

## New Formula for Calculating the Minimum Wage

12 February 2024

On 10 November 2023, the Indonesian Government enacted Government Regulation No. 51 of 2023 on the Amendment of Government Regulation No. 36 of 2021 on Wages (“GR 51/2023”) which became effective on the same date.

Key highlights under GR 51/2023 are:

**1. Deviation of minimum wage for employee having less than 1 (one) year service period:**

Based on GR 51/2023, new employees with less than one year’s service period who have certain qualifications required for the position (*e.g.*, education, competency and work experience) can be paid above the minimum wage.

**2. New Formula to Calculate the Following Year Minimum Wage**

The formula to calculate the following year’s minimum wage for: (a) province or municipality/city which has a minimum wage; (b) municipality/city which has no minimum wage; (c) province or municipality/city resulting from expansion; and (d) Nusantara Capital is as follows:

$$MW_{(y+1)} = MW_{(y)} + MW \text{ Adjustment Value}_{(y+1)}$$

$MW_{(y+1)}$  : Following year’s minimum wage

$MW_{(y)}$  : Current year minimum wage

$MW \text{ Adjustment Value}_{(y+1)}$  : Adjustment value of the following year minimum wage

To calculate the above MW Adjustment Value  $_{(y+1)}$  component, GR 51/2023 provides the following:

$$MW \text{ Adjustment Value}_{(y+1)} = \{ \text{Inflation} + (EG \times \alpha) \} \times MW_{(y)}$$

EG : Economic growth

$\alpha$  : Certain index

The certain index ( $\alpha$ ) in calculating the MW Adjustment Value $_{(y+1)}$  component,

GR 51/2023 determines a value ranging from 0.10 to 0.30 subject to the manpower absorption level and average of wage median, or other factors relevant with labor condition. The certain index ( $\alpha$ ) value will be determined by the provincial or municipal/city wage council (*dewan pengupahan*).

If the MW Adjustment Value<sub>(y+1)</sub> result is lower or equal to 0, the minimum wage of the current year's value will be used for the subsequent year.

If the minimum wage of the current year is higher than the average household consumption per average number of working household members, the MW Adjustment Value<sub>(y+1)</sub> will be calculated with the following formula:

$$\text{MW Adjustment Value}_{(y+1)} = \text{EG} \times \alpha \times \text{MW}_{(y)}$$

In the event that economic growth is negative, the minimum wage of the current year will be used for the subsequent year.

The Provincial Governor is required to issue a decree on the minimum wage adjustment calculation (if any) at the latest by 21 November of the same year to be applicable on 1 January of the following year.

Our employment team is happy to discuss any questions you might have. Please contact Partner, Made Barata ([mb@mkklaw.net](mailto:mb@mkklaw.net)) for further information.