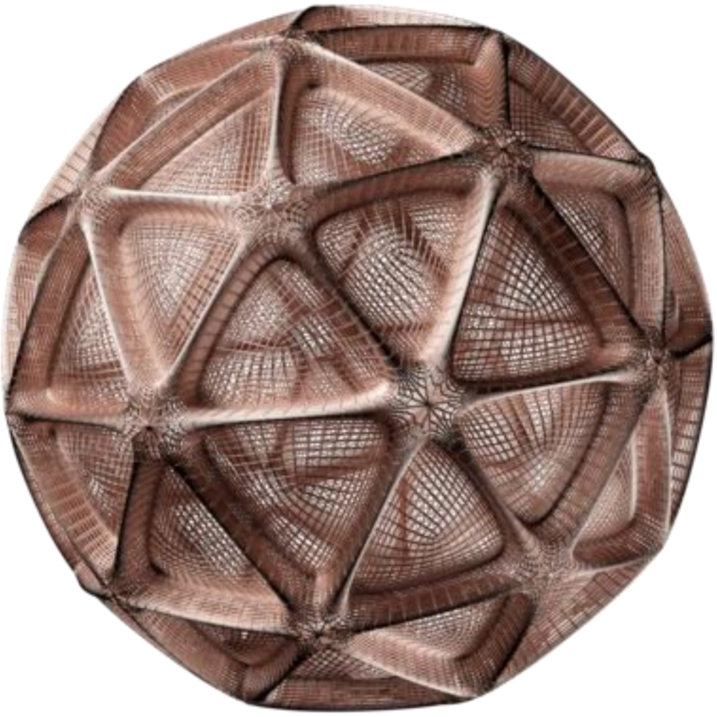


Implementation of National Economic Recovery Program

On 11 May 2020, the Indonesian government enacted Government Regulation No. 23 of 2020 on Implementation of National Economic Recovery Program in support of State Finance Policies for the Handling of Corona Virus Disease 2019 (COVID-19) Pandemic and/or Threats to National Economy and/or Financial System Stability as well as National Economic Relief ("GR 23/2020").

The National Economic Recovery Program, which is a series of activities for the purpose of national economic recovery, has the purpose to protect, maintain and increase economic capability of businesses. The program has several principles, which includes social justice, public welfare, supporting businesses, implementation of prudent, good governance, transparency and accountability principles, does not cause moral hazard, and risk allocation between relevant stakeholders in accordance with its tasks and authorities.

Under GR 23/2020, the Indonesian government may conduct the following actions:

- State Capital Injection (*Penyertaan Modal Negara* or PMN);
- Fund Allocation (*Penempatan Dana*);
- Government Investment (*Investasi Pemerintah*); and/or
- Guarantee.

Other than the above, the government may also implement relevant financial-driven policies or actions through government spending.

Government Authorities

As regulated under Gr 23/2020, the Indonesian Government are provided with several authorities in implementing the National Economic Recovery Program

State Capital Injection (*Penyertaan Modal Negara* or PMN)

PMN is defined as separation of state wealth from the State Budget (*Anggaran Pendapatan dan Belanja Negara* or APBN) or determination of company reserves or other sources which is allocated as capital of a State-owned Enterprise (*Badan Usaha Milik Negara* or SOE) and/or other limited liability companies, to which the funds are managed by way of corporation.

Under GR 23/2020, the Indonesian government are authorized to conduct PMN to SOEs and/or through appointed SOEs. Such PMN shall be intended for the purpose of improving the capital structure of the SOE and/or its subsidiaries which is affected by the Corona Virus Disease 2019 (COVID-19) pandemic and/or to increase its business capacities, which may include to perform certain mandate by the Indonesian government regarding the implementation of the National Economic Recovery Program.

The mechanics to such PMN refers to prevailing laws and regulations, specifically those related to Law No. 19 of 2003 on State-owned Enterprise, Government Regulation No. 45 of 2005 on Establishment, Management, Supervision and Liquidation of State-owned Enterprise, as well as relevant implementing regulations.

GR 23/2020, however, does not provide specific categories or conditions to which an SOE may be eligible to receive such PMN (other than those which are impacted by the COVID-19 pandemic). Having that said, it can be assumed that the government intend to firstly have an underlying legal basis (through the issuance of GR 23/2020) to help SOEs or their subsidiaries, and is looking up to a broad spectrum of industries that can be boosted financially in order to be more sustained against the COVID-19 situation. We understand that this PMN (and likelihood of its intention as per above-mentioned, can be beneficial for a lot industries, specifically the ones that are related to SOEs).

As of the writing of these talking points, recent publications indicate that the Indonesian government have allocated funds of an upward IDR 150 trillion for SOEs, to which such funds may be provided by (among others) PMN. Further, it is reported that a small portion of the fund which are going to be provided by way of PMN, are given to SOEs in the electricity sector and construction services sector.

Fund Allocation (*Penempatan Dana*)

Aside from PMN, GR 23/2020 also authorizes the Indonesian government to allocate certain funds to certain commercial banks with specific interest rates. The fund allocation aims to provide liquidity support to the banking industry which intends to conduct credit facility/financing restructuring and/or increase of working capital credit facility/financing.

GR 23/2020 regulates that the fund allocation shall be provided through Participating Banks (*Bank Peserta*). Participating Banks are defined as Banks receiving the government fund allocation and provides liquidity support funds to Implementing Banks (*Bank Pelaksana*) upon the Implementing Banks' credit facility/financing structuring and/or increase of credit facility/financing. The liqudity support may also be provided to Rural Banks (*Bank Perkreditan Rakyat*) and Financing Companies (*Perusahaan Pembiayaan*) which conducts similar restructuring and increase of credit facility/financing. On the other hand, Implementing Banks are commercial and sharia-based banks, Rural Banks, as well as financing companies which implements the restructuring and/or increase of credit facility.

Under GR 23/2020, Participating Banks shall fulfill the following criteria:

a. Indonesian commercial banks of which at least 51% (fifty one percent) of its shares are owned by Indonesian citizens and/or Indonesian legal entities;
b. falls under "healthy" (*sehat*) category based on the health level assessment performed by the Indonesian Financial Services Authority (Otoritas Jasa Keuangan or OJK); and
c. included in the list of 15th biggest banks (by asset).

Further to the above, GR 23/2020 regulates that Implementing Banks shall be eligible to receive such liquidity support from the Participating Banks in the event that the Implementing Banks fulfills the following criteria:

a. falls under "healthy" (*sehat*) category based on the health level assessment performed by OJK; and
b. owns Government Bonds (*Surat Berharga Negara* or SBN), Bank Indonesia Deposit Certificate, Bank Indonesia Certificate, Bank Indonesia Sukuk and Bank Indonesia Sharia Certificate which have not been repo-ed exceeding 6% (six percent) of third party funds.

The fund allocation transaction between the Participating Banks and Implementing Banks shall be further regulated under a bilateral agreement between them. It is to be noted that fund allocation may be regarded as similar to loan from the Participating Banks to Implementing Banks – since the fund allocation under GR 23/2020 authorizes that the fund is given with an interest (*bunga*).

In this instance, the Indonesian Minister of Finance shall have two roles, which are to determine the Participating Banks with reference to the information provided by OJK (based on the criteria of Participating Banks as mentioned above) as well as to further regulate on the mechanics of fund allocation under GR 23/2020.

Government Investment (*Investasi Pemerintah*)

In implementing the National Economic Recovery program, the government can implement through Government Investment. Different with PMN, government is not only limited to participation in form of shares (and to be managed corporately – by the SOEs as the PMN grantee or grantor to their subsidiaries, as the case may be), the government investment can also be made through long term fund and/or financial assets placement "shares", debt securities, and/or direct investment, as stipulated further in Government Regulation Number 63 of 2019 on Government Investment.

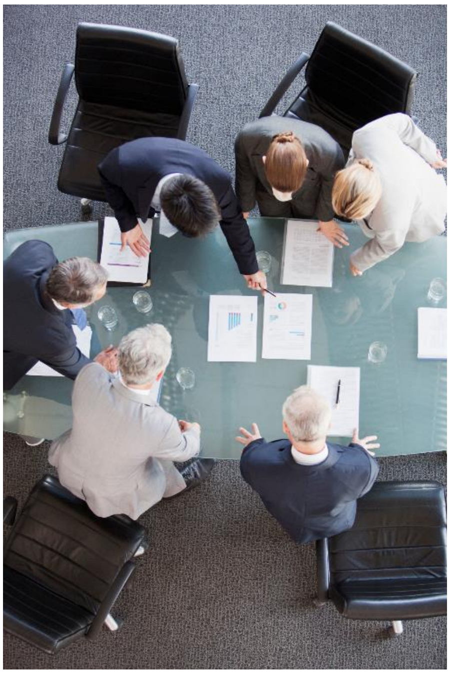
Guarantee (*Penjaminan*)

The government can also implement the National Economic Recovery program, through direct guarantee which will be provided by the government to SOEs by appointing a Guarantee business entity, and/or through the appointment of a Guarantee business entity based on a Ministerial decree.

It is to be noted that the government may assign PT Jaminan Kredit Indonesia and/or PT Asuransi Kredit Indonesia to provide guarantees to certain business actors in the form of guarantees for working capital loans provided by banks.

Further, the government can provide support in the form of payment of guarantee services, reassurance, loss limits, or other risk-sharing support needed. The government can inject PMN in the event of PT Jaminan Kredit Indonesia and/or PT Asuransi Kredit Indonesia requires an increase in Guarantee capacity.

National Economic Recovery Program through State Expenditure



Another key implementation regulated under GR 23/2020 is that the government can implement the National Economic Recovery program through state expenditure which includes but not limited to the provision of interest subsidies to banking debtors, finance companies, and channeling institutions for government credit programs (e.g. public service agencies and SOEs) that meet the requirements.

Further to the above, to be able to receive the interest subsidies, the banking debtor and finance company must meet the minimum requirements as follows:

a. It is a Micro, Small, Medium-scale Business, and/or Cooperatives with a credit limit no exceeds than IDR10,000,000,000 (ten billion Indonesian Rupiah) (e.g. Home Ownership Credit (*Kredit Pemilikan Rumah* or "KPR") up to Type 70 and Motor Vehicle Credit debtors for productive businesses, including online taxibike and/or informal businesses;
b. It does not include the National Blacklist (applies to debtors with loans in excess of IDR 50,000,000 (fifty million Indonesian Rupiah);
c. Has a current performing loan category (collectability 1 or 2) calculated as of 29 February 2020; and
d. Have a Taxpayer Identification Number or register to get a Taxpayer Identification Number.

Last but not least, GR 32/2020 also regulates the funds to implement National Economic Recovery programs which can be sourced from the state budget and/or other sources. As in financing the National Economic Recovery program, the government may issue Government Bonds purchased by Bank Indonesia in the primary market. The results of the SBN issuance are kept in a special account at Bank Indonesia.

Provisions regarding the scheme and mechanism for the purchase of government bonds by Bank Indonesia on the primary market are regulated jointly by the Minister of Finance and the Governor of Bank Indonesia.

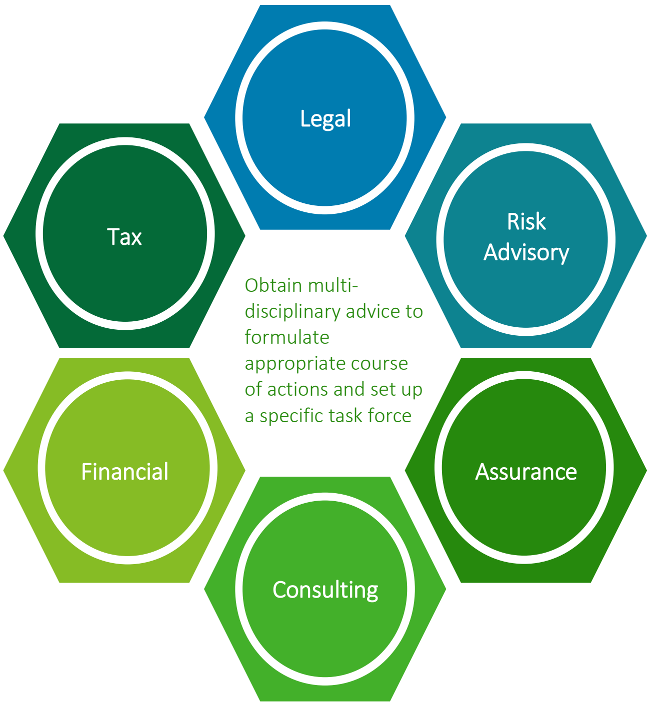
Key Takeaways & Practical Considerations

With reference to previous elaborations, below are several key takeaways & practical considerations on these talking points:

- GR 23/2020 introduces the National Economic Recovery Program with the goal to help SOEs and the banking industry (specifically banks which conducts credit facility/financing restructuring and/or increase), maintaining business sustainability and continuity (including Small and Medium Enterprises (SME)), as well as to minimize other impacts of COVID-19 pandemic (e.g. employment termination, business closure, etc). We view that the issuance of GR 23/2020 is a positive outlook and is a sign of support from the Indonesian government to businesses across the spectrum. The support provided to SOEs and SMEs may help them maintain sustainability and keeps them afloat, respectively, and support provided to the banking industry helps maintain national economic stability, and to a certain extend, also helps businesses which benefits from the credit facility/financing provided. It is to be noted that the Indonesian Government shall maintain prudent and accountability principles in performing the authorities provided under GR 23/2020, and monitor closely the implementation and utilization of the support provided.

- It is understood that PMN (as one of several authorities provided under GR 23/2020) may provide short-to-medium term solution to SOEs which are affected by the COVID-19 pandemic. It gives SOEs fresh capital to be utilized for short-term dealings and support business continuity. It is to be noted that SOEs shall maintain its transparency and accountability on the funds provided, and specifically implementation of good corporate governance, to ensure that the funds provided are utilized appropriately, which shall include to increase business sustainability, reverse adverse effects of the pandemic, and possibly mitigate the risks which may arise.

- Under the previously enacted OJK Regulation 11 of 2020 (OJK Regulation 11/2020), Banks are authorized to adopt certain credit facility/financing restructuring, in the hopes of helping debtors (including SME debtors) in terms of repayment and/or maintaining business continuity. Fund allocation as one of the authorities provided under GR 23/2020, is in line with the policy previously set up under OJK Regulation 11/2020, and shall increase the willingness of banks to perform such restructuring as they are now provided



with support and safety-net upon performing such restructuring. We view that the support will increase the willingness of banks/financing companies to perform such restructuring and/or increase of credit facility/financing, which in turn may help businesses/its debtors maintain.

Guarantee (as one of several authorities provided under GR 23/2020) will be carried out directly by the government (via SOE) or through a designated guarantee business entity (via PT Jamkrindo / PT Askrindo - both are SOEs) and given to business actors in the form of guarantees for working capital loans provided by banks. With this guarantee, we view that the business actors will have the opportunity to get better financial and business support. For the interest subsidies, it is noteworthy that banking debtors and finance companies must take concerns on the several requirements as mentioned in this Talking Points in order to obtain such interest subsidies.

It can also be take into account that there are other SOEs designated to conduct guarantee activities, e.g. PT Penjaminan Infrastruktur Indonesia etc, which may be authorized (as deemed necessary) for "bankability" of the upcoming infrastructure provisions in Indonesia with project financing structures/public private partnership.

It is noteworthy that Bank Indonesia has a role in supporting the National Economic Recovery program. Under GR 23/2020, the government can issue SBN purchased by Bank Indonesia in the primary market. This purchase is based on the actual needs of the National Economic Recovery Program. We view that this support from BI has in line with Members of the Board of Governors Regulation (PADG) Number 22/5/PADG/2020 on Auction of Government Bonds (SBN) and/or Sharia Government Bond (SBSN) on the Primary Market for the Sustainability of State Financial Management and also Minister of Finance Regulation (PMK) No. 38/PMK.02/2020 of 2020 on the Implementation of State Financial Policies to Resolve the COVID-19 and/or Facing Threats that Endanger the National Economy and/or Stability of Financial Systems.

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