A Sectoral Analysis of PSAK 73's Impact on Financial Reporting and Covenant Compliance: Implications for State-Owned Enterprises on Indonesia's Strategic Projects

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Abstract: *Implementation of PSAK 73 (Leases, now superseded by PSAK 116), Indonesia's adoption of IFRS 16, represents a structural shift in financial reporting, affecting ratio volatility and decision-making for public entities, particularly State-Owned Enterprises (BUMN) executing National Strategic Projects (PSN). By eliminating the operating lease classification, the standard mandates Right-of-Use (RoU) asset and lease liability recognition for virtually all contracts, effectively ending off-balance-sheet financing. Comparison from PT Garuda Indonesia Tbk, PT Telkom Indonesia Tbk, PT Jasa Marga Tbk, and construction SOEs (BUMN Karya) demonstrates sector-dependent effects. While aviation liabilities surged over 8,600% and telecommunications rose 548.5%, the construction and energy sectors faced unique challenges related to heavy equipment and infrastructure leases. The standard distorts key financial metrics, artificially inflating EBITDA and Operating Cash Flow (OCF), while depressing Return on Assets (ROA) and exacerbating Debt-to-Equity Ratios (DER). These distortions create significant risks of "technical default" on debt covenants and compromise the accuracy of capital budgeting models (NPV/IRR) used for strategic project evaluation. The analysis further examines secondary effects, including agency theory implications on managerial behavior, the rise of short-term lease engineering, and the divergence between credit rating methodologies and banking covenant compliance. PSAK 73 enhances transparency but necessitates a fundamental recalibration of financial analysis frameworks, funding strategies, and asset management practices.*

INTRODUCTION

Global financial reporting structures underwent fundamental transformation over the last decade driven by heightened transparency requirements. Indonesia marked this shift through the adoption of Statement of Financial Accounting Standards (PSAK) 73 on Leases, adopting IFRS 16, effective January 1, 2020. This standard superseded PSAK 30 and altered lease recognition paradigms by eliminating the lessee operating lease classification, necessitating the capitalization of substantially all lease contracts onto the balance sheet.

In the evaluation of large-scale infrastructure and strategic investments, particularly those undertaken by State-Owned Enterprises (SOEs/BUMN), assessing project profitability from a purely financial or corporate perspective is often insufficient. Hagen (2009) underscores that a comprehensive appraisal must incorporate societal value, arguing that "project profitability from society's point of view" should serve as a critical criterion in front-end decision-making. This broader lens accounts for externalities, long-term public welfare, and strategic national interests that may not be captured in conventional, especially when distorted, net present value (NPV) or internal rate of return (IRR) metrics.

Table 1. Summary of Empirical Impacts of PSAK 73 Implementation on Indonesian BUMNs

Indicator	Pre PSAK 73	Post PSAK 73	Change	Significance
Debt-to-Equity Ratio (DER)	Mean = 3.31	Mean = 4.18	+0.87 (↑26.3%)	p= 0.039
Return on Assets (ROA)	Mean = 0.039	Mean = 0.017	−0.022 (↓56.4%)	Not reported
Asset Turnover Ratio (ATR)	Mean = 0.40	Mean = 0.31	−0.09 (↓22.5%)	p= 0.001
Current Ratio	Mean = 1.05	Mean = 0.96	−0.09 (↓8.6%)	Not significant
EBITDA	Lower (lease expensed)	Higher (lease capitalized)	Artificial inflation	N/A

Analysis of PSAK 73 bears particular significance for BUMN executing National Strategic Projects (PSN). Empirical data indicates implementation constituted a fundamental capital structure shock rather than a mere administrative adjustment. Research on 13 BUMN entities listed on the LQ45 index provides statistically significant evidence of liability expansion. The mean Debt-to-Equity Ratio (DER) surged from 3.31 in 2019 to 4.18 in 2020, an increase of 0.86 points confirmed as statistically significant with a p-value of 0.039 (Winata, 2022).

Table 2. Sector-Specific Impacts

Sector (Entity)	Metric	Impact
Aviation (PT Garuda Indonesia)	RoU Assets	USD 5.3 billion (118.5% of 2019 total assets)
	Total Liabilities	↑191%
	Equity	Severely eroded; solvency ratios distorted
Telecommunications	Lease Liabilities	↑548.5%

(PT Telkom Indonesia)	DER	99% → 123%
Construction (PT Waskita Karya)	EBITDA	Artificially inflated; may misrepresent cash flow capacity for

Sectoral impact manifests asymmetrically. The aviation sector experienced extreme volatility. Analysis of PT Garuda Indonesia (Persero) Tbk (GIAA) reveals the recognition of Right-of-Use (RoU) Assets totaling USD 5.3 billion, equivalent to 118.51% of total 2019 assets. This recognition triggered a 191% surge in total liabilities, drastically eroding equity and driving solvency ratios to anomalous levels (Prajanto, 2020). The telecommunications sector, represented by PT Telkom Indonesia (Persero) Tbk (TLKM), experienced moderate yet material impact, recording a 548.5% increase in lease liabilities and a DER elevation from 99% to 123% over the comparative period (Prajanto, 2020).

Beyond capital structure, PSAK 73 empirically depressed BUMN profitability and asset efficiency metrics. The mean Return on Assets (ROA) for LQ45 BUMNs declined from 0.039 to 0.017, while the Asset Turnover Ratio (ATR) decreased significantly from 0.40 to 0.31 (Sig. 0.001), indicating asset base expansion from lease capitalization lacked proportional revenue growth (Winata, 2022). This ATR decline signals reduced capability in generating revenue from a significantly expanded asset base.

While liquidity ratios (Current Ratio) showed no statistically significant difference, declining marginally from 1.05 to 0.96, expense reclassification within the income statement created distortions. The substitution of operating lease expenses with depreciation and interest caused an artificial increase in EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). For construction entities such as PT Waskita Karya (Persero) Tbk, this phenomenon risks obscuring actual cash flow capacity regarding EBITDA-based debt covenants (Sugiarto & Dinarjito, 2022).

The confluence of statistically significant DER elevation and profitability distortion exposes BUMNs to technical default risks. Bank loan covenants typically enforce rigid DER thresholds, posing threats despite unchanged operational cash flows. For Indonesian BUMNs, which operate under a dual mandate of commercial viability and public service, it is required to reconcile economic efficiency with socio-political objectives, ensuring that capital allocation aligns not only with shareholder returns but also with sustainable national development.

This research analyzes the strategic implications of PSAK 73 under empirical volatility on the sustainability of National Strategic Project funding. Based on the observed empirical phenomena, the research addresses the following issues:

1. Do statistically significant differences exist in solvency ratios and activity ratios for strategic sector BUMNs post-PSAK 73?
2. What are the implications of the significant liability surge and covenant thresholds and management strategies regarding EBITDA distortion in long-term investment project valuation?.

RESEARCH METHOD

The study employs a mixed-method approach with a dominant quantitative descriptive-comparative design. The quantitative component utilizes a comparative event study to assess financial conditions pre-adoption (2019) and post-adoption (2020) of PSAK 73 comprises from Audited Financial Statements for 2019-2020, referencing the methodology of Winata & Sugiarto (2022).

The population includes BUMNs listed on the Indonesia Stock Exchange (IDX). Purposive sampling selects BUMNs executing PSN with material lease assets, including:

- Transport**:** PT Garuda Indonesia (Persero) Tbk (GIAA)
- Telecommunications**:** PT Telkom Indonesia (Persero) Tbk (TLKM)
- Construction**:** PT Waskita Karya (Persero) Tbk (WSKT) & PT Wijaya Karya (Persero) Tbk (WIKA)
- Energy**:** PT Pertamina (Persero).

PSAK 73 CHANGES SUMMARY

Understanding PSAK 73 mechanics requires distinguishing the control definition from PSAK 30. Changes root in asset control definitions altering lease perception.

Previous regimes (PSAK 30 / IAS 17) classified leases via risk and reward transfer. Contracts not transferring substantial ownership risks remained operating leases. PSAK 73 introduces a Single Control Model where leases create assets and liabilities:

- Lessees recognize RoU assets at lease commencement.
- Lessees simultaneously recognize lease liabilities measured at the present value of unpaid future payments.

Reporting changes occur significantly in income statements. PSAK 73 removes "Rent Expense" (an operating expense) for capitalized contracts. Expenses are split into:

- Depreciation Expense, derived from RoU asset amortization (typically straight-line).
- Interest Expense**,** derived from liability discount unwinding.

The combination of straight-line depreciation and effective interest (calculated on a declining principal balance) results in higher total expenses in the early years of a lease compared to the later years. For BUMNs constantly expanding their asset base for new projects, this creates a systematic pressure on net income (Suryaputra et al., 2025).

Because "Rent Expense" is removed from operating expenses and replaced by Depreciation and Interest (both excluded from EBITDA), EBITDA rises artificially post-adoption. This inflation does not reflect improved operational performance but strictly accounting reclassification (Abdullah et al., 2024).

PSAK 73 offers two optional exemptions:

- Short-term Leases**,** terms of 12 months or less.
- Low-value Assets**,** assets with low value when new.

These exemptions create new managerial incentives. Managers facing covenant pressure may prefer short-term contracts (e.g., rolling 11-month leases for construction equipment) over more operationally efficient long-term leases to avoid balance sheet capitalization, potentially sacrificing economic efficiency for accounting optics.

Most Indonesian companies, including Garuda and Telkom, selected the Modified Retrospective approach. This choice recognizes the cumulative impact in retained earnings at adoption (January 1, 2020) without restating prior periods, creating data discontinuity between 2019 and 2020.

SECTORAL CASE ANALYSIS

Impact intensity correlates with leased asset usage. Analysis covers Aviation, Telecommunications, Infrastructure, Construction, and Energy.

Aviation sector entity PT Garuda Indonesia Tbk exemplifies sector impact. Airlines historically used operating leases to omit aircraft debt. On January 1, 2020: a) RoU assets added approx. USD 5.28 billion, b) Liabilities rose from USD 52.5 million to over USD 4.6 billion (+8,650%), and c) Liability measurement exceeding assets at transition drove equity deficiency of USD 1.9

billion. PKPU proceedings utilized "Power by the Hour" schemes to convert fixed lease payments to variable, effectively removing them from lease liability capitalization under PSAK 73.

Distinguishing leases from service contracts (e.g., fiber optic capacity) at PT Telkom Indonesia Tbk is critical. Lease liabilities rose IDR 8.645 trillion (+548.5%). Reclassifying tower leases increased EBITDA margins without changing cash outflows (PwC, 2017).

For Concession Asset at PT Jasa Marga Tbk, ISAK 16 governs toll road assets, limiting PSAK 73 impact to support assets (offices, vehicles). Total assets rose marginally (0.4%), but imputed interest expenses still pressured Interest Coverage Ratios (ICR).

State-owned construction firms like PT Waskita Karya (Persero) Tbk and PT Wijaya Karya (Persero) Tbk rely heavily on leased heavy equipment (cranes, earthmovers) for infrastructure projects. Recognition of RoU assets and liabilities for equipment previously treated as operating leases caused significant balance sheet gross-up. Waskita reported substantial RoU and Lease Liability adjustments in its 2020 Annual Report, directly impacting equity via initial retained earnings adjustments (Sugiarto & Dinarjito, 2022). The shift discourages long-term equipment leasing unless strategically necessary, pushing management towards short-term rentals to preserve covenant headroom.

Energy sector entities like PT PLN (Persero) and PT Pertamina (Persero) face impacts from leased power generation units (turbines, floating barges) and logistics fleets (tankers). Studies on PLN and Pertamina indicate increases in DER and DAR post-adoption. For Pertamina, tanker leases and drilling rigs previously off-balance sheet are now capitalized, increasing visible leverage (Anwar et al., 2024).

Table 3. Initial Adjustment Impact (January 1, 2020)

Entity	Account	Pre-Adoption Balance (31 Dec 2019)	Post-Adoption Balance (1 Jan 2020)	Variation (%)
Garuda (GIAA)	Lease Liability	USD 52.5 Million	~ USD 4.6 Billion	+8,650%
Telkom (TLKM)	Lease Liability	IDR 1,576 Billion	IDR 10,221 Billion	+548.5%
Jasa Marga (JSMR)	Total Assets	IDR 99,679 Billion	IDR 100,063 Billion	+0.4%
Pertamina	DER	-	-	Increased

Table 4. Financial Ratio Volatility Analysis

Ratio	Formula	Direction	Mechanism
Debt-to-Equity (DER)	Total Liab / Equity	**Sharp Increase**	Off-balance sheet liabilities enter debt calculation. Critical for BUMNs with covenant caps (e.g., <300-400%) (Anwar et al., 2024).
Debt-to-Assets (DAR)	Total Liab / Assets	**Increase**	Liability increase proportionally exceeds asset increase initially.
EBITDA Margin	EBITDA / Revenue	**Increase (Illusion)**	Rent expenses removed. Depreciation and interest added below EBITDA line (Abdullah et al., 2024).
Return on Assets (ROA)	Net Income / Assets	**Decrease**	Asset base expands (denominator). Front-loaded interest depresses numerator (Net Income) (Anwar et al., 2024).

For the sector specific data, Pertamina's DAR increased to 49.5% (from 48.0%), ROA decreased to 0.43% (from 2.5%) (Anwar et al., 2024) and BUMN Karya received significant increase in DER and decrease in ROA/ROE observed across the sector.

IMPLICATIONS ON FUNDING, COVENANTS, AND PROJECT EVALUATION

The quantitative shifts described above have profound strategic consequences for BUMNs executing National Strategic Projects.

Strategic projects rely on syndicated loans and bonds, which enforce strict debt covenants (e.g., maximum DER, minimum ICR).

- A BUMN may breach a DER covenant (e.g., exceeding 4x) solely due to accounting changes, without incurring new real debt. This triggers a "technical default," allowing creditors to accelerate repayment or halt disbursements for ongoing projects (Susanti et al., 2021).
- While credit rating agencies (Pefindo, Moody's) may not downgrade ratings because they historically adjusted for operating leases analytically, bank covenants are legally tied to *audited financial statements*. This disconnect creates a dangerous liquidity risk where a company is economically sound but legally in default.
- Entities like Jasa Marga and Telkom proactively renegotiated definitions to "Frozen GAAP" or excluded PSAK 73 liabilities from "Financial Debt" definitions.

Decisions to launch new strategic projects (e.g., smelters, toll roads) rely on Capital Budgeting models (NPV, IRR). PSAK 73 distorts the critical inputs for these models:

- Under PSAK 73, principal lease payments move from Operating Activities (OCF) to Financing Activities. This makes OCF appear significantly healthier and higher than under PSAK 30.
- Using inflated OCF without adjustment can result in positive NPV/IRRs for projects that are actually marginal or unviable (Susanti et al., 2021).
- With EV/EBITDA artificially inflated, projects or target companies appear "cheaper" (lower multiple), potentially leading to malinvestment of state capital (Abdullah et al., 2024).

From managerial perspective, procurement in particular, PSAK 73 have some significant implications as follows:

- The elimination of off-balance-sheet advantages forces BUMNs to evaluate asset acquisition based on pure economic efficiency (Net Present Value of Cost) rather than accounting arbitrage (Susanti et al., 2021; Wibowo & Nurlis, 2021).
- To protect covenants, managers may opt for inefficient short-term leases (<12 months) to utilize PSAK 73 exemptions, potentially increasing long-term operational costs and insecurity of asset supply.

Aside from feasibility and managerial standpoint, PSAK 73 have also significant impact on Indonesian regulation and taxation system:

- Regulators issued practical expedients allowing lessees to recognize pandemic-related rent concessions as other income rather than complex lease modifications. Garuda recorded USD 275 million gain from this mechanism.
- Tax regulations generally treat operating leases as deductible expenses, while PSAK 73 recognizes depreciation and interest (often corrected fiscally). This creates significant Deferred Tax implications and compliance complexity.
- Effective January 1, 2024, PSAK 73 becomes PSAK 116. Content remains identical to

IFRS 16, confirming the permanent nature of on-balance sheet lease reporting (Lestari et al., 2022).

The artificial inflation of EBITDA and operating cash flow may create a false impression of fiscal prudence, potentially steering capital toward projects that appear commercially viable but fail to generate sufficient net social returns. Economically essential but marginally profitable infrastructure projects (e.g., rural toll roads or green energy initiatives) may be prematurely rejected if decision-makers rely uncritically on distorted NPV or IRR outputs (Hagen, 2009).

CONCLUSION

The implementation of PSAK 73, now superseded by PSAK 116, has enhanced financial transparency by incorporating lease liabilities onto the balance sheets of Indonesian public entities. For State-Owned Enterprises (BUMNs) engaged in National Strategic Projects, this accounting shift has introduced marked volatility in key financial indicators. Leverage ratios such as Debt-to-Equity Ratio (DER) and Debt-to-Assets Ratio (DAR) have deteriorated, while Return on Assets (ROA) has declined. Concurrently, Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) and Operating Cash Flow (OCF) exhibit artificial inflation, creating a misleading impression of operational performance. These distortions present two principal risks: the potential for technical default on debt covenants calibrated under pre-PSAK 73 metrics, and the misallocation of capital due to reliance on inflated valuation proxies.

This analysis presents the following recommendations:

1. For creditors and BUMN management, to renegotiate covenant definitions to exclude lease liabilities from leverage calculations. Covenants should reflect cash-based repayment capacity rather than accounting-based liability measures.
2. For financial analysts and investment committees, to adjust internal valuation and capital budgeting models to normalize EBITDA and OCF for PSAK 116 effects. This adjustment is necessary to ensure investment decisions are based on economic substance rather than accounting artifacts.
3. For BUMN management, to balance the accounting incentives associated with short-term leases against the operational requirements of long-term infrastructure projects. Lease structuring should prioritize strategic stability and service continuity over balance sheet optics. For the integration of socio-economic benefit, include appraisal tools: such as cost-benefit analysis (CBA) or multi-criteria decision analysis (MCDA) alongside traditional financial models to ensure that capital allocation aligns not only with accounting compliance but also with national development objectives and long-term public welfare.

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