

18 February 2020

Macroeconomics Indicator

	2019	2020F
GDP growth (%YoY)	5.02	5.01
Inflation (%YoY)	2.72	3.14
BI rate (% Year-end)	5.00	4.500
IDR/USD (Year-end)	14,155	13,500
CA balance (% of GDP)	2.82	2.51
Fiscal balance (% of GDP)	2.21	2.43

Positive reform in labour law

- The new labor law will be a breakthrough with major changes on foreign worker, outsourcing worker, minimum wage and severance scheme.
- We think the overall labour costs may potentially decline with the new law, which shall positively impact both domestic and foreign investments.
- Given the complexity and the number of laws that needs being changed, we see the new labour law to be effective in 2021 at the soonest.

Easier access for foreign worker

In the new submitted law, it will be easier for foreigner to work in Indonesia. Foreign worker wishing to have role in various job types may also do so without consent from the government. Previously, the company must submit work plan and justification on using foreign worker. We see this to be positive for knowledge transfer and capacity building.

Outsourcing will potentially gain more traction

The former labour law article 59 indicates that permanent type work is forbidden from using a contractual or outsourced worker. Deletion of article 59 in the new labour law, to our understanding, could be interpreted as every job could be done via outsourcing. This is positive, in the sense that companies fixed labour costs may drop in the future.

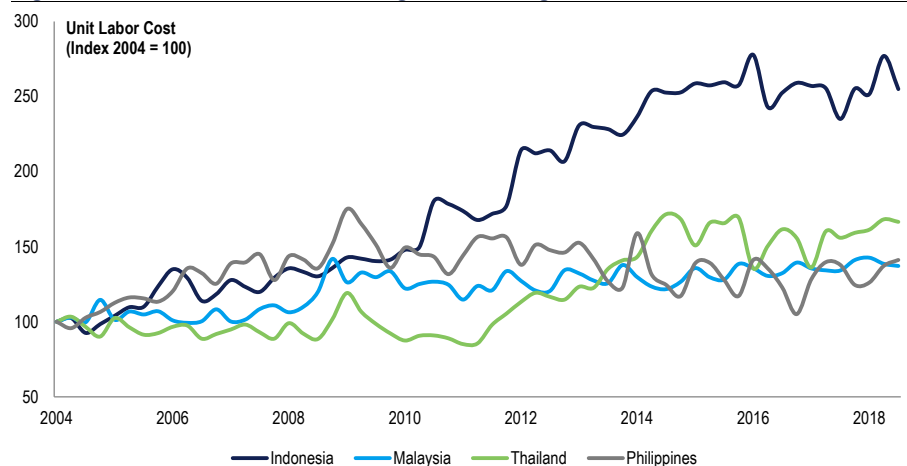
New minimum wage formula

The minimum wage formula was never been specified in the previous labour law, now it is clearly stated that the new formula is not allowed to be modified and/or altered for practical or political use. The new minimum wage formula shall use the regional economic growth (real growth instead of nominal growth previously), this is positive as growth varies from region to region.

More certainty for business owners especially during downturn period

Significant breakthrough also applied in compensation and severance payment if a company wants to exit and/or bankrupt. The new labour law deletes 12 articles regarding the compensation for worker in an event of bankruptcy/closing down. This shall promote more investment as it gives more certainty and clarity during downturn period.

Fig. 1: Indonesia labour costs is the highest in the region



Sources: Prospera, IndoPremier estimate since 2016

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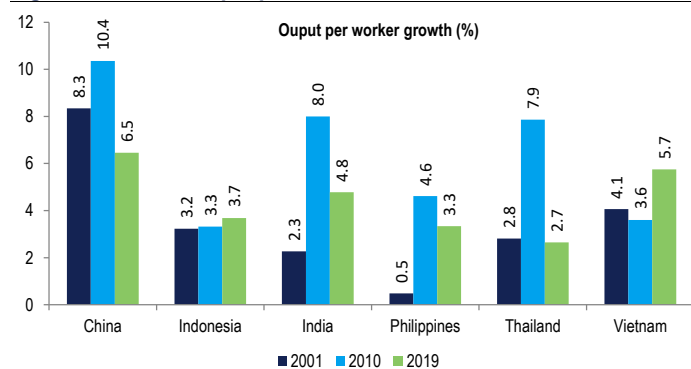
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Fig. 2: Summary of the New Labour Law

Omnibus Law	Previous Law	Our Take
Article 42 - 47: foreign worker <ul style="list-style-type: none"> Relaxation of Article 42 regarding foreign worker hiring Adding an exemption for: <ul style="list-style-type: none"> Board of director or commissioners with share ownership Diplomatic affairs Technician, vocation, start-up companies, business visitation and researcher for a certain time period All the above can now be hired without any permission from the government Deletion of article 46 	<ul style="list-style-type: none"> Exemption only for diplomatic affairs Submission and permission of work plan to the government regarding foreign worker hiring Article 46: foreign worker is forbidden to have a human resource position/role 	Positive
Article 56 - 61: <ul style="list-style-type: none"> Duration of work contract based on both parties' agreement and settlement. Work-contract hiring can be used also for permanent-type work. (Deletion of article 59) Deletion of article 64 Deletion of article 65 	<ul style="list-style-type: none"> Duration of work contract based on specific time period Article 59: Permanent type work is forbidden to use a work-contract hiring Article 64 - 65: outsourcing rule 	Positive
Article 61a: <ul style="list-style-type: none"> If the work contract is ended due to time or completion of work, employer must give compensation to worker with minimum 1 year duration The amount and size of the compensation will be formulated with government regulation 	<ul style="list-style-type: none"> Not defined 	Negative
Article 77 – 77a: <ul style="list-style-type: none"> Working hour is 8 hours a day and 40 hours a week The execution of working hour is decided with agreement (day or night) Maximum overtime is 4 hours a day or 18 hours a week. More than that, employer must pay severance or overtime 	<ul style="list-style-type: none"> 6-days or 5-days per week type, with consecutive 7 hours and 8 hours' work length Maximum overtime 3 hours a day or 14 hours a week 	Positive
Article 88 - 90 <ul style="list-style-type: none"> Minimum wage decided by governor The formula: $Wage_{t+1} = Wage_t + (Wage_t \times \text{Economic growth}_t)$. The economic growth figure used in the formula is the provincial economic growth SME wage is exempted from the minimum wage calculation. Wage is decided by employer and employee Labor intensive industries minimum wage used a separate formula, decided by governor 	<ul style="list-style-type: none"> No specific formulae for Minimum wage. Sectors could be exempted from the minimum wage according to governor regulation 	Neutral
Article 156 <ul style="list-style-type: none"> Compensation and severance payment rule in relation to duration of work. Basically the same, only a deletion on the reward for work duration above 24 years 	<ul style="list-style-type: none"> Work duration above 24 years is eligible to have a reward money of 10months salary 	Positive
Deletion of Article 161 - 172 <ul style="list-style-type: none"> Company may exit the industry for whatever reason and pay fair compensation regarding the duration of work. No multiplier of compensation or severance payment to worker 	Article 161 – 172: <ul style="list-style-type: none"> Specific rules for firing and the entitled compensation Situation and condition regarding compensation multiplier For example: (i) if worker is absent for five days without reason, may still applicable for severance payment. (ii) if a company filed bankruptcy, closed due to force majeure, etc. worker still eligible for compensation and severance payment and its multiplication 	Positive

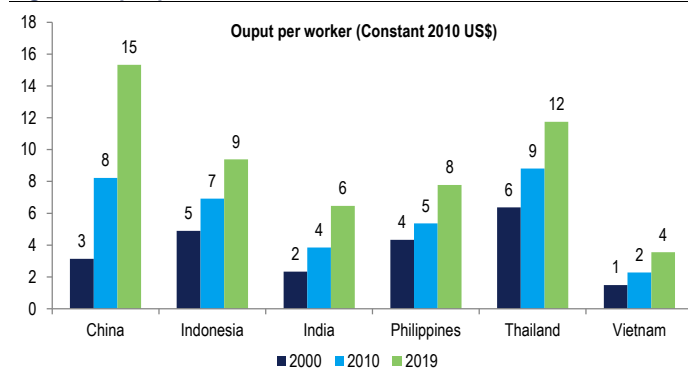
Sources: Government, IndoPremier

Fig. 3: Growth of output per worker



Sources: BPS, CEIC, IndoPremier

Fig. 4: Output per worker in nominal terms



Sources: BPS, CEIC, IndoPremier

ANALYSTS CERTIFICATION

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