

Author:

[E-mail✉ Tomoro Yoshimoto](mailto:tomoro.yoshimoto@nisha.com)

[E-mail✉ Ikang Dharyanto](mailto:ikang.dharyanto@nisha.com)

[E-mail✉ Grazia Ustriyana](mailto:grazia.ustriyana@nisha.com)

1. Background

As mandated by Law No. 23 of 1999 on Bank Indonesia (“BI”), which was lastly amended by Law No. 6 of 2009, the establishment of BI, as the central bank of Indonesia, has one of the objectives of achieving and maintaining stability in the value of the Rupiah, the Indonesian national currency. In order to achieve these objectives, BI has issued several regulations on the policies on the use of Rupiah, to encourage the use of Rupiah within the territory of the Republic of Indonesia and to regulate the use of Rupiah outside Indonesia, such as the following:

- a. BI Regulation (“PBI”) No. 3/3/PBI/2001 on the Restrictions of Rupiah Transaction and the Extension of Foreign Currency Credit by Banks, as amended;
- b. PBI No. 4/8/PBI/2002 on the Requirements and Procedures for Carrying Rupiah Currency Out or Into the Customs Territory of the Republic of Indonesia, as amended;
- c. PBI No. 19/11/PBI/2017 on the Settlement of Bilateral Trade Transactions by Using Local Currency through Banks, as amended; and
- d. PBI No. 20/10/PBI/2018 on Domestic Non-Deliverable Forward Transactions, as amended.

In line with the development of these provisions, BI believes that it is necessary to strengthen the regulation of principle norms for the use of the Rupiah in international activities, to support the stability of the Rupiah exchange rate, encourage financial market deepening, and encourage improvements in the structure of the domestic economy,¹ namely by the issuance of PBI No. 24/6/PBI/2022 on the Policy on the Use of Rupiah in International Activities (“PBI 24/2022”) on 27 April 2022. This PBI 24/2022 is also effective as of 27 April 2022.

2. Key features of PBI 24/2022

Similar to the limitation set out in the previous BI regulations, in principle, PBI 24/2022 expressly stipulates that the utilization of Rupiah shall only be carried out within the territory of Indonesia. PBI 24/2022, however, introduces a flexibility to the principle that if Rupiah is used outside the territory of Indonesia, it can only be used as long as it has positive impacts and benefits for the economy of Indonesia, by considering the following matters:

- a. condition, size and level of openness of the Indonesia national economy
- b. condition, transparency and depth of the Indonesia financial markets; and
- c. institutional and infrastructure readiness in Indonesia.

The scope of the use of Rupiah in international activities, such as international trade and international financial transaction, includes:

¹ https://www.bi.go.id/id/publikasi/peraturan/Pages/PBI_240622.aspx

- a. the use of Rupiah outside the territory of the Republic of Indonesia, by residents and non-residents, which includes the carrying of Rupiah out of Indonesia; and
- b. the use of Rupiah by non-residents within the territory of the Republic of Indonesia.

Resident is defined under PBI 24/2022 as a person, legal entity, or other entity, domiciled or planning to be domiciled in Indonesia for at least one (1) year, including representatives and diplomatic staff of the Republic of Indonesia abroad. On the other hand, non-resident is defined as a person, legal entity, or other entity, who is not domiciled in Indonesia or domiciled in Indonesia for less than one (1) year, including foreign representatives and diplomatic staff of other countries in Indonesia.

While the definition provided by PBI 24/2022 is not crystal clear and a little bit vague, we understand that the main aspect to determine whether a person is deemed as the resident or not in this PBI 24/2022 is the total period of stay of the relevant person in Indonesia.

3. The Use of Rupiah Outside Indonesia

Generally, PBI 24/2022 reaffirms the existing prohibition on the offshore use of Rupiah for both residents and non-residents. However, BI may make exception to such prohibition, with the following considerations (“**Considerations**”):

- a. achievement of objectives of BI’s policy on the use of Rupiah in international activities;
- b. benefit for the national economy and stability of the financial system; and
- c. other considerations.

Such exempted use of Rupiah outside the territory of the Republic of Indonesia may be carried out in:

- a. quotation, namely any form of the use of references and/or currency denominations as the basis in international financial transactions. This may include the use of Rupiah denomination for the issuance of securities outside Indonesia;
- b. financial transaction, such as in a sale and purchase of goods and/or services outside Indonesia; and/or
- c. settlement of financial transaction, such as the settlement of sale and purchase transactions of goods and/or services,

in the form of either:

- a. physical form, either banknotes or coins;
- b. account based (read: Rupiah-denominated bank accounts), such as the account opening; and/or
- c. through digital financial instruments (digital based), such as the use of Rupiah by using crypto technology or distributed ledger technology.

One of the examples of the exemption to the use of Rupiah outside Indonesia is the settlement of bilateral transaction by using local currency through a bank, which is further regulated under PBI No. 23/9/PBI/2021 on the Amendment to PBI No. 22/12/PBI/2020 on the Local Currency Settlement through Bank.

4. The Use of Rupiah by Non-Residents Within Indonesia

PBI 24/2022 states that the use of Rupiah by persons and entities in the category of “non-residents” within the territory of the Republic of Indonesia must be supported by certain underlying economic activities that are acceptable under PBI 24/2022, such as:

- a. current transaction activities
- b. financial transaction activities;
- c. capital transactions activities; and
- d. other underlying transactions as determined by BI.

In certain circumstances, BI may also impose further restrictions and exceptions relating to the use of Rupiah by non-residents within Indonesia, subject to the Considerations stated in section A above. One of these restrictions and exceptions relate to the prohibition for non-residents to be provided with credit or loans that are denominated in Rupiah, which is provided under PBI No. 18/19/PBI/2016 on Rupiah Foreign Exchange Transactions between Banks and Foreign Parties. In this regard, PBI 24/2022 makes it clear once again that the Rupiah may not be used by non-residents within Indonesia for credit and/or financing purposes.

5. BI Supervision, Coordination and Administrative Sanctions

BI carries out supervision on the use of Rupiah in international activities through indirect supervision and/or inspection. In carrying out supervision, BI may request necessary data, information, and explanation from residents and non-residents.

BI may coordinate with authorities, institutions, and/or other parties in supporting policy on the use of Rupiah in international activities.

Any violation of obligations as stated in this PBI 24/2022 is subject to administrative sanctions. However, there are no further elaborations on the administrative sanctions that may be given under PBI 24/2022.

In its official FAQ,² BI admits that the PBI 24/2022 was issued to simply provide general norms/principles related to the policy of the use of Rupiah in international activities. Meanwhile, BI still refers to the previous more technical regulations on this subject matter and which may be further issued in the future. PBI 24/2022 provides that further provisions on the policy for (a) the use of Rupiah outside Indonesia and (b) the of Rupiah by non-residents within Indonesia will be provided in another BI regulation which has yet to be issued. Therefore, it can be expected that BI will issue further details of this regulation in the near future.

6. Closing Notes

It seems that the issuance of PBI 24/2022 is expected to clarify and further strengthen earlier monetary policy regulations on the use of Rupiah both within and outside Indonesia, as well as to introduce possibility on the utilization of Rupiah, particularly in the context of international transactions, in the effort to maintain the stability of Rupiah and the control on utilization of Rupiah.

Previously, the Indonesian regulations clearly prohibit the use of Rupiah outside of Indonesia; however, the issuance of this PBI 24/2022 now opens the flexibility on the use of Rupiah outside of Indonesia with certain requirements which may ease the international transactions involving Indonesian entities.

Undoubtedly, BI hopes that this regulation will help boosting the use of Rupiah in international transactions, which can ultimately strengthen the position of Rupiah towards other foreign currency and support the country's national economy.

As the regulation is relatively new and as mandated by PBI 24/2022, we may need to anticipate that BI will issue further implementing regulations regarding the policies on the use of Rupiah outside Indonesia in the near future.

² https://www.bi.go.id/id/publikasi/peraturan/Documents/FAQ_PBI-240622.pdf

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