

*RSIS Commentary is a platform to provide timely and, where appropriate, policy-relevant commentary and analysis of topical and contemporary issues. The authors' views are their own and do not represent the official position of the S. Rajaratnam School of International Studies (RSIS), NTU. These commentaries may be reproduced with prior permission from RSIS and due credit to the author(s) and RSIS. Please email to Editor RSIS Commentary at [RSISPublications@ntu.edu.sg](mailto:RSISPublications@ntu.edu.sg).*

---

## **The Indonesian Budget and Prabowo's Free-Food Plan**

*By Richard Borsuk*

### **SYNOPSIS**

*Prabowo Subianto, slated to become Indonesia's president in October, pledged during the election campaign to provide free lunches and milk so that the country's schoolchildren will have nutritious food. But the programme's anticipated high costs might breach a law capping budget deficits, which in turn could impact financial stability and the country's credit ratings.*

### **COMMENTARY**

Two campaign promises helped propel Prabowo Subianto to victory in Indonesia's 14 February election – one, to have “continuity” with the policies of popular outgoing president Joko Widodo (aka Jokowi), and two, to provide free lunches and milk for tens of millions of schoolchildren.

But fulfilling the second promise would mean a spending hike that might jeopardise Indonesia's ability to conform to a law stipulating that the budget deficit cannot be more than 3 per cent of gross domestic product. That law has boosted fiscal stability, which in turn has helped to attract investment.

Media reports have quoted Prabowo aides as saying that the plan is to provide free food nationwide by 2029, when there might be around 80 million children in a programme costing 450 trillion rupiah (US\$29 billion) a year. Nothing is set, and Prabowo will not become president until October.

In 2003, when Indonesia was still regaining its footing after being battered by the Asian Financial Crisis – in 1998, GDP shrank 13 per cent – Parliament passed the law that created the 3 per cent ceiling on fiscal deficits and also put a 60 per cent limit on the ratio of government debt to GDP. Adherence to the law helped Indonesia eventually

win investment-grade ratings from all three global credit-rating agencies, which had slashed Indonesian ratings to junk during the 1997-98 crisis.

### **Rating Agency Flags Concern**

The rating agencies have been very comfortable with Indonesia for years but that could change significantly if the Prabowo presidency sees a large spending spree without commensurate increases in tax collection.

In a statement on 20 February, Fitch Ratings said it expects monetary and fiscal policy settings “to remain supportive of macroeconomic stability” at least through 2024, but added “Nevertheless, we believe medium-term fiscal risks have risen, given some of Prabowo’s campaign pledges, including a free school lunch and milk programme that could cost around 2% of GDP annually, according to his team. Prabowo’s statements that Indonesia could sustain a significantly higher government debt/GDP ratio also point to risks to our baseline fiscal projections”.

During Jokowi’s near-decade as president, there has been budget discipline. Much of the credit goes to longtime finance minister, Sri Mulyani Indrawati. There was one emergency case when Indonesia understandably could not avoid breaching the 3 per cent limit during the COVID-19 pandemic. Indonesia needed to seriously increase social safety net spending for millions thrown into poverty, and Jokowi issued a decree that waived the ceiling. In 2020, the ratio peaked at 6.1 per cent, and then, as promised, the number went back below 3 per cent by 2023. It was only 1.65 per cent last year, the smallest since 2011.

### **Preparing the 2025 Budget**

Even though Prabowo, who is defence minister, is more than seven months away from becoming president, there is already concern among some economists that his administration could spend heavily enough to breach the 3 per cent rule.

In a speech on 5 March, Prabowo sought to dispel concerns on financial management. “We are proven prudent”, he said of Indonesia’s economy, adding that fiscal discipline and higher tax revenue will underpin faster economic growth.

Officials are working on the proposed budget for 2025, which Jokowi will present in mid-August along with his final state-of-the-nation speech. The outgoing president intends to speak from the new presidential palace in partially constructed Nusantara, the future capital, on Borneo island.

Construction of the new capital has been controversial and costly. Initially, the government said it would handle 20 per cent of the cost, estimated at about US\$32 billion, with the other 80 per cent from the private sector. But there has been no foreign investment. Prabowo said during the election campaign that the state budget can handle the full cost, spread over years.

Even though Prabowo is not president yet, members of his team have been working with officials to have the draft 2025 budget (to be announced in August) include funds for a pilot programme for free milk and lunch. That and spending on Nusantara and

on military equipment seem certain to increase total expenditure, perhaps heftily. Ministers have said recently that the 2025 budget deficit could be between 2.48 per cent and 2.8 per cent, compared with this year's forecast of 2.29 per cent.

## **A Stunting Problem**

Understandably, Prabowo's plan for free lunch and milk was welcomed by many poorer voters as Indonesia, despite many economic gains, still has a lingering, significant problem with child nutrition and stunting. The World Bank has said Indonesia lowered stunting rates from 31.4 per cent in 2018 to 21.6 per cent in 2022.

But there are two main concerns about what could be a massive undertaking: its cost and administration. Social spending during the COVID-19 pandemic generally worked well, helping most of those in dire situations. However, many Indonesians will remember that the social affairs minister, Juliari Batubara, was arrested and jailed for getting 32.4 billion rupiah (US\$2 million) in kickbacks from suppliers of social assistance packages.

In an article on the proposed free lunch programme for the "Indonesia at Melbourne" website of the University of Melbourne, academics Fakhridho Susilo and Jaya Rafi Prana, wrote that weak controls on Indonesian social welfare programmes "make it easy for some officials to divert money into their own pockets or for other unauthorised uses. It is also reasonable to expect that some officials will demand bribes from beneficiaries to access benefits or receive kickbacks from suppliers contracted to provide goods or services for the program."

## **Low Tax-to-GDP Ratio**

For the future Prabowo administration, the deficit ceiling might not be the only financial ratio that is a headache. Another is the ratio of tax collection to GDP, one measure of a country's financial strength.

For many years, Indonesia's ratio has been the lowest, or near the lowest, in Southeast Asia. At the end of 2023, it was 10.3 per cent, only a little better than COVID-19 years when it was single digit. Indonesia has long struggled to increase its tax take. Most members of the Paris-based Organization of Economic Cooperation and Development (OECD), which Indonesia aspires to join, have tax-to-GDP ratios of over 30 per cent. In his 5 March speech, Prabowo said he will target a ratio of 14-16 per cent through broadening the tax base. That could prove a tall order.

When Prabowo eventually unveils his cabinet, great attention will be on his choice of finance minister. It is virtually certain that it would not be Sri Mulyani, who has had friction with the defence minister. But Indonesia needs someone like her to keep Indonesia's financial position stable.

---

*Richard Borsuk, Indonesia correspondent of The Wall Street Journal from 1987 to 1998, is an Adjunct Senior Fellow at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore. He is co-author of "Liem Sioe Liong's Salim Group: The Business Pillar of Suharto's Indonesia".*

---

**S. Rajaratnam School of International Studies, NTU Singapore**  
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798  
T: +65 6790 6982 | E: [rsispublications@ntu.edu.sg](mailto:rsispublications@ntu.edu.sg) | W: [www.rsis.edu.sg](http://www.rsis.edu.sg)