

# Strategy for COVID-19 Pandemic in Indonesia: Forward-looking in National Economic Stability

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## Introduction

The spread of the COVID-19 pandemic has resulted in the declaration of a public health emergency status by the President of Indonesia as of 31 March 2020. The Indonesian government further decided to take a large scale social restrictions approach whereby regional governments are entitled to restrict certain public activities in their respective regions, which are suspected of being infected with COVID-19, upon approval of the Minister of Health.

The COVID-19 pandemic is also significantly affecting hundreds of thousands of people physically and millions of people economically throughout the world, including in Indonesia. It is predicted that Indonesia will experience a decrease in economic growth of up to 4%<sup>1</sup>, depending on how long this COVID-19 outbreak continues. In responding to this condition, the President of Indonesia, Jokowi (“**President**”), has stipulated several policy packages as a strategy to combat instability in the financial sector, by the enactment of Government Regulation in lieu of the Law of the Republic Indonesia No. 1 of 2020 on the State’s Financial Policy and Financial System Stability in Handling the COVID-19 Pandemic and/or to Face Threats that Endanger the National Economy and/or Financial System Stability (“**Reg. 1/2020**”).

This article will highlight the main strategy of the Indonesian government **to maintain the national economic system and financial sector stability**, including the state’s budgeting, taxation, financial system stability policies as well as the plan to overcome financial institutions’ problems, which may be found useful for the business community in carrying on business in Indonesia during this unfortunate situation.

## Extraordinary state budget

Reg. 1/2020 grants the government the authority to use the state budget for 2020 differently in an attempt to handle the COVID-19 pandemic and/or threats that may endanger the national economy and financial system stability. The authority includes the authority, (i) to change the limitation on the budget deficit of 3% of the Gross Domestic Product (GDP) up until the 2022 fiscal year, (ii) to allocate the budget from the Remaining Excess Budget (Sisa Anggaran Lebih), education endowment, particularly state funds, Public Service Board funds or the funds from divestment of state-owned companies, or even (iii) to issue Government Bonds that can be purchased by Bank Indonesia (“**BI**”), state-owned companies and corporate/retail investors. In the President’s official statement on 31 March 2020, he decided that the total additional expenditure and financing for the 2020 state budget for handling COVID-19 would be IDR 405.1 trillion. The total budget will allocate IDR 75 trillion for health spending, IDR 110 trillion for social safety net, and IDR 70.1 trillion for tax incentives and stimulus for People’s Business Loans (**Kredit Usaha Rakyat**) which is a working capital credit/financing and/or investment in Micro, Small, Medium Enterprises and Cooperatives (**Usaha Mikro Kecil Menengah** or “**UMKM**”).

# Two way tax policy

Reg. 1/2020 creates a two way tax policy in sustaining economic stability, by providing tax relief to businesses and imposing taxes on e-commerce businesses. The tax relief provided under Reg.1/2020 is as follows:

No.	Facility	Subject	Remarks
1.	Decrease of the Income Tax Rate (Article 17) at the following rate: a. 22% for 2020 and 2021 tax year; b. 20% for 2022 tax year.	Domestic Corporate Taxpayer  Permanent Establishment	For public companies with total issued shares traded on the Indonesian Stock Exchange of at least 40% and fulfilling certain requirements <sup>2</sup> , can have an additional 3% decrease on the rate.  -
2.	6 months' extension for exercising rights and fulfilling tax obligations, including submission of objections, requests for the return of tax overpayments and requests for the reduction or elimination of administrative sanctions.	Taxpayer	Subject to Head of the National Disaster Management Agency's decision on the COVID-19 pandemic period.
3.	Customs facilities in the form of exemption or relief from import duties.	-	To be further stipulated by a Minister of Finance Regulation.

In addition, it is worth noting for e-commerce businesses that aside from the tax facilities provided above, there are also new taxes imposed on transactions conducted through the e-commerce system stipulated in Reg. 1/2020, namely (i) Value Added Tax ("VAT") on the utilization within the Customs Area of intangible taxable goods and/or taxable services from outside the Customs Area and (ii) income tax or electronic transaction tax on trading activities conducted by foreign tax subjects who meet the provisions of significant economic presence. This new policy was made based on a consideration that in this pandemic, one of the sectors that will be relatively stable is e-commerce business and so it can actively contribute to the stabilization of the Indonesian economy.

Prior to the stipulation of Reg. 1/2020, there were at least 2 tax policies issued relating to the COVID-19 as summarized below:

No.	Policy	Subject	Remarks
1.	Submission of Individual Income Tax Returns for the tax year 2019 and payment of underpaid tax for the tax year 2019 on 30 April 2020 at the latest.	Individual taxpayers	Decree of Director General of Tax No. KEP-156/PJ/2020 concerning Tax Policy in relation to the Spread of Coronavirus 2019
2.	Submission of (i) realization of the transfer and investment of additional assets and/or (ii) placement of additional asset reports regarding the tax amnesty participation on 30 April 2020 at the latest.	Individual taxpayers participating in the tax amnesty program	

No.	Policy	Subject	Remarks
3.	Submission of Withholding Income Tax Return for the period February 2020 on 21 March 2020 until 30 April 2020.		
4.	For: a. tax objections; b. reduction or elimination of second administrative sanctions; c. reduction or cancellation of second Tax Assessment Letter/Tax Collection Letter,  with submission deadline ending from 15 March 2020 until 30 April 2020, an extension of the deadline until 31 May 2020.	Taxpayers	
5.	Incentive in Income Tax Article 21 that will be given from the period April 2020 until September 2020.	Employees working in one of 440 business fields and/or designated as KITE <sup>3</sup> companies <sup>4</sup> with certain qualifications	Minister of Finance Regulation No. 23/PMK.03/2020 concerning Tax Incentives for Taxpayers Impacted by the Coronavirus
6.	Incentives in Income Tax Article 22 on import that will be given as from the issuance date of the certificate of exemption until 30 September 2020.	Companies engaged in one of 102 business fields and/or designated as KITE companies	
7.	Incentive in Income Tax Article 25 that will be given as from the submission of the tax notice of the reduction until September 2020.	Companies engaged in one of 102 business fields and/or designated as KITE companies for the reduction of 30% on the installments that should have been	

No.	Policy	Subject	Remarks
		paid	
8.	VAT incentives that will be given until period of the September 2020 Tax Return and submitted on 30 October 2020 at the latest.	Companies engaged in one of 102 business fields and/or designated as KITE companies with certain qualifications	

## Financial system stimulus

In the context of financial system stabilization, the Financial System Stability Committee (**Komite Stabilitas Sistem Keuangan/KSSK**) is supported by BI, Indonesia Deposit Insurance Corporation (**Lembaga Penjaminan Simpanan**) ("**IDIC**") and Financial Services Authority (**Otoritas Jasa Keuangan**) ("**OJK**") that are granted special authorizations by Reg. 1/2020.

### 1. BI

In relation to the banking sector, BI can provide short-term liquidity loans or short-term liquidity financing based on sharia principles to Systemic Banks<sup>5</sup> or banks other than Systemic Banks or even provide Special Liquidity Loans to Systemic Banks that are experiencing liquidity difficulties which are guaranteed by the government. As for corporations/the private sector, note that BI can also grant access to the source of funds by way of repo of Government Bonds or Government Sharia Bonds owned by the corporations/the private sector through banking.

In line with the spirit of Reg. 1/2010, BI through Press Release No. 22/26/DKom dated 1 April 2020 stated that various BI policies to mitigate COVID-19's impact are as follows:

- a. reducing BI7DDR (BI 7-Day Repo Rate Data) policy rates in February and March by 25bps, respectively;
- b. increasing the intensity of triple intervention in the spot market, Domestic Non Delivery Forward ("**DNDF**") and purchase of Government Bonds in the secondary market;
- c. reducing the Statutory Reserve Requirement (**Giro Wajib Minimum** or "**GWM**") of conventional commercial bank foreign exchange from 8% to 4%;
- d. extending the Government Bonds repo tenor and daily auction;
- e. expanding underlying DNDF transaction types;
- f. reducing Rupiah GWM by 50bps for banks conducting export-import activities, financing to UMKM and/or other priority sectors;
- g. relaxing the provisions of the Macro Prudential Intermediation Ratio (**Rasio Intermediasi Makroprudensial/RIM**); and
- h. providing hygienic money, reducing Bank Indonesia National Clearing System (**Sistem Kliring Nasional Bank Indonesia/SKNBI**) costs, setting a 0% QRIS Merchants Discount Rates (MDR) for micro business merchants and supporting the distribution of non-cash funds for the government programs.

### 2. IDIC

To support banks in this pandemic situation, in the case of liquidity being incapable of handling failed banks, IDIC is allowed to sell or repo the Government Bonds owned by it to BI, issue bonds or obtain a loan. In addition to IDIC, the

government can establish other deposit insurance programs to avoid the crisis.

### 3. OJK

Financial services is one of the sectors impacted by the COVID-19 pandemic. The Indonesian government has set out strategies for OJK to maximize its function to control economic stability, including the right to (i) give written orders to financial service institutions to conduct mergers, consolidations, acquisitions, integration and/or conversion, (ii) stipulate exceptions related to the principle of openness in the capital market, and (iii) stipulate provisions regarding the use of information technology in holding General Meetings of Shareholders (“**GMS**”) or other meetings.

In line with the preceding, before the enactment of Reg. 1/2020, OJK issued the following in dealing with the COVID-19:

a. OJK Regulation No. 11/POJK03/2020 concerning National Economy Stimulation as a Countercyclical Policy Impact of the Spread of Coronavirus Disease 2019

This regulation provides economic stimulus policies related to the **bank sector**, among others, (i) assessment of the quality of credit/financing that is based only on the prompt payment of principal and/or interest for loans up to IDR10 billion and (ii) improving the credit/financing quality of performing loans after restructuring that can be applied without considering credit limits or type of debtor.

b. OJK Letter No. S-92/D.04/2020 dated 18 March 2020 concerning 2 months’ extension of reporting obligation for capital market business actors and convention of GMS by public companies.

Other than the foregoing written regulations/policies, OJK in Press Release No. SP 24/DHMS/OJK/III/2020 dated 27 March 2020 stated that OJK will and has prepared several relaxations in the non-bank financial and capital market sectors.

In the **non-bank financial sector**, OJK is preparing the following relaxations: (i) extension of the reporting obligations submission deadline, (ii) fit and proper test of the main party using video teleconference, (iii) determination of quality for financing assets and restructuring, (iv) calculation of solvency rankings of insurance companies or funding ranks of pension funds, and (v) suspension of life cycle fund provisions in pension funds.

As for the **capital market sector**, OJK has also taken various actions i.e., prohibition of short selling, asymmetric auto rejection, 30 minutes trading halt for a 5% index decline, buy back shares without the GMS and extension of the use of financial statements for IPO from 6 months to 9 months.

This COVID-19 pandemic is having vast economic implications that will affect various levels of society and businesses, and the inherent emergency status requires all immediate action to overcome the problems that will arise in the future. This Reg. 1/2020 and the implementing regulations are expected to provide a sound legal basis for the government and related authorities to take the necessary policies and steps to deal with threats that endanger the national economy and/or financial system stability.

For further information related to the services provided, please contact the Partners listed under key contacts.

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Hanafiah Ponggawa & Partners (Dentons HPRP).

1. Paragraph 3, Chapter I (General) of the elucidation of Reg. 1/2020.↵
2. To be determined in a Government Regulation.↵
3. KITE is an abbreviation for Import Facility for Export Purposes (**Kemudahan Impor Tujuan Ekspor**).↵
4. KITE Company means business entity that has fulfilled the terms and has been stipulated by a Minister of Finance decree to be granted KITE facilities in accordance with the customs laws and regulations.↵
5. Systemic Bank means a bank that due to the size of assets, capital and liabilities; network area or transaction complexity of banking services; and linkages with other financial sectors, can result in failure of part or all of other banks or the financial service sector, both operationally and financially, if the bank experiences a disruption or failure.↵

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