



## Client Alert January 2026

### Expanding Public Financing Opportunities

Government Regulation Number 38 of 2025 regarding Provision of Loans by the Central Government (GR-38/2025) signals a major advancement in Indonesia's approach to public-sector financing. Through this regulation, the government introduces a refreshed framework for the extension of loan by the central government to public sector entities. The policy is positioned to enhance fiscal flexibility in delivering infrastructure and other public-oriented programs across Indonesia, while still anchoring these efforts in sound financial management.

#### Overview

On 10 September 2025, the government issued GR-38/2025 as an implementing regulation of Law Number 1 of 2024 regarding State Treasury. GR-38/2025 sets out the framework that enables the central government to extend loans to regional governments, *Badan Usaha Milik Negara* (BUMN), and *Badan Usaha Milik Daerah* (BUMD). Through this policy, the government aims to facilitate priority programs across sectors such as infrastructure, energy, transportation, and water supply, by providing relatively low-cost financing to eligible public entities in order to accelerate national and regional development.

Scope and salient points

Eligible borrowers

GR-38/2025 affirms that government financing is now accessible not only to regional governments but also to BUMN and BUMD, signaling a significant broadening support. This expansion demonstrates the government’s policy direction to support a wider ecosystem of public service providers, with a particular focus on institutions undertaking infrastructure projects and other strategic national priorities. By enabling BUMN and BUMD to tap into central government financing, the regulation is positioned to reinforce the capacity of government-linked institutions that commonly lead or operate in priority sectors. All financing extended by the central government to regional governments, BUMN, and BUMD requires prior approval from the House of Representatives.

Eligible purposes

The regulation outlines a clear policy objective that central government lending must contribute to national development priorities. The loan may be directed to, among others, the following:

- Development or provision of infrastructure;
- Delivery of public services;
- Strengthening of domestic industries;
- Support for productive sectors and working capital needs; and
- Other strategic programs aligned with central government policies.

The regulation also clarifies matters that remain outside its scope. GR-38/2025 does not supersede or overlap with existing laws governing: (a) procurement and transfer of domestic government loans; (b) foreign borrowing procedures and receipt of grants; and (c) project financing through government sharia securities (*Surat Berharga Syariah Negara* (SBSN)). This ensures that GR-38/2025 remains focused solely on domestic lending initiatives that are aligned with designated priority strategic programs.

To promote responsible borrowing and lending practices, GR-38/2025 requires that all central government loans adhere to key financial governance principles, which are transparency, benefit, accountability, efficiency and effectiveness, and prudence. These are designed to ensure that financing decisions are anchored in measurable public benefit, sound fiscal risk management, and clear oversight throughout the loan lifecycle.

Criteria and requirements for obtaining central government loans

Assessment of borrower’s eligibility

Table 1 and 2 below summarize the key criteria used to assess the borrower’s eligibility for central government financing.

Table 1—Regional government

Aspect	Requirements
Debt limit	Total outstanding + new planned debt must not exceed 75% of last year’s regional budget ( <i>Anggaran Pendapatan dan Belanja Daerah</i> (APBD)) revenue (portion not pre-earmarked).
Repayment capacity	The regional government must have a minimum debt service coverage ratio of 2.5, unless otherwise stipulated by the Minister of Finance.
No arrears	There are no outstanding loan arrears to the central government or other creditors.
Alignment with planning	Projects financed by the loan must align with regional development and budgeting documents.

Aspect	Requirements
Legislative approval	The regional government must have legislative approval at the time the APBD is discussed.
Legal compliance	The regional government must meet other relevant requirements under applicable laws and regulations.

Table 2—BUMN and BUMD

BUMN	BUMD
<ul style="list-style-type: none"> <li>There are no outstanding loan arrears to the central government and/or other creditors; and</li> <li>The BUMN has obtained approval from the institution/agency overseeing the state-owned enterprise (SOE) sector/general meeting of shareholders (GMS)/capital owner.</li> </ul>	<ul style="list-style-type: none"> <li>There are no outstanding loan arrears to the central government and/or other creditors; and</li> <li>The BUMD has obtained approval from the regional head representing the regional government in the ownership of segregated regional assets in a regional public company/GMS.</li> </ul>

## • Application process

Table 3 below sets out the application process for regional governments, BUMN, and BUMD to access central government loans.

Table 3—Application process

Required documents	Regional government	BUMN	BUMD
Approval as a form of commitment/support for the repayment of loan	✓  (from the Regional House of Representatives)	✓  (from the institution/agency overseeing the state-owned enterprise (SOE) sector/GMS/capital owner)	✓  (from the regional head and board of commissioners/supervisory board)
Written consideration	✓  (from the Minister of Home Affairs and Minister of National Development Planning/Head of Bappenas)	✓  (from the Minister of National Development Planning/Head of Bappenas)	N/A
Feasibility study	✓	✓	✓
Calculation of APBD and the ratio of debt service coverage	✓	N/A	N/A
Audited financial statements	✓	✓	✓
A statement letter regarding the willingness to deduct general allocation funds and/or profit-sharing funds for the payment of arrears	✓	N/A	N/A
A power of attorney for the deduction of general allocation funds and/or profit-sharing funds for the payment of arrears from the governor/mayor/regent	✓	N/A	N/A



Required documents	Regional government	BUMN	BUMD
APBD for the current year	✓	N/A	N/A
A written response/recommendation from the board of commissioners or supervisory board	N/A	✓	N/A
A statement letter regarding the provision of collateral for the loan	N/A	✓	✓
Approval from the Minister of Finance (in the case the proposed loan surpasses the maximum deficit limit)	Conditional	N/A	N/A

Note: In addition to the abovementioned documents, the Minister of Finance reserves the right to request any additional documents deemed necessary to support the information submitted by the regional governments, BUMN, and BUMD.

With regard to the foregoing, the evaluation of creditworthiness of each loan application is carried out based on several key considerations, including: (a) fiscal capacity; (b) conformity with the lending policy; (c) actual needs for the loan; (d) repayment ability; and (e) lending requirements and risks.

Additionally, BUMN and BUMD are required to provide collateral as a condition for obtaining the loan. However, GR-38/2025 does not set out specific provisions regarding the form or criteria for the collateral. Further clarification will therefore be required to avoid any discrepancies in the loan application process.

Such creditworthiness evaluation shall proceed only upon the complete and accurate submission of all required documents. In carrying out the evaluation, the Minister of Finance may coordinate with other ministries, agencies, and relevant institutions as deemed necessary to ensure a comprehensive review.

## Term of loans

Type of loan	Regional governments, BUMN, and BUMD are eligible to receive central government financing in the form of loans, which are bound by an agreement and not in the form of government securities, must be repaid under certain conditions, and are provided based on either conventional or sharia scheme.
Key terms of the loan	<ul style="list-style-type: none"> <li>Any loans provided by the central government must be formalized through a written loan agreement.</li> <li>At a minimum, the agreement must specify the following: <ul style="list-style-type: none"> <li>Identities of the parties;</li> <li>The amount of the loan;</li> <li>The purpose of the loan;</li> <li>The period of the loan;</li> <li>Rights and obligations of the parties;</li> <li>Terms and conditions of the loan;</li> <li>Dispute resolution provisions; and</li> <li>Sanctions.</li> </ul> </li> </ul>
Repayment provisions	Loan recipients are required to meet their payment obligations as agreed in the loan agreement. These obligations generally include principal installments, interest or margin, and other applicable fees and charges. Any delay or failure to meet these obligations may result in penalties and/or other sanctions as set out in the loan agreement and in accordance with applicable laws and regulations.

Type of loan	Regional governments, BUMN, and BUMD are eligible to receive central government financing in the form of loans, which are bound by an agreement and not in the form of government securities, must be repaid under certain conditions, and are provided based on either conventional or sharia scheme.
Currency provision	Loan provision and repayment are carried out in Indonesian Rupiah.

Enhancing the public financing landscape

GR-38/2025 introduces central government loans as an additional financing tool that complements existing fiscal support schemes. Rather than replacing current modalities, these loans are designed to bridge financing gaps and improve the overall feasibility of regional and public-sector projects.

The regulation also affirms that a wide range of strategic infrastructure initiatives may be financed through this scheme. By enabling regional governments, BUMN, and BUMD to access central government loans, GR-38/2025 may enhance their capital expenditure capacity and accelerate infrastructure delivery. This, in turn, can strengthen the financial position and unlock opportunities for private sector participants to find greater bankability and confidence in the project pipeline. Ultimately, the success of this scheme will depend on how effectively it integrates with existing fiscal instruments and contributes to expanded access to capital for priority infrastructure projects.

Key takeaways

In view of the foregoing, the following are some of the key takeaways that may be taken into consideration:

- GR-38/2025 authorizes the central government to extend loans to regional governments, BUMN, and BUMD, which, in particular, aims to support priority programs across various sectors, including infrastructure, energy, transportation, and water supply. This financing mechanism is primarily intended to strengthen project-based funding for initiatives such as infrastructure development or provision, enhancement of public service delivery, empowerment of domestic industries, financing of productive sectors or working capital needs, and other development programs that align with central government’s strategic policies.
- To obtain central government loans, regional governments, BUMN, and BUMD must comply with all eligibility requirements subject to the Minister of Finance’s authorization following an assessment of the borrower’s financial capacity. Further implementing guidance may be required to ensure consistency in the application and evaluation process and to prevent potential discrepancies in interpretation or execution.
- It is expected that the new policy will strengthen fiscal capacity and enhance the bankability of regional infrastructure projects by providing alternative credit support from the central government, which ultimately depends on how well it complements existing financing instruments to accelerate the delivery of priority infrastructure across Indonesia.

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