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Page 1
Indonesia's Employment Protection Law: key implications for employment relations

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Law No. 27 of 2026 on Employment Protection consolidates Indonesia's employment framework and recalibrates fixed-term employment, outsourcing, wages, and termination.

I. At a glance

- Consolidated framework. Law No. 27 of 2026 revokes Law No. 13 of 2003 and the specified employment provisions in Law No. 6 of 2023. Existing implementing regulations remain effective only to the extent they do not conflict with the new Law. New implementing regulations must be issued within one year, but this is not a general grace period.
- Higher operational exposure. Material changes include a shorter fixed-term employment contract (*Perjanjian Kerja Waktu Tertentu*/PKWT) lifecycle, employment leaves, narrower outsourcing categories with automatic transfer risk, worker involvement in wage structures several employment schemes like certain employment relationships (*hubungan pekerjaan tertentu),* informal sector workforce, and more prescriptive termination safeguards.
- Planning should start now. Law No. 27 of 2026 was promulgated on 28 October 2026 and is now in forces, employers should identify contracts, vendor arrangements, payroll structures, company regulations/collective labour agreements, and workforce actions potentially impacted by the regulation. Employers should discuss necessary adjustments with labour unions and employee representatives where required to **implement any necessary adjustments.**

II. Why this matters

The Law responds to Constitutional Court Decision No. 168/PUU-XXI/2023 and places the principal employment rules in a unified regulation. The Law was enacted and promulgated on 28 October 2026. Its operative wording, numbering, and provisions are reflected in this alert.

III. Key changes compared with the current framework

Area	Current position	New rule	Business impact
Certain Employment Relationships	Limited or no explicit recognition of digital platform workers; often categorised ambiguously between employees and independent contractors.	Law: The law recognises the concept of specific employment relationships, which may include digital platform workers. These relationships are characterised by flexibility and are based on agreements to perform work, which can be established through partnership agreements or other contractual arrangements. Parties engaged in specific employment relationships are entitled to fair compensation, occupational health and safety protection, social security benefits, and other rights stipulated in the agreement.	Indonesian business owners to formally recognise and provide fair compensation, health and safety protections, and social security benefits to workers in flexible employment arrangements, including digital platform workers. This increases compliance obligations, operational costs, and administrative responsibilities.
PKWT duration and form	Current: up to five years including extensions under Law No. 13/2003 as interpreted by Decision 168/2023 and PP 35/2021.	Law: initial term up to two years, extendable twice for up to one year each; written notice seven days before extension. Unwritten PKWT becomes indefinite-term employment contract (*Perjanjian Kerja Waktu Tidak Tertentu*/PKWTT). Online registration within three working days remains.	Rebuild renewal calendars and template controls. Maximum cumulative duration is effectively four years.
PKWTT probation	Current: up to three months; pay may not fall below the applicable minimum wage.	Bill: pay must be at least 75% of the wage applicable to the position and not below minimum wage; social security is mandatory; appointment after probation is express.	Check probation pay bands, BPJS enrolment timing and appointment letters.

III. Key changes compared with the current framework (continued)

Area	Current position	New rule	Business impact
		Law: outsourced activities must be supporting services or not directly related to production, with four general categories: cleaning, catering, security, and worker transportation. Using outsourced workers in direct production causes the employment relationship to transfer by operation of law to the user company.	
Outsourcing scope	Current: Government Regulation (Peraturan Pemerintah/PP) 35/2021, Decision 168/2023, and Minister of Manpower Regulation (*Peraturan Menteri Ketenagakerjaan*/Permenaker) 7/2026 govern outsourcing, including specified support services.	In addition to the above, the regulation stipulates that state-owned or private companies in the mining and oil sectors may only outsource supporting services related to their core business activities. Such outsourcing must be conducted through subsidiaries established as limited liability companies. Furthermore, state-owned enterprises can delegate part of their work to other companies via outsourcing agreements, provided these companies are subsidiaries legally formed as limited liability entities. The types of outsourced work must be supporting services that do not directly relate to the company's primary operations.	Map vendor roles against the production process, not merely contract labels. Additionally, the company must identify all outsourcing vendors and may need to establish subsidiaries to comply with regulatory requirements applicable
Outsourcing continuity	Current: PP 35/2021 protects continuity of rights where vendors change and the work remains. Permenaker 7/2026 requires agreement content and registration.	Law: service periods with successive vendors are aggregated for the PKWT limit where the work object remains the same. Vendor remains responsible for statutory rights.	Vendor changes cannot be used to restart PKWT tenure. Strengthen data transfer and indemnity clauses.
Minimum wages	Current: Governor must set provincial minimum wage (*Upah Minimum Provinsi*/UMP) and may set the regency/city minimum wage (*Upah Minimum Kabupaten/Kota*/UMK). PP 36/2021 as amended by PP 51/2023 and PP 49/2025 governs formulas and sectoral wages.	Law: the Governor must set the provincial minimum wage and provincial sectoral minimum wages and may set regency/city and regency/city sectoral minimum wages. Sectoral minimum wages must exceed the corresponding provincial or regency/city minimum wage.	Budget for location and sector-driven increases and revisit feasibility assumptions.

III. Key changes compared with the current framework (continued)

Area	Current position	New rule	Business impact
Wage structure and scale	Current: employer prepares the structure and scale, then informs workers; supporting documents accompany company regulation or collective labour agreement (Perjanjian Kerja Bersama/PKB) processes.	Law: structure and scale must consider input from worker representatives or unions and be attached to the company regulation or PKB.	Build a defensible job evaluation and consultation record. The Law requires worker or union input but does not expressly require agreement.
Termination procedure	Current: notice, employee objection, and bipartite process; after Decision 168/2023, disputed termination of employment (*Pemutusan Hubungan Kerja*/PHK) requires a final and binding industrial-relations decision.	Law: lists ten prevention steps, requires bipartite negotiations within 30 working days, and states PHK without agreement or a final decision is void.	Document prevention measures before announcing PHK.
Prevention Effort before Termination	Current: Although the regulatory frameworks also require all parties to avoid and prevent employment termination, there are no explicit provisions detailing the specific measures that must be undertaken.	Law: Employers, employees/labour unions, and government authorities must take all necessary measures to prevent termination of employment. Such measures include reducing overtime on rest days, daily overtime, the number of shifts, and working hours or days; not extending fixed-term contracts; not employing workers beyond retirement age; adjusting wages and benefits for managerial workers; and offering voluntary pension programmes.	Businesses must implement specific measures to prevent employment termination.
Grounds for Termination	Current: PP 35/2021 recognises efficiency as a standalone ground, including without closure.	Law: efficiency is not listed as a standalone ground. Closure is limited to two years of continuous losses, a permanent closure decision, or force majeure.	Redundancy programmes based only on efficiency may become significantly harder to execute.
Separation Payment (*Uang Pisah*)	Current: The severance payment amount is governed by the employment agreement, company regulations, or collective labour agreement.	Law: In the absence of provisions regarding separation payment, the minimum separation amount shall be equivalent to one month's salary.	Review the entitlements to separation payments as stipulated in the company regulations, employment agreements, and collective labour agreements.
Severance and social security	Current: PP 35/2021 uses multipliers commonly ranging from 0.5x to 2x depending on the reason; job loss insurance (*Jaminan Kehilangan Pekerjaan*/JKP) exists separately.	Law: base severance is expressly "at least;" several multipliers increase. Employers must establish a severance reserve fund, managed by a government institution, except for micro and small enterprises. Government Regulation will set detailed mechanics.	Re-model provisions for mergers and acquisitions (M&A), distress, and employer-breach scenarios. Monitor the implementing regulation governing the severance reserve fund.

IV. Selected severance multiplier shifts

Scenario	PP 35/2021	Law
Corporate transaction, employer will not retain worker	1x Severance Payment, 1x Service Payment, Compensation	2x Severance Payment, 1x Service Payment, Compensation
Closure after two years' continuous losses	0.5x Severance Payment, 1x Service Payment, Compensation	1x Severance Payment, 1x Service Payment, Compensation
Closure due to force majeure	0.5x Severance Payment, 1x Service Payment, Compensation	1x Severance Payment, 1x Service Payment, Compensation
Suspension of debt payment obligations (*Penundaan Kewajiban Pembayaran Utang*/PKPU) caused by losses	0.5x Severance Payment, 1x Service Payment, Compensation	1x Severance Payment, 1x Service Payment, Compensation
Bankruptcy	0.5x Severance Payment, 1x Service Payment, Compensation	1x Severance Payment, 1x Service Payment, Compensation
Employee-requested PHK due to employer breach	1x Severance Payment, 1x Service Payment, Compensation	2x Severance Payment, 1x Service Payment, Compensation
Efficiency without closure	0.5x or 1x depending on circumstances	Not listed as a standalone ground

V. Key legal references

- Law No. 27 of 2026 on Employment Protection.
- Law No. 13 of 2003 on Manpower, as amended and partially revoked, including by Law No. 6 of 2023 on the Stipulation of Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation into Law.
- Constitutional Court Decision No. 168/PUU-XXI/2023, particularly on fixed-term employment, outsourcing, wages, and termination of employment.
- Government Regulation No. 35 of 2021 on Fixed-Term Employment Agreements, Outsourcing, Working Time and Rest Time, and Termination of Employment.
- Government Regulation No. 36 of 2021 on Wages, as amended by Government Regulation No. 51 of 2023 and Government Regulation No. 49 of 2025.
- Minister of Manpower Regulation No. 7 of 2026 on the types and fields of outsourced work and other relevant implementing regulations.

VI. Conclusion

The Law establishes a materially more protective and process-driven employment regime. The most immediate exposure for employers is likely to arise from PKWT administration, the use and continuity of outsourced labour, wage-setting and consultation processes, and termination planning, including potentially higher severance costs and fewer restructuring options based solely on efficiency.

Employers should therefore begin a targeted readiness review now: map affected employees and vendor arrangements; test contract terms and renewal controls; quantify wage, social-security, and severance exposure; and identify required updates to company regulations, collective labour agreements, payroll processes, and termination protocols. Any implementation should remain subject to verification against the officially enacted and promulgated text, its transitional provisions, and the implementing regulations.

Important note

This alert is based on Law No. 27 of 2026 on Employment Protection, promulgated on 28 October 2026, and reflects a comparison with Law No. 13 of 2003, Law No. 6 of 2023, PP No. 35 of 2021, PP No. 36 of 2021 as amended by PP No. 51 of 2023 and PP No. 49 of 2025, and relevant implementing rules including Permenaker No. 7 of 2026. Existing implementing regulations remain in force only to the extent they do not conflict with the Law. This publication provides general information only and is not legal advice.

For more information, please contact our PwC Indonesia team below:

Indra Allen
Partner
PwC Legal Indonesia
indra.allen@pwc.com

Adi Pratikto
Partner
PwC Legal Indonesia
adi.pratikto@pwc.com

Danar Sunartoputra
Partner
PwC Legal Indonesia
danar.sunartoputra@pwc.com

Fifiek Mulyana
Partner
PwC Legal Indonesia
fifiek.mulyana@pwc.com

Puji Atma
Junior Partner
PwC Legal Indonesia
puji.atma@pwc.com

Indra Natakusuma
Junior Partner
PwC Legal Indonesia
indra.natakusuma@pwc.com

Dimas Bimo
Junior Partner
PwC Legal Indonesia
dimas.bimo@pwc.com

Agnes Wardhana
Junior Partner
PwC Legal Indonesia
agnes.wardhana@pwc.com

Ayodhia Primadarel
Senior Manager
PwC Legal Indonesia
ayodhia.primadarel@pwc.com

Gregorius Pradana
Senior Manager
PwC Legal Indonesia
gregorius.pradana@pwc.com

Gene Maxcell
Senior Manager
PwC Legal Indonesia
gene.m.maxcell@pwc.com

Gery Fathurrachman
Senior Manager
PwC Legal Indonesia
gery.fathurrachman@pwc.com

Narindra Krisnamurti
Senior Manager
PwC Legal Indonesia
narindra.krisnamurti@pwc.com

Sultan Buruni
Senior Manager
PwC Legal Indonesia
sultan.buruni@pwc.com

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