falls under the above requirements has four months (12 months for CBCR) after each financial year-end to prepare and declare that it is ready to submit the MF/LF. The MF/LF must be summarized in an attachment to the annual CIT return and the CBCR attached to the CIT return of the following year.

Penalties exist for failing to prepare and submit the MF/LF upon request. Failure to prepare MF/LF is treated as not applying the arm's length principle. Failure to deliver MF/LF when requested results in the taxpayer being deemed as not having transfer pricing documentation.

The ITO can request the above documents for compliance checking, a tax audit, an objection, a reduction of an administrative sanction and in other cases.

Global minimum tax

In line with several other countries, the MoF has issued Regulation No. 136/2024 regarding the Application of Global Minimum Tax based on the International Agreement ("MoF Reg. No. 136/2024"). This regulation is to adopt the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, involving 147 countries which as of now apply the rules for a global minimum tax at 15% for Multi-national Enterprises (MNEs) with an annual turnover of more than EUR750 million.

This requirement is effective 1 January 2025 for the Income Inclusion Rule (IIR), Domestic Minimum Top-up Tax (DMTT) and on 1 January 2026 for the Under-Taxed Payments Rule (UTPR). The IIR imposes top-up tax on a parent entity with respect to low taxed income of a constituent entity that applies to both overseas and domestic entities. The UTPR denies deductions or provides for a similar adjustment for group entities to the extent that there is top-up tax that has not been taxed under the IIR.

The global minimum tax under MOF-136 is applied to Indonesian taxpayers and permanent establishment that are a constituent entity of MNEs group and calculated based on the top-up tax charging mechanisms i.e. IIR, UTPR and/or DMTT.

The determination of whether top-up tax is required, either through the IIR, DMTT or the UTPR, is based on a complex calculation of the Effective Tax Rate (ETR) for a jurisdiction. The Model Rules use modified deferred tax calculations for the timing differences, the treatment of losses and other adjustments.

There are exclusions from the Global Anti-Base Erosion (or GloBE) rules for pension funds, government, international and non-profit organizations as well as Investment funds and real estate investment vehicles that are ultimate parent entities. There are also provisions for safe harbors with certain requirements and tests, like the de-minimis rule.

Application of "Thin Capitalization" concepts

Where a special relationship exists, interest may be disallowed as a deduction where such charges are considered excessive, such as interest rates in excess of

commercial rates. Interest-free loans from shareholders may in certain cases create a risk of deemed interest being imposed, giving rise to WHT obligations for the borrower.

Under these rules, a debt-to-equity ratio ("DER") is set at 4:1. Some corporate taxpayers are exempted from the DER:

1. Banks, including Bank Indonesia ("BI") or the Central Bank
2. Financial institutions/leasing companies that engage in providing funds and/or capital good
3. Insurance and reinsurance companies, including Sharia compliant insurance and reinsurance companies
4. Oil & gas, and mining companies under a Contract of Work ("COW"), Profit Sharing Contract ("PSC") or other agreements with the government that have specific provisions for DER. If such provisions do not exist, the taxpayer is not exempted from the DER
5. Companies subject to a Final Tax regime, and
6. Companies engaged in infrastructure businesses.

If a company does not comply with the DER, its financing costs related to the excessive debt portion are not deductible for CIT purposes.

Controlled foreign company provisions

Controlled foreign company ("CFC") rules whereby Indonesian resident shareholders may be subject to tax on deemed dividends have changed. A CFC is defined as a foreign unlisted corporation in which an Indonesian resident individual or corporate shareholder, either individually or as a group, hold directly or indirectly 50% or more of the total paid-in capital. Listed corporations are not CFCs. The Indonesian shareholders shall be deemed to receive dividends within four months after filing the tax return, or seven months after the end of the fiscal year where there is no obligation to file an annual tax return or there is no specific deadline of filing in the country of residence of the CFC. The CFC income subject to the deemed repatriation is limited to passive income.

The CFC rules are not applicable if a taxpayer has reinvested the dividends from the investment in private and listed foreign companies following the above exemption: refer to paragraph above on Dividends

Taxation of individuals

Introduction

An employer is obliged to withhold, remit and report tax on income received by an employee in connection with employment. This involves applying a monthly or daily average effective rate (TER) from January to November. The final annual calculation method will be done for December or the last tax period. The tax payable for December will be based on the recalculation of annual tax payable deducted by the total tax that has been withheld from January through November. The implementation of TER imposes no additional tax burden on employees, as the annual calculation applies the same tax rate. Individuals who are resident in Indonesia for tax purposes are required to obtain a personal NPWP and file an individual tax return, unless he or she receives net income below the non-taxable income threshold (discussed below).

Residence

The tax law distinguishes between resident and non-resident taxpayers. A resident taxpayer is defined as:

- An Indonesian citizen
- An individual present in Indonesia for more than 183 days in any consecutive 12-month period; or
- Any individual present in Indonesia and intending to reside in Indonesia.

An Indonesian citizen is considered a resident from birth unless they obtain an approval as foreign tax subject or leave Indonesia permanently and close their NPWP. An expatriate is resident until the date of final departure from Indonesia.

Resident individuals are taxed at the normal rates on taxable income, i.e. worldwide gross income less allowable deductions and non-taxable income.

Taxable income

Gross income is broadly defined as any economic benefit received or accrued by a taxpayer, whether originating from within or outside Indonesia. Gross income includes wages, salaries, bonuses and other compensation for work performed, honoraria, lottery prizes and awards, gross profits from a business, gains from the sale or transfer of property, dividends, interest, royalties, rent and income from the cancellation of indebtedness.

Based on the OMNIBUS Law the following individuals may be exempt from the worldwide income tax rule:

- a. An Indonesian citizen who resides outside Indonesia for more than 183 days will be treated as a non-resident

taxpayer provided “several conditions” are met in order to obtain an approval as a foreign tax subject

- b. Foreigner employees who meet “certain skills” requirement will be exempted from worldwide income reporting for four years starting from when they first arrive in Indonesia. They are only subject to tax on Indonesian-sourced income.

There are limited tax deductions available for individual taxpayers, which are as follows:

- individual personal allowances
- social security contribution
- certain religious offerings paid to the approved religious institutions

Interest income earned by individuals from time deposits held in Indonesia is subject to a 20% final WHT, accounted for by the paying bank. This income is not subject to further taxation in the hands of the recipient.

Income from the rental of land and buildings is subject to 10% final WHT. Corporate tenants must deduct the 10% tax from amounts payable to the lessor.

Indonesian tax can be reduced by tax paid or due abroad on income received or accrued abroad by an individual in the same fiscal year. The permitted foreign tax credit for such year shall be limited to the lesser of the actual tax paid in the source country/jurisdiction, the maximum allowable on ETR or the tax treaty rate.

Capital gains tax

Similar to companies, capital gains derived by individuals are taxable as normal income.

Dividends

Dividends are taxable on individuals. Dividends received from domestic taxpayers are subject to a final WHT of

10%. The dividend may be exempt if reinvested in Indonesia for a certain period of time.

A foreign tax credit may be available for any foreign taxes paid on dividends received from overseas.

Employment income/employee benefits

By special concession, Indonesian nationals are allowed the full benefit of non-taxable income allowances and the lower bands of tax rates against part-year employment income. In all cases, this occupational support deduction is limited to the lower of 5% of gross income or IDR500,000 per month.

Employee benefits

The tax treatment of Benefits-in-Kind (“BIK”) for employers and employees is complex and the ITO has issued detailed guidelines on encompassing aspects such as the deductibility of BIK expenses, the definition and scope of BIK as a taxable object, exclusion criteria for specific BIK categories, valuation and calculation methods for BIK and special considerations for certain areas.

A “benefit” is defined as compensation in the form of the right to use a facility or a service which is provided by either the employer or a third party where the asset is rented or paid for by the employer.

BIK expenses can be deducted from gross income to determine taxable income if the following conditions are met:

- BIK is related to expenses for obtaining, collecting, and maintaining income
- BIK (in connection with work) is a cost related to the relationship between the employer and the employee
- BIK (in connection with services) is a fee because of the inter-taxpayer service transactions

The technical provisions for charging BIK are as follows:

- BIK with a useful life of more than one year is charged through depreciation or amortization
- BIK with a useful life of less than one year is charged in the year the expenditure is incurred
- Employers should report their BIK expenses in their Annual Income Tax Return

BIK provided in certain areas is exempt as an income Tax Object. This includes all facilities and infrastructure at the workplace for employees and their families, such as residential accommodations, including housing, healthcare services, education, etc. as long as the employer’s business location has been designated as “a certain area” by the ITO.

Personal allowances

Resident individual taxpayers can also deduct the following in determining taxable income:

- for the individual taxpayer – IDR54,000,000/year
- for a married taxpayer who is the principal earner – an additional IDR4,500,000/year
- for each lineal family member by blood or marriage who is a full dependent (up to a maximum of three dependents) – an additional IDR4,500,000/year per dependent.

Resident individual taxpayers are also allowed the following tax deductions:

- For occupational support, an additional allowance of 5% of gross income up to a maximum of IDR6,000,000/year
- Contributions to registered pension funds and the BPJS Social Security scheme.

Tax rates

The following are the rates of tax applied to the annual taxable income of resident individuals:

Rate (%)	Taxable income
5	< IDR60 million
15	IDR60 million – IDR250 million
25	IDR250 million – IDR500 million
30	IDR500 million – IDR5 billion
35	> IDR5 billion

Article 17 Law No. 7/1983 as lastly amended by the Government Regulation in lieu of Law No. 2/2022.

An employee who does not have an NPWP is subject to a surcharge of 20% on the tax rate.

Subject to relevant DTAs, income received or earned by a non-resident for any work or services performed in Indonesia and paid by, or charged to an Indonesian entity, is subject to a final withholding tax of 20% applied to the gross amount of the income. The payer of the income is responsible for the WHT due on the income paid to the non-resident.

Payments to non-residents in the form of dividends, interest, royalties, rent for property, compensation for services, prizes and awards, pensions and other periodic payments, rentals, insurance premiums or the deemed gain (25% of the transaction value) from the disposal of shares in unlisted Indonesian companies in Indonesia are also subject to 20% WHT, unless reduced or exempted by an applicable DTA. This 20% WHT can be treated as a prepayment of tax if a non-resident becomes a resident taxpayer.

Tax administration

As indicated earlier, Core Tax Administration System (“CTAS”) is the integrated service administration system that streamlines all core tax administration processes, including taxpayer registration, tax return reporting, tax payments, audits, and collections starting 1 January 2025. Tax rights and obligations are now exercised electronically through electronic channels including the taxpayer’s portal, and websites or applications integrated with the ITO’s administrative system and contact center.

Electronic documents for exercising tax rights and obligations must be signed with an electronic signature.

Payment of taxes

Individuals must pay and submit their annual income tax return by 31 March of the following year. They must pay monthly installments based on regular non-employment income declared in the previous year's tax return by the 15th of the following month.

Income tax withheld by employers from payments of wages, salaries, honoraria and other payments to individuals subject to tax, must be remitted on a monthly basis by the 10th day of the following month.

Employers must file a monthly tax return by the 20th day of the following month outlining total compensation and taxes withheld. There is no annual employee tax return. However, the December tax return to be lodged on the 20th of January of the following year must detail, by individual, all taxes paid and income earned during the year by employees and other individuals subject to withholding. Any income tax payable as shown in such December tax return must be remitted before the filing date of 20 January.

Individual tax returns may be subject to tax audit. Payment of tax audit assessments is due within one month following the issuance of the tax assessment by the ITO. These are subject to the five-year statute of limitations.

Other Issues

Standard salary guideline

Under the tax law, resident individuals including expatriates are taxed on worldwide income. The ITO has issued a schedule of salary guidelines, the most recent version of which was issued in April 2002. The guidelines address the industry of employment, nationality and job title. They are used by the ITO in circumstances that indicate that salaries are not being properly declared for employee income tax purposes.

For expatriates commencing or terminating employment during the year, annualization of income is required for calculating the tax payable on the part-year income. This effectively pro-rates the non-taxable income allowances and the lower bands of tax rates. As such, the timing of arrival in or departure from Indonesia of expatriates is of no significance for tax purposes.

Expatriate employees of drilling companies are subject to WHT on a deemed salary basis, for which separate regulations exist. Nonetheless, if the employee is a tax resident, he/she must self-report the full salary and other worldwide income in the individual annual income tax return.

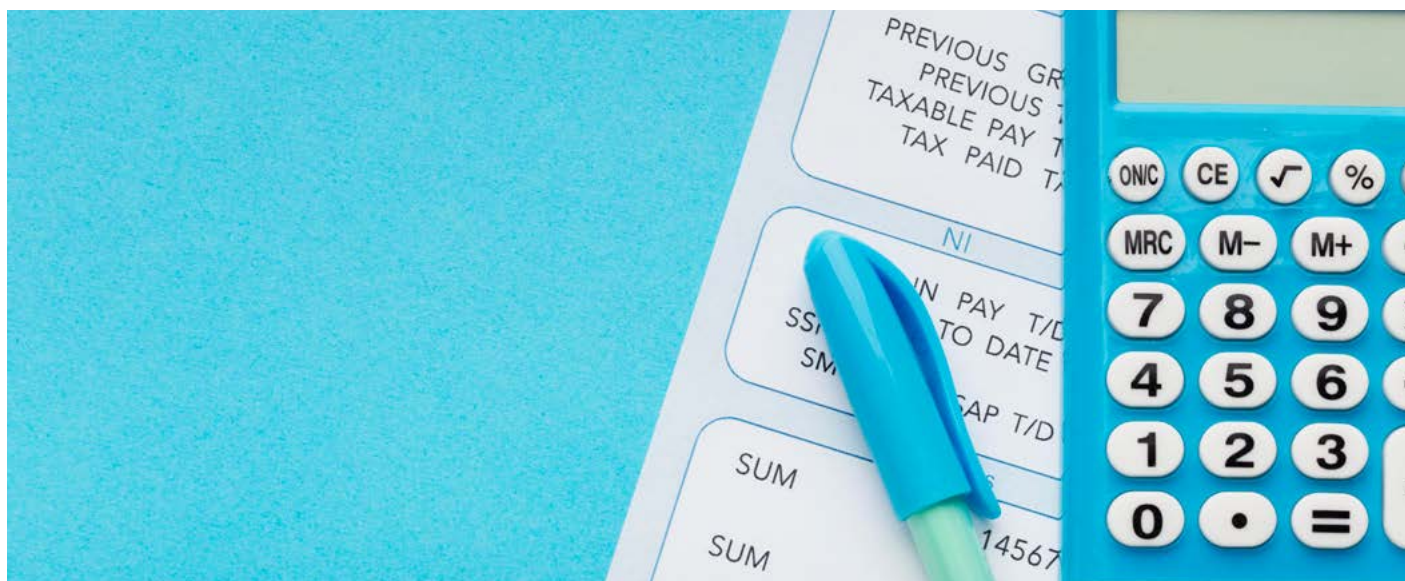
Indirect and other taxes

Value-added tax

Overview

A person or body, in whatever form, which in the course of its operations, produces, imports or exports taxable goods, conducts trading activities or renders taxable services, is required to register as a "Taxable Entrepreneur" with the ITO. However, only a resident or a PE can obtain a VAT registration. Registration by non-residents is not allowed.

The rate of VAT is 12% for luxury goods (certain motor vehicles, yachts, luxurious properties, etc.) and for non-luxury goods shall use an 'other value' of 11/12 at 12% rate, which effective rate is 11%. Under the law, the government may amend this rate to a minimum of 5% and a maximum of 15%. VAT on exports (including export of certain services) is levied at zero percent.



Goods and services subject to VAT

VAT is imposed on:

- The delivery of taxable goods (tangible or intangible) in Indonesia by taxable entrepreneur
- The importation of taxable goods
- The rendering of taxable services in Indonesia
- Utilization of intangible taxable goods from outside the Indonesia
- Utilization of offshore taxable services in Indonesia
- Export of taxable goods by a taxable entrepreneur
- The activities of self-construction
- The disposal of fixed assets by a taxable entrepreneur, including the transfer in the course of a merger (except where VAT on the original acquisition could not be credited) but a tax neutral merger at book value that has been approved by ITO may obtain an exemption from this VAT obligation on the transfer of assets.

Special schemes for VAT apply to sales of cigarettes, pre-recorded cassette tapes and compact discs.

Collection, filing and payment of tax

VAT is determined by applying the tax rate of 12% (or effective rate 11%) to the sale, replacement or import price. The sales price is the money value, including all costs of delivery, installation, insurance, technical and maintenance, commission, guarantees, interest and others, as long as they relate to the delivery of goods. Compensation for services is the money value, including all costs, which relate to the delivery of the services.

Excluded from the sales price, are sales tax and discounts and rebates, as long as these are included on the tax invoice.

For imported goods, the import value is the value used as the basis for calculating the import duty together with other levies imposed on the basis of the provisions in the customs law, but excluding VAT and STLG.

In cases where a special relationship exists between two parties involved in a transaction, the ITO may substitute a market price that becomes the basis on which the VAT is charged.

Monthly remittances to the government are required for the excess of output VAT over input VAT. Output VAT is VAT charged by a taxable entity on its sales of goods and services. Conversely, input VAT is the VAT incurred on purchases of goods and services used in the business. If input VAT exceeds output VAT for any month, it can be carried forward to the next month or a refund can be claimed (except input VAT for certain transactions). A refund claim triggers a tax audit. Input VAT, supported by a valid tax invoice, is only creditable if it is reported within three months after the end of the period stated in the tax invoice.

There is a self-collection obligation in relation to input VAT on offshore services purchased from non-residents for the benefit of residents.

Monthly VAT returns must be filed by the end of the following month and any VAT payable must be paid before the submission of the return.

Certain government bodies, production sharing contractors and mining companies are subject to special rules as they are designated VAT collectors. These bodies are obliged to remit VAT related to their purchases directly to the ITO.

Exemptions and reliefs

The principal activities not subject to VAT are as follows (some are categorized as strategic VAT-able goods and services):

- Goods produced by mining or drilling that are taken directly from their source: crude oil, natural gas, geothermal energy and minerals
- Staple goods (rice, salt, meat, egg)
- Food and beverages offered in hotels, restaurants and the like that are subject to regional tax/retribution
- Money, gold bars for state foreign exchange reserves
- Vaccines, schoolbooks, etc.
- Construction services for religious places, temporary shelter in the event of a natural disaster
- Services that are subject to regional tax/retribution (parking, arts and entertainment services)
- Religious services and services provided by the government

There are also goods and services that are granted an exemption from VAT.

Relief for export manufacturers

There is a number of relief schemes to allow exporter manufacturers to operate on a virtually VAT and duty-free basis. Such schemes include bonded zones, economic development zones ("KAPET") and FTZ. The government has approved a number of bonded areas located throughout Indonesia.

FTZ and FPA are geographically located in Indonesia but are considered outside the customs area and, therefore, goods brought into these areas are exempted from import duties, VAT and STLG. Business activities that can be carried out in a FTZ include, among others, trade, services, mining, transportation, banking and manufacturing.

An import incentive is granted to a manufacturer which imports raw materials to be used for processing, assembling or installing goods, provided those goods will be 100% exported. A manufacturer must be registered in order to be entitled to this incentive. A bank guarantee or customs bond is required for the full amount of the import duty, excise, VAT and STLG that would otherwise have been payable. When goods are exported, the guaranty or bond is released. A refund can be granted on any import duty, excise and tax paid on imported goods that are later used in producing items for export.

VAT transactions by foreign e-commerce players

The ITO can assign foreign e-commerce players carrying out transactions with Indonesian customers as VAT collectors if certain conditions are met. If assigned, the foreign e-commerce players have to charge, report and pay VAT based on the existing rate on their transactions with Indonesian customers. It should be noted that the assigned foreign e-commerce players are not considered to be Indonesian VAT payers. They are only collecting the VAT. The obligation to charge VAT applies on both business-to-business ("B2B") and business-to-customer ("B2C") transactions. Registered Indonesian VAT payers can credit the VAT levied as input VAT in their monthly VAT returns.

Sales tax on luxury goods ("STLG")

The VAT law also imposes a STLG on deliveries of luxury goods by manufacturers in Indonesia and on the importation of luxury goods. The rates vary depending on the category of the goods. The current rates range from 10% up to 75%, although the law allows for a maximum of 200%. Conceptually, this tax is charged only once. Like VAT, STLG is charged at zero percent on the export of luxury goods and any STLG suffered may be reclaimed. STLG is calculated by multiplying the applicable rate against the sales price or import price, excluding VAT. The STLG payable on the purchase of luxury goods cannot be credited against the VAT collectable when the goods are subsequently sold.

It is necessary to determine the applicability of the STLG on a case-by-case basis as the rules are complex and subject to change. There is an exemption from STLG on certain items for public use.

Customs duties

Customs duties are imposed on items imported into Indonesia. Customs duties are generally imposed on an *ad valorem* basis.

Duties are payable based on the harmonized system classification. Duties are based on the cost, insurance and freight ("CIF") value of the imported item and, in general, are imposed at rates of zero percent to 20% for most goods, 25% to 80% for cars, and 170% for alcoholic beverages.

The Indonesian customs procedures are based upon General Agreement on Tariffs and Trade ("GATT") principles. Some key features of the current system are:

- Ports have a "red and green channel" system for imported goods. Red channel goods are all inspected. Green channel goods are normally not inspected unless there is some justification. There are other channels
- Duties and taxes shown on the import declaration must be paid through a designated bank in order for the goods to be released
- Valuation of goods is based on GATT conventions
- The accuracy of the declaration and value is subject to subsequent audit of the importer's records.

Simplified procedures apply for goods entering bonded areas. Special rules apply for imports in the oil & gas sector, and goods for government projects funded by loans or grants from other governments.

Import duties are not payable in certain circumstances, including:

- Imports used in the production of exports where the manufacturer is located in a bonded zone or FTZ
- Certain imports by the petroleum, geothermal and mining industries.

Other relief includes:

- For certain goods which are imported on a temporary basis, the importer must pay 2% of the import duty and VAT each month for the period of usage. The remaining amount can be guaranteed. If the goods are not re-exported, the full amount of import duty and taxes plus a 100% penalty on the import duty must be paid
- Import duty tariffs are reduced to 5% on importation of goods by approved foreign and domestic investment companies using master list facilities.

Excise duties

Excise duties are levied on specific products whose consumption is restricted or controlled, namely alcoholic beverages and tobacco products.

Stamp duty

A stamp duty tax of IDR10,000 is charged on certain documents, such as receipts, agreements, powers of attorney and other legal documents.

Tax on land and buildings

This is a tax levied on the holding of land or buildings within Indonesia. The ITO, or in practice delegated regional authorities, will initially determine who the taxpayer is and issue a report on the tax object to that property. Normally, the owner is responsible for paying the tax due.

Tax rate and method of calculation

Tax is currently imposed at 20% or 40% of the full statutory rate, which is 0.5% of the sales value. Thus, the actual tax rate is 0.1% or 0.2%. The sales value is the actual transaction price or, in the absence of a transaction, the price of a similar holding can be used. The law provides that the sales value is to be fixed every three years, except for certain areas where it is fixed annually.

The tax is to be determined for the tax year, being the calendar year, based on the condition of the land and buildings as at 1 January. Specific calculation formula are stipulated for plantations, mining and forestry businesses.

Property title transfer tax

A transfer tax is payable on every transfer of title of land or land and buildings. The taxpayer is the recipient of the rights.

The definition of “transfer” is broadly defined, and includes:

- a sale and purchase transaction
- an exchange of assets
- a grant or a gift
- a testamentary grant
- the enforcement of a judicial ruling with permanent legal force
- a business merger, liquidation or expansion.

Exemptions

Tax is not imposed on certain transfers, such as:

- Transfers of title to the state for the public interest
- Transfers to diplomatic representatives and certain international organizations
- Donations for certain religious and community purposes.

Tax rate and method of calculation

The tax is 5% of the transfer price. There is a non-taxable amount of IDR60 million. The amount to be taxed is the acquisition cost. If the deemed sale value determined for land and buildings tax purposes is higher, that amount will be used as the basis for the transfer tax.

The property title transfer tax can be reduced in certain cases, including:

- grant of property to certain close family members – 50% reduction
- transfer of property in an approved merger or consolidation – 50% reduction.

Collection of tax

This tax becomes payable before the transfer is legalized. A lawyer or notary cannot legalize any legal documents in relation to a transfer if the tax has not been paid. The ITO is granted the power to review the property title transfer tax. If any underpayment is found, the ITO can issue a tax assessment.

Payroll taxes

There are no additional payroll taxes in Indonesia other than the employee income tax withholding system. However, BPJS premium contributions are based on payroll, most of which are borne by the employer.

Regional and local taxes

Local governments collect regional and local taxes. These taxes include:

- entertainment tax
- advertisement tax
- motor vehicle taxes
- hotel and restaurant tax
- street lighting tax
- tax on the use of underground and surface water.

Sources:

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4. Value Added Tax Law: Law No.8/1983 (amended by Law No.18/2000) concerning Goods and Services and Sales Tax on Luxury Goods
5. Customs Law: Law No.10/1995 (amended by Law No.17/2006) concerning Customs
6. Tax Court Law: Law No.14/2002 concerning Tax Court
7. www.pajak.go.id

Glossary

AEC	ASEAN Economic Community
AEO	Authorized Economic Operator
AML	Anti-Money Laundering
AoA	Articles of Association
APA	Advance Pricing Agreement
APBN	<i>Anggaran Pendapatan dan Belanja Negara</i> or State Budget
API	<i>Angka Pengenal Impor</i> or Import Identification Number
APINDO	Indonesian Employer's Association
API-P	<i>Angka Pengenal Importir Produsen</i> or Producer Importer Identification Number
API-U	<i>Angka Pengenal Importir Umum</i> or General Importer Identification Number
ASEAN	Association of Southeast Asian Nations
BAPEPAM-LK	<i>Badan Pengawas Pasar Modal dan Lembaga Keuangan</i> or Capital market and Financial Institution Supervisory Board
BAPPEBTI	<i>Badan Pengawas Perdagangan Berjangka Komoditi</i> or Commodity Futures Trading Regulatory Agency
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> or Indonesian National Development Agency
BEPS	Base Erosion and Profit Shifting
BI	Bank Indonesia or Indonesian Central Bank
BKPM	<i>Badan Koordinasi Penanaman Modal</i> or investment Coordinating Board
BOC	Board of Commissioners
BOD	Board of Directors
BOO	Build, Own and Operate
BOOT	Build, Own, Operate and Transfer
BPJT	<i>Badan Pengatur Jalan Tol</i> or Toll Road Regulatory Agency
BPM	<i>Badan Pemberdayaan Masyarakat</i> or Investment Board
BPN	<i>Badan Pertahanan Nasional</i> or National Land Agency
BPOM	<i>Badan Pengawas Obat dan Makanan</i> or Food and Drug Administration
CAGR	Compound Annual Growth Rate
CBD	Central Business District
CEP	Comprehensive Economic Partnership
CFC	Controlled Foreign Company
CFT	Counter Terrorism Financing

CIF	Cost, Insurance and Freight
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CIT	Corporate Income Tax
CLA	Collective Labor Agreement
Customs Office	The Indonesian Directorate General of Customs and Excise
DDI	Domestic Direct Investment
Declaration Letter	Assets declaration Letter for the Application of Tax Amnesty
DER	Debt-to-Equity Ratio
DGCE	Director General of Customs and Excise
DGT	Directorate General of Taxes
DPR	<i>Dewan Perwakilan Rakyat</i> or House of Representatives
DTA	Double Tax Agreement
DWT	Deadweight Tonnage
EDI	Electronic Data Interchange
EPI	English Proficiency Index
ERP	Electronic Road Pricing
ETT	Electronic Transaction Tax
FCPA	Foreign Corrupt Practices Act
FDI	Foreign Direct Investment
Forex/FX	Foreign Exchange
FPA	Free Port Area
FTA	Free Trade Area
FTZ	Free Trade Zone
GATT	General Agreement on Tariffs and Trade
GCG	Good Corporate Governance
GDP	Gross Domestic Product
GESF	General Expenditure Support Fund
GFC	Global Financial Crisis
GMS	General Meeting of Shareholders
GT	Gross Tonnage

GW	Giga Watt
HGB	<i>Hak Guna Bangunan</i> or Right to Build
HP	<i>Hak Pakai</i> or Right to Use
ICAAP	Internal Capital Adequacy Assessment Process
IDR	Indonesian Rupiah
IDX	Indonesia Stock Exchange
IFAS	Indonesian Financial Accounting Standards
IFRS	International Financial Reporting Standards
IMB	<i>Izin Mendirikan Bangunan</i> or Building Permit
IMD	International Institute of Management Development
IMF	International Monetary Fund
IMTA	<i>Izin Mempekerjakan Tenaga Kerja Asing</i> or working permit
INSW	Indonesian National Single Window
IPO	Initial Public Offering
IPP	Independent Power Producers
ISCO	International Standard Classification of Occupation
ISRM	Indonesian Single Risk Management
ITO	Indonesian Tax Office
JKK	<i>BPJS Ketenagakerjaan's</i> Occupational Accident Insurance Program
JKN	<i>Jaminan Kesehatan Nasional</i> or National Healthcare Benefits Program
JKP	Job Loss Security Program
JO	Joint Operation
JV	Joint Venture
KAPET	<i>Kawasan Pengembangan Ekonomi Terpadu</i> or Economic Development Zone
KBJI	<i>Klasifikasi Baku Jabatan Indonesia</i> or Indonesian Standard Classification of Positions
KBLI	<i>Klasifikasi Baku Lapangan Usaha Indonesia</i> or Indonesia Standard Industrial Classification Codes
LKPP	<i>Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah</i> or National Public Procurement Agency
LPI	Logistics Performance Index
LRT	Light Rail Transit
M&A	Merger & Acquisition

MINT	Mexico, Indonesia, Nigeria and Turkey
MoF	Ministry of Finance
MoH	Ministry of Health
MoLHR	Ministry of Law and Human Rights
MoM	Ministry of Manpower (also referred to as Manpower Affairs and/or the Ministry of Employment)
MoT	Ministry of Trade
MPBI	<i>Majelis Pekerja Buruh Indonesia</i> or Indonesian Labor Movement Council
MPR	<i>Majelis Permusyawaratan Rakyat</i> or People's Consultative Assembly
MRT	Mass Rapid Transit
MSME	Micro Small and Medium-scale Enterprise
NIB	<i>Nomor Induk Berusaha</i> or Business Identification Number
NPWP	<i>Nomor Pokok Wajib Pajak</i> or Taxpayer Identification Number
OECD	Organization for Economic Cooperation and Development
OJK	<i>Otoritas Jasa Keuangan</i> or Indonesia Financial Services Authority
OSS RBA System	Online Single Submission Risk-based approach System
OSS System	Online Single Submission System
PE	Permanent Establishment
PEB	<i>Pemberitahuan Ekspor Barang</i> or Declaration of Goods Exported
PERTAMINA	PT Pertamina (Persero) or State-owned oil & gas company
PIB	<i>Pemberitahuan Import Barang</i> or Customs Import Declaration
PIP	Priority Infrastructure Projects
PLN	<i>PT Perusahaan Listrik Negara</i> (Persero) or State-owned Power Company
PPA	Power Purchase Agreement
PPP	Public Private Partnerships
PPU	Private Power Utility
PSIP	Payment System Infrastructure Providers
PSN	<i>Proyek Strategis Nasional</i> or National Strategic Projects
PUPR	<i>Pekerjaan Umum dan Penataan Ruang</i> or Minister of Public Works and Public Housing
RCEP	Regional Comprehensive Economic Partnership
RDTR	<i>Rencana Detail Tata Ruang</i> or Detailed Spatial Plan

Reg. No. #/Year	Government Regulation (GR)
RITJ	<i>Rencana Induk Transportasi Jabodetabek</i> or Greater Jakarta Transportation Plan
RMDP	Refinery Development Master Plan
RPJMN	<i>Rencana Pembangunan Jangka Menengah Nasional</i> or National Medium-term Plan
RPTKA	<i>Rencana Penggunaan Tenaga Kerja Asing</i> or Expatriate Manpower Utilization Plan
SEZ	Special Economic Zones
SME	Small and Medium-scale Enterprise
SOEs	<i>Badan Usaha Milik Negara</i> (BUMN) or State-Owned Enterprises
STLG	Sales Tax on Luxury Goods
TDP	<i>Tanda Daftar Perusahaan</i> or Company Registration Certificate
TEU	Twenty-foot Equivalent Units
THR	<i>Tunjangan Hari Raya</i> or Religious Festivity Allowance
UKBA	UK Anti-Bribery Act
UMK	<i>Upah Minimum Kabupaten/Kota</i> or Regency/City Minimum Wage
UMP	<i>Upah Minimum Provinsi</i> or Provincial Minimum Wage
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
VAT	Value-Added Tax
VITAS	<i>Visa Izin Tinggal Terbatas</i> or Limited Stay Visa
WHT	Withholding Tax
WtE	Waste-to-Energy

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