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PFII: Ambition, Architecture & Governance Risks

A review of Indonesia's new International Financial Centre framework. The DPR passed the PFII Law on 21 July 2026, creating a special financial jurisdiction modelled on the Dubai International Financial Centre — with its own regulator, courts, currency regime and tax privileges. The ambition is considerable; so are the governance questions.

KEY TAKEAWAYS

- **PFII is not merely a “new institution” but a special financial zone** inside Indonesia — a financial free zone in which distinct regulation, tax incentives, supervision and dispute-resolution arrangements will apply, separate from the ordinary domestic market.
- The government projects the centre could attract investment of roughly **IDR 300–500 trillion**; more than one location is possible, with **Bali** cited as a first candidate.
- The framework establishes its own institutions: a **PFII Board** under a “PFII Governor”, an operating agency (**LP PFII**), a dedicated financial regulator (**LPJK PFII**) and **PFII courts and arbitration** — in effect a mini-OJK and a parallel judiciary.
- Privileges are extensive: English as the official language, common-law adoption, foreign-currency transactions, unrestricted repatriation, and tax holidays reportedly reaching **50 years**.
- Five principal risks: *regulatory overlap with OJK–BI–LPS, concentrated executive power, a “state within a state” judiciary, incentives that shade into tax-haven territory, and a 19-day legislative sprint.*
- **Bottom line — the concept is sound, but success is not automatic.** The question to watch is not who the PFII Governor is, but **who oversees the Governor, who bears the losses, and what the measurable benefit is for Indonesia's economy.**

REVIEW FOCUS

PFII

Pusat Finansial Internasional Indonesia
Indonesia International Financial Centre

Status	**Law passed by DPR**
Date	**21 July 2026**
Model	**DIFC (Dubai)**
Projected inflows	**IDR 300–500tn**

FRAMEWORK FACTS

First location	**TBD — Bali a candidate**
Official language	**English**
Legal system	**May adopt common law**
Tax holiday	**Up to 50 years***
Deliberation	**2 Jul → 21 Jul 2026**

** Duration set by Government Regulation; press reports cite up to 50 years.*

INSTITUTIONAL ARCHITECTURE

PFII Board — “PFII Governor”
Policymaker and grantor of facilities

LP PFII
Operator and manager of the zone

LPJK PFII
Financial regulator & supervisor within the zone

PFII Court & Arbitration
Commercial and financial disputes

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FRAMEWORK OVERVIEW

What Exactly Is PFII?

PFII is not merely a "new institution" but a special financial zone — a distinct jurisdiction within Indonesia — a *financial free zone* that seeks to replicate the Dubai International Financial Centre model. Inside its perimeter, a separate body of regulation, tax incentives, supervision and dispute resolution will apply, distinct from the ordinary domestic market.

PFII may be established in more than one location. The first site has not yet been designated, although **Bali** has been named as a candidate. The government estimates the centre could attract investment of approximately **IDR 300–500 trillion**.

MANDATE

What Is It Principally For?

PFII is designed to draw **global banks, investment banks, fund managers, family offices, aircraft- and ship-leasing companies, fintech, commodities trading, capital markets, derivatives, bullion and sustainable finance** into Indonesia. Officially, the centre is intended to deepen the financial markets, finance real-sector and infrastructure projects, and strengthen Indonesia's competitiveness as an international financial hub.

The law erects a dedicated institutional apparatus within the zone:

1 PFII Board — "PFII Governor"

The apex policymaking body, chaired by a **"PFII Governor"**, acting as both policymaker and grantor of facilities for the zone.

2 LP PFII

The **operating agency** — developer, operator and manager of the physical and commercial zone.

3 LPJK PFII

The **regulator and supervisor** of the financial sector within PFII territory — in effect a *mini-OJK* for the zone.

4 PFII Court & Arbitration

Dedicated **courts and arbitral institutions** for commercial and financial disputes arising within the centre.

SPECIAL PRIVILEGES

What Makes PFII So "Special"?

The draft law confers several substantial privileges on the zone:

- **English becomes the official language** for regulation, contracts, court proceedings and judgments.
- PFII law may **adopt common law** and international commercial standards.
- Transactions may be conducted in **foreign currency**.
- Capital, dividends, interest, profits and assets may be **repatriated without delay**; a number of domestic foreign-exchange and capital-control rules will not apply inside PFII.
- The draft grants a **corporate income-tax reduction of up to 100%**, tax incentives for foreign professionals, and exemptions from VAT, luxury-goods tax and import duties. Duration is delegated to a Government Regulation; reporting on the final law indicates tax holidays may reach **50 years**.

IDR 300–500tn
Investment the government projects the centre can attract

50 years
Reported maximum tax holiday under the final law

100%
Maximum corporate income-tax reduction available in the zone

19 days
From start of substantive deliberation (2 Jul) to passage (21 Jul)

GOVERNANCE ASSESSMENT

Controversies and Key Risks

1 Overlap with OJK, Bank Indonesia, LPS and the national courts

LPJK PFII will regulate and supervise financial institutions within its own zone. The question follows immediately: *who is accountable if a bank fails, a liquidity crisis erupts, money laundering occurs, or systemic risk spills over into the domestic market?* OJK itself has stressed that the mandate and division of authority must be made absolutely explicit.

2 Highly concentrated power

The PFII Board answers to the President and holds sweeping authority: setting policy, issuing licences, determining tax facilities, establishing new entities and imposing levies. Its chair and senior officials are appointed — and dismissed — by the President. This opens the door to **political appointments, conflicts of interest and regulatory capture** if selection and oversight are not transparent. A CFA review likewise cautions that PFII must avoid excess bureaucracy, political appointments and overlapping authority.

3 The risk of a “state within a state”

The PFII court sits as the court of **first and final instance**; appeal, cassation and judicial review are generally unavailable. The system may operate under common law with foreign ad hoc judges. The intent is rapid certainty for investors, but the design raises *constitutional questions, concerns over judicial independence, and differential legal treatment* between PFII investors and domestic businesses. The Supreme Court has underlined the need for harmonisation with the 1945 Constitution and the national legal system.

4 Incentives so lavish they court tax-haven status

Tax holidays of up to 50 years, exemptions for foreign professionals, luxury-residence facilities and unrestricted repatriation risk creating **inequality and regulatory arbitrage**. The simple question: *how much revenue and real economic benefit actually accrues to Indonesia once all of these incentives have been given away?*

5 An exceptionally fast legislative process

Substantive deliberation began on 2 July; the law passed on 21 July. That speed raises the concern of whether the **fiscal, monetary, legal and governance implications** were adequately stress-tested.

BOTTOM LINE

The PFII concept is fundamentally sensible: Indonesia does need a wealth-management and international-finance hub so that regional transactions and wealth do not perpetually flee to Singapore, Hong Kong or Dubai.
But PFII will not succeed automatically simply because taxes are zero and business is conducted in English. Without an independent regulator, clear coordination with BI–OJK–LPS, credible courts, beneficial-ownership transparency, and an open cost-benefit accounting of its tax expenditure, PFII could deteriorate from a financial hub into *a zone of privilege, regulatory arbitrage and expensive property for the benefit of a few*.

What must be watched is therefore not merely who the PFII Governor is — but who oversees the Governor, who bears the losses, and what the measurable benefit is for Indonesia's economy.

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