

2024: A Year in Review and Looking Forward to 2025

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2024 was the year of elections: Indonesia, the USA, India, Japan, the UK and France to name but a few. However, it is the election of Prabowo Subianto, Donald Trump and Shigeru Ishiba and the re-election of Narendra Modi which promise to have the greatest impact on the global and Indonesian economies in 2025.

With world media focused on the second Trump presidency and what the administration's approach to tariffs, trade agreements, energy, China, Israel and Ukraine will be, this alert presents a short summary of certain legal developments in Indonesia in 2024 and our views on what might be key issues in 2025.

Automotive

Presidential Regulation No. 79 of 2023 on the Acceleration of the Battery Electric Vehicles Program for Road Transportation delayed the deadline to meet local content obligations until 2030 for 2 and 3 wheeled vehicles and until 2026 for 4 wheeled vehicles. The increasing importance of electric vehicles was demonstrated by the fact that they continue to avoid local content obligations and now benefit from additional fiscal and non-fiscal incentives.

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Banking and Finance

In the last week of 2023, the Indonesian Financial Services Authority (the "OJK") issued Regulation No. 21 of 2023 regarding Digital Services by Commercial Banks requiring banks to establish adequate IT infrastructure and IT management to support digital services being offered by them. One of the key requirements is the application of a two-factor authentication for verifying the data of customers or prospective customers. Banks operating digital services are also required to form a unit or function for handling the operation of digital services.

OJK Regulation No. 3 of 2024 on the Operation of Technology Innovation in the Financial Sector introduced substantial changes including additional feasibility criteria, additional testing plan requirements and determination of sandbox results for Technology Innovation in the Financial Sector.

The OJK issued implementing regulations of OJK Regulation No. 10 of 2022 regarding Peer-to-Peer Lending in the Fintech Sector which came into force on 1 July 2024. Specific details and reports including fraud and internal audit reports as well as details of users and funding data must be submitted to the OJK on a monthly and annual basis.

Bank Indonesia issued Regulation No. 3 of 2024 regarding an Alternative Institution for Dispute Resolution in the Financial Sector to supervise the Alternative Institution for Dispute Resolution in the Financial Services Sector (“LAPS-SK”). LAPS-SK is a specialist dispute resolution forum for the finance sector. Bank and non-bank financial institutions are required to be members of LAPS-SK but neither lenders nor borrowers are obliged to use LAPS-SK for dispute resolution. Settlement of a dispute via LAPS-SK is strictly confidential. LAPS-SK should not affect any financing agreement which has a dispute resolution clause which presumably includes all bank and established lending institutions but will be of value to newer forms of lenders.

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Capital Markets

The OJK issued a regulation relating to the reporting of shareholding ownership and encumbrance activities for public companies (“**POJK 4/2024**”). The notable changes from the previous relevant OJK regulations include an obligation to report the shareholding ownership in public companies and any changes to the controlling party/parties of a public company together with an explanation as to whether such controlling party/parties intend(s) to maintain control of the relevant public company or not. POJK 4/2024 also includes a new obligation for a shareholder of a public company to report its activity in encumbering its shares in the public company in the event the encumbered shares represent at least 5% of shares with voting rights in such public company.

2024 also saw new listing and delisting rules issued by the Indonesia Stock Exchange (the “**IDX**”) effective from 6 May 2024. Voluntary and forced delisting and delisting by order of the IDX are all regulated as is debt securities delisting. Relisting procedures for securities to be listed on either the Main Board, Development Board or New Development Board are also regulated.

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Employment and Labor

2024 was an eventful year in the employment sector, starting on 1 January 2024 with the introduction of a new formula for calculating the minimum wage and ending with Constitutional Court Decision No. 168/PUU-XXI/2023 which struck out 21 of 49 articles of the Manpower Law cluster in the Job Creation Law and obliged lawmakers to establish a new law on manpower by 1 November 2026.

The Constitutional Court also issued Decision No. 94/PUU-XXI/2023 on 29 February 2024 clarifying that a lawsuit by an employee for termination of his/her employment relationship can only be filed within one year from the receipt or notification of the decision from his/her employer.

The Golden Visa for expatriates from offshore companies was established with significant incentives for those wishing to invest in the new Capital City Nusantara (“IKN”). Generally, the granting of visas and work permits for the period of 5 or 10 years is subject to the relevant investment value. However, a lower threshold of investment value (i.e. only 20% of the investment value outside IKN) will be required for visa and work permit applications for foreign investors in IKN.

Of interest to all employers were the changes to maternity leave and welfare facility obligations in the new Mother and Child Welfare Law, Law No. 4 of 2024 on Mother and Child Welfare in the First Thousand Days of Life Phase. Working mothers are now entitled to three months of paid maternity leave with the potential to extend this leave in certain circumstances. Additionally, the Mother and Child Welfare Law introduces the right of every mother to have sufficient opportunities and facilities to feed her child at work, to have sufficient time off (if necessary, based on her child’s needs) which must be defined in the woman’s contract and to have access to day care that is affordable in terms of distance and cost.

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Mining, Projects, Energy and Renewables

In relation to renewable energy infrastructure, regulations on local content obligations (“TKDN”) were introduced making the Ministry of Energy and Mineral Resources responsible for TKDN for power projects and slashing the minimum TKDN percentages for a variety of goods and services related to the construction of an IPP plant. Further exemptions to TKDN obligations are available for projects funded to a large extent by offshore grants or loans from multi-lateral lenders and for solar IPPs.

Finally, the year ended with the rendering on 29 November 2024 of Constitutional Court Decision No. 39/PUU-XXI/2023 which declared that the ‘unbundling’ of the generation, transmission, distribution and/or sale of electricity is unconstitutional, potentially threatening the entire IPP sector. Bundled power services include generation, transmission, distribution and/or sale of electricity for the public and, given the monopolistic role of PLN in the transmission, distribution and sale of power (with the private sector generally only involved in the generation of power), the ability to offer unbundled services, i.e. power generation only but not transmission, distribution or sale of power, may no longer be possible. Given

the uncertainty of the decision on existing IPPs and the effect on IPPs in the development stage, we are closely following developments and speaking with stakeholders and officials to try to clarify the implications of the decision for the sector.

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State Administrative Disputes and Tax Law

On 20 March 2024, the Constitutional Court rendered its Decision No. 24/PUU-XXII/2024 which in effect removed the right of administrative (government) officials and agencies to file a reconsideration (*permohonan peninjauan kembali*) with the Supreme Court against a final and binding court decision in administrative disputes (*sengketa Tata Usaha Negara*). The Constitutional Court ruling was later affirmed by the Supreme Court in its Circular No. 2 of 2024 dated 17 December 2024 subject to the following exceptions: (i) where new evidence (*novum*) is discovered; (ii) where there are two or more final and binding court decisions that are contradictory; and (iii) to defend the civil right interests of state administrative bodies or officials (state or regional assets).

The government, by virtue of Minister of Finance Regulation No. 81 of 2024, also introduced the Core Tax Administration System (Coretax), namely a centralized, technology-driven platform for tax processes (ranging from registration, filing and payments to refunds) for all major tax categories including Income Tax, Value-Added Tax, Luxury Goods Sales Tax, Land and Building Tax, Stamp Duty and Carbon Tax. Coretax was launched on 1 January 2025.

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2025: Outlook

Indonesia's new President, Prabowo Subianto, won the 2024 election and assumed power on 20 October 2024 with Gibran Rakabuming Raka as his vice president, succeeding the decade-long Presidency of Joko Widodo (popularly known as Jokowi). True to his campaign promises on continuing Jokowi's policies, Prabowo's cabinet is dominated by ministers from the previous administration, particularly in highly strategic posts such as the Coordinating Minister of Economy, the Minister of Finance, the Minister of Investment, the Minister of Energy and Natural Resources and the Minister of Industry. The cabinet, however, came under scrutiny as it became the largest cabinet during the past 57 years, raising concerns about red tape and sectoral egos and also a potential budget increase.

Promising that Indonesia will achieve the goal of 8% economic growth, a major theme of Prabowo's vision for Indonesia is to become self-sufficient in key areas, particularly food and energy. The government is aiming to end imports of rice in 2027 while also looking to cut reliance on fuel imports within the next five years. Prabowo's government is also committed to expediting the refinement or down streaming of up to 28 commodities, including coal, oil and gas and minerals and commodities in the agriculture, forestry and fisheries sectors. To this end, a Task Force has been established to fast-track downstream efforts across various sectors. Interestingly, the development of Indonesia's new capital city, IKN, appears to be missing from Prabowo's list of high-priority programs.

Prabowo's coalition holds a commanding 82% of the seats in the Parliament and the absence of opposition in the Parliament will likely ensure a smooth passage of Prabowo's legislative agenda. Forty-one new pieces of legislation are slated as this year's priorities, including new laws on New and Renewable Energy, Strategic Commodities relating to Agricultural Products and Private International Law as well as proposed amendments to the Forestry Law, the Industry Law, the Manpower Law and the Law on Tax Amnesty.

Investment trends in 2024 were dominated by the transportation, warehouse and telecommunications sectors, followed by the base metal industry, mining, chemical and pharmaceutical industries and the food industry. These trends will likely continue in 2025. Indonesia's sovereign credit rating also remains relatively favorable at 'BBB' with a stable outlook according to Fitch Ratings. Foreign direct investments will be pivotal to Prabowo's goal of achieving 8% economic growth and the government is expected to continue its efforts in pursuing foreign direct investment of significant value but with an emphasis on local content requirements.

Indonesia is also implementing various measures to boost its tax revenue. However, the proposed increase in VAT from 11% to 12% was only implemented on luxury goods as of the date of this client alert.

On the foreign policy front, a more assertive approach can be expected from Indonesia. On 6 January 2025, Indonesia was officially inducted into BRICS, becoming the only Southeast Asian country to receive full membership. A forum founded by Brazil, Russia, India, China and South Africa, BRICS is widely perceived to be a counterweight to the dominance of western economies. Full membership of BRICS could, therefore, be seen as incompatible with Indonesia's long-standing commitment to a non-aligned foreign policy. The government has, however, addressed this concern, stating that membership of BRICS only highlights its strategy for economic diversification and market access as Indonesia is also seeking to join the Organization for Economic Cooperation and Development (OECD), a predominantly Western-backed economic alliance. Nevertheless, membership of BRICS is notable given that China is Indonesia's largest export market, accounting for 26% of exports in 2023 and

significantly surpassing the US which accounted for only 9% of exports. In the same year China also contributed US\$ 7.4 billion in foreign direct investment in Indonesia, second only to Singapore at US\$ 15 billion.

The return of Donald Trump as US president also gives rise to both opportunities and challenges for Indonesia. Incoming investments can be expected as businesses may seek to redirect their trade flows out of China to avoid tariffs. Indonesia's membership of BRICS may also be seen as a counterbalance in dealing with the US's increasingly protectionist policies. Indonesia will need to carefully balance its approach to trade in the face of threats by the US to impose tariffs against countries which do not closely align with the US's agenda, especially concerning China.

Indonesia remains committed to utilizing its investment policies and abundant natural resources to attract substantial investments. However, the nation is also wrestling with regulatory hurdles and complex bureaucratic processes as well as facing challenges in supplying competitive human resources and infrastructure. Economic risks, including fluctuating market conditions and geopolitical instability, may further complicate the investment climate. Countries around the world are also bracing for a recalibration of the global economy as Trump returns to power for the second time. It therefore remains to be seen whether businesses remain undeterred by these challenges and continue to be willing to invest in Indonesia.

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