



Indonesia's Rising Offshore Loans: Legal Rules for Foreign Lenders

Issue 16, July 2025

Indonesia's government is borrowing more from foreign lenders, at a faster rate than usual. By April 2025, offshore loans had already increased over 6% compared to the end of last year. With more borrowing expected, foreign lenders need to understand the legal preconditions the government must follow before any loan agreements can be signed and disbursed.

In the first quarter of 2025, the Government of Indonesia ("GOI") recorded offshore debt through loans (excluding government securities) totaling almost USD67.55 billion, according to Indonesia's External Debt Statistics June 2025 edition. This marks a 6.31% increase from the USD63.54 billion recorded in December 2024. Even without accounting for borrowing in the remaining months (May to December 2025), this rise is quite significant compared to annual increases, which on average range from 5% to 9% or even show a decline in some years.

Since 2023, the government's offshore debt through loans has risen consistently for over two consecutive years, with no annual decline. In early 2025, the surge in loan disbursement is part of the government's front-loading strategy – borrowing earlier in the year to fund amid global economic uncertainty following the United States' imposition of high import tariffs on dozens of countries. Nonetheless, Finance Minister Sri Mulyani Indrawati has stated that financing remains on track and that new borrowing will continue cautiously and prudently, taking into account the projected 2025 state budget deficit.

Given the increase in offshore borrowing, it is interesting to examine the legal process behind it. The following sections outline the key procedures, required approvals and legal obligations involved before the government can obtain offshore loans.

A. Introduction to the GOI Offshore Loan

A GOI Offshore Loan refers to any debt financing obtained by the GOI from foreign lenders through a loan agreement that is not in the form of government securities and must be repaid under specific terms and conditions ("GOI Offshore Loan"). These loans may be used to:

- (a) finance the state budget (Anggaran Pendapatan dan Belanja Negara – "APBN");
- (b) fund priority programs, including capital participation by ministries, non-ministerial government institutions, and state institutions ("Ministries/Agencies");
- (c) manage the government's debt portfolio; and/or
- (d) support the needs of regional governments and/or state-owned enterprises ("SOEs").

The GOI Offshore Loans are provided by foreign lenders who enter into loan agreements with the GOI ("GOI Offshore Loan Agreement"). The sole authority to represent the GOI in obtaining these loans is the Minister of Finance ("MOF"). For efficiency, the MOF may authorize officials within the Ministry of Finance to sign the GOI Offshore Loan Agreement on behalf of the minister. Ministries/Agencies, regional governments and SOEs are prohibited from entering into any agreement or commitment that could create an obligation to incur a GOI Offshore Loan.

For regional governments or SOEs to access these loans (see (d) above), the GOI may: (i) on-lend (menerus-pinjamkan) the funds to regional governments and/or SOEs through an on-lending agreement; and/or (ii) on-grant (menerus-hibahkan) the funds to regional governments through an on-granting agreement. Regional governments may then on-lend or on-grant the funds to their regional SOEs.

B. Prerequisites for the GOI to Obtain the Offshore Loan

During the preparation process, potential lenders wish to ensure the MOF has satisfied any prerequisites, including that the borrowing remains within the MOF's maximum loan limit. The proposed offshore loans must also be allocated in the APBN for the current fiscal year and approved by the House of Representatives (Dewan Perwakilan Rakyat – "DPR"). These prerequisites are explained below.

1. Maximum Loan Limit Plan

To maintain control over GOI Offshore Loans, the MOF prepares a maximum loan limit plan, reviewed annually. This plan considers: (i) actual financing needs, (ii) the government's repayment capacity, (iii) the cumulative debt ceiling, (iv) the capacity of offshore loan sources,

and (v) debt-related risks.

In preparing this plan, the MOF may consult with the Governor of Bank Indonesia. The plan is based on projected APBN financing needs, including on-lending to regional governments or SOEs, over a three- to five-year period. It is updated annually to ensure that yearly financing needs can be met through loans that have been or will be signed.

2. Approval by the DPR

Offshore Loans are part of the net borrowing value approved by the DPR during the annual APBN approval (“Net Borrowing Value”). As part of this process, the DPR approves the sources of financing to cover the budget deficit, taking into consideration the government’s financing obligations. Specifically, loans from offshore sources form part of the total financing needs from debt instruments under the APBN.

In addition, DPR approval is further required if there are changes that increase the Net Borrowing Value’s positive balance, meaning that loan disbursements exceed repayments, adding to the APBN.

C. Types of GOI Offshore Loan

Government Regulation Number 10 of 2011 on the Procedures for Procuring Offshore Loans and Receiving Grants classifies the GOI Offshore Loan into two main categories: (i) loans in foreign currency and/or rupiah used to fund the APBN deficit and manage the debt portfolio (“Cash Loans”); and (ii) loans used to finance specific activities (“Project Loans”). Each type follows a different procedure for the MOF, when submitting proposals to prospective offshore lenders.

a. Cash Loans

To secure financing commitments, the MOF submits proposals for Cash Loans to prospective offshore lenders, within the approved maximum loan limits (see B.1 above). The prospective offshore lenders may require certain policies to apply to the relevant Cash Loans, provided the policies are approved by the Ministry/Agencies responsible for the subject matter.

b. Project Loans

To secure financing commitments for specific activities, the MOF submits proposals for Project Loans to prospective offshore lenders, within the approved maximum loan limits (see B.1 above), and based on a list of activities (“List of Activities”) provided by the Minister of National Development Planning/Head of the National Development Planning Agency (“Minister of Planning”). This list consists of proposals submitted by the relevant Ministries/Agencies,

regional governments and SOEs.

Based on the indicated source of financing in the List of Activities, the MOF determines the financing source for each activity, which may be: (i) an Export Credit Agency (“ECA”); or (ii) a foreign financial institution, national financial institution, or non-financial institution domiciled and operating outside Indonesia that provides loans to the GOI without ECA guarantees (“Foreign Private Lender”).

If the financing is sourced from a Foreign Private Lender, the MOF conducts a separate financing procurement process to select the lender. This selection process, which is separate from the procurement of goods/services, proceeds as follows:

(a) Procurement of Goods/Service

Once the MOF has determined the financing source, the proposing Ministries/Agencies, regional governments or SOEs begin the procurement of goods/services. This process results in the execution of a project goods/services procurement contract (“Procurement Contract”), which may be implemented after the effective date of the GOI Offshore Loan Agreement (or a corresponding master loan agreement).

(b) Procurement of Financing

After determining the financing source, the MOF begins the financing procurement process to select the foreign creditors, whether in the form of a Foreign Private Creditor or an ECA.

As the GOI Offshore Loan Agreement is intended to finance activities under the Project Goods/Services Procurement Contract, it is signed only after the Procurement Contract has been executed by: (i) the relevant Ministry/Agency, regional government or SOE, and (ii) the goods/services provider.

D. Post-Obligations: Reporting and Publication

1. Reporting

A copy of the executed GOI Offshore Loan Agreement must be submitted by the MOF to the Audit Board of Indonesia (Badan Pemeriksa Keuangan) and other relevant institutions, such as Ministries/Agencies as APBN user authorities, and Bank Indonesia.

Ministries/Agencies, regional governments and/or SOEs responsible for implementing activities financed by GOI Offshore Loans must submit quarterly reports to the MOF and the Minister of Planning. These reports, submitted via their respective representatives (e.g., Ministers/Heads of Institutions, Governors, Regents/Mayors or SOE Directors), must cover the

implementation of: (i) the GOI Offshore Loan Agreement, and (ii) the Procurement Contracts related to the project activities.

2. Publication

At least once every six months, the MOF must publish information on the GOI Offshore Loans.

In conclusion, obtaining a GOI Offshore Loan requires coordination and approvals across multiple government institutions, including the MOF, the DPR and the Minister of Planning. This process is a form of control to ensure that any GOI Offshore Loans are used for clearly designated purposes. Once a GOI Offshore Loan is signed and the financing secured, report and publication requirements must be followed to provide transparency to the public.

Foreign lenders must know these rules and make sure their loan agreements with the GOI are properly approved and legally binding. Failure to follow procedures could have adversely impacted the funding.

Click the "download file" button to read the PDF version.

If you have any questions, please contact:

1. Maria Sagrado, Managing Partner – maria.sagrado@makarim.com
2. Lebdo Dwi Paripurno, Senior Associate - lebdo.paripurno@makarim.com
3. Lovelyn Tayuwijaya, Associate - lovelyn.tayuwijaya@makarim.com

© 2025 Makarim. All rights reserved. This document is the property of Makarim and is intended for internal use only. It contains confidential information and is not to be distributed outside the organization without the prior written consent of Makarim. If you are not an intended recipient, please do not disseminate, copy, or use this information. If you have received this document in error, please notify us at [email address].