

Treasury Management in Indonesia

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Indonesia Overview

Indonesia occupies an archipelago in Asia which stretches from peninsular Malaysia to northern Australia.

The unit of currency is the Indonesian Rupiah (IDR). It is divided into 100 sen and commonly referred to as the Rupiah. The Rupiah is currently fully convertible but its value has varied significantly against the US dollar which is Bank Indonesia's intervention currency.

Bank Indonesia (BI) is the central bank and regulates the currency and financial institutions under the aegis of the Ministry of Finance. Regulations implemented following the Asian currency crisis and subsequent discussions with the International Monetary Fund (IMF) are encouraging Indonesia's evolution towards a more transparent monetary system. These regulations are also influenced by political factors which reflect current uncertainties.

Payment and clearing services in Indonesia are provided exclusively by Bank Indonesia (BI). BI operates clearing houses in many of the provinces or appoints a state owned bank to fulfill that function. Payment instruments are generally paper based but the clearing of these instruments can be automated using image technology or manual sorting procedures.

1. BI maintains an internal system called SAKTI for moving money within its branch network on an intraday basis. Financial institutions with a settlement account at any BI branch can move money to another BI branch account through the use of an electronic credit transfer. Value will be same day and no transfer will be made unless there are good funds in the sending bank's account.
2. The Jakarta Electronic Clearing System (Sistem Kliring Elektronik Jakarta or SKEJ) has been operational since 1998. Member banks process paper instruments presented at their branches and transmit images and an electronic total to the Electronic Clearing System Center (SPKE) which settles these transmissions on a gross basis between participants on the same day. The maximum value for transactions within the SKEJ is IDR 1 billion.
3. Clearing outside of Jakarta is a manual process managed by a BI branch or the branch of a state bank appointed by BI. Participants send the paper payment instruments along with electronic media summarizing the transactions for participant accounts to the clearing house in their province on a daily basis. The clearing house operates two clearing cycles which result in the net value of the cleared transactions being posted to participant accounts with the BI on the following business day. Items processed by a clearing house but drawn on a bank branch in a different clearing house incur an additional charge in addition to a clearing delay.

For tax purposes a company is considered to be resident in Indonesia if it is incorporated in Indonesia or exercises management and control from Indonesia. Resident companies are taxed on worldwide income less a credit

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Country profile information from [Ernst & Young](#)

Summary tax information from [DTT WorldTax](#)

News and policies of [Bank Indonesia](#)

General government information [Department of Foreign Affairs](#) and [NAFED](#)

Commercial banking websites of [Bank BDN](#), [Bank Bira](#), [Bank Duta](#), [Bank Lippo](#), [BII](#), [Citibank](#), [Modern Bank](#), [Panin Bank](#), and

for income taxes paid overseas at a marginal rate of 30% for income over IDR 50 million. Non resident companies are subject to withholding tax on income from Indonesia. Foreign companies with permanent establishments in Indonesia are taxed on the deemed profits of their Indonesian business at rates which vary with the particular type of business. In view of the many changes occurring within Indonesia and the complexity of the laws and administration, expert tax advice is recommended.

Treasury Management

Treasury management within Indonesia is a relatively simple but time consuming process. This is a reflection of the evolving nature of payment and clearing systems and concerns over monetary policy in Indonesia. It also reflects perceptions over the security of money transfer. As a result, treasury management operates much like the hub and spoke systems employed by airlines. Cash is concentrated to a central area, hedged or invested, and then disbursed.

All common treasury management techniques are permitted in Indonesia. Netting is permitted without restriction as is in-country pooling of IDR. Sweeping, zero balancing, and cash concentration are also permitted without restriction.

Reserve requirements imposed by the BI have a substantial impact on the cost of capital. Financial and political evolution within Indonesia make sensitivity to BI policies and potential changes in policy an important part of the treasury management function.

Accounts

The basic IDR operating account is referred to as a current account and may be held by resident or non-resident corporations. Banks are permitted to pay interest on current accounts. Overdrafts are permitted for resident accounts only.

Resident and non-resident corporations may hold accounts in Indonesia that are denominated in currencies other than IDR and US Dollars.

In addition to interest earnings on current accounts, time deposits in IDR or other currencies are used for investing short term funds. As a result of banking uncertainties, investors are displaying increased sensitivity to counterparty risk. Certificates from the BI are another short term investment option which offer the security of a government guarantee.

Overdraft finance is permitted for resident accounts only but is not commonly used due to high cost. The preference is for short term working capital loans. In general bank finance is the principal source of short term financing.

Payments and Receipts

Cash, checks, bilyet giro (an instruction to debit the issuers account and credit another account which is presented to a bank), and lalu lintas giro (llg - a paper based credit transfer) are common value transfer tools. Cash is in common use for many transactions and the BI has issued new and larger denomination banknotes to prevent counterfeiting and facilitate the use of cash. In addition the Post Office has more than 150,000 account holders who use its money transfer services which are linked to the banking system by

[Tamara Bank](#)

Online editions of Indonesia Daily News, Kapital, The Indonesian Observer, The Jakarta Post, and Welcome to CBN

Special information US Commercial Center and US Embassy

accounts maintained by the Post Office with the BI.

Lockbox type arrangements are permitted and are growing in popularity. Other types of receivables processing systems include the use of a partner bank's network to concentrate funds deposited at any of the partner's branches into a single account, generally in Jakarta.

Controlled disbursement is not possible because of the timing of cleared check presentment and BI cutoffs. A functional alternative is to have a disbursement account that is covered by book transfer from an interest earning surplus account at the same bank.

Technology and Marketplace

Electronic banking products including access systems and balance reporting, are available and commonly used. Indonesia has a developing telecommunications system which often relies on copper cable and analogue switches. This can result in the slow processing of electronic balance reports and transactions. Bandwidth is provided by an affiliate of the Post Office and, while readily available is extremely expensive.

The Indonesian banking system is in a period of major change as a result of the Asian financial crisis. Insolvent domestic banks are being liquidated by the BI or merged with other banks. At the same time the banking infrastructure is being developed to enable more efficient payments and better control over monetary policy by the BI. Many MNCs prefer to concentrate their business with government owned banks such as Bank Dagang Negara or Bank Negara Indonesia. Other foreign banks with Indonesian presence include Standard Chartered, ABN-AMRO, Deutsche Bank, Bank of America, HSBC, and Citibank. All of these can offer cash management solutions in addition to a range of electronic banking products.

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