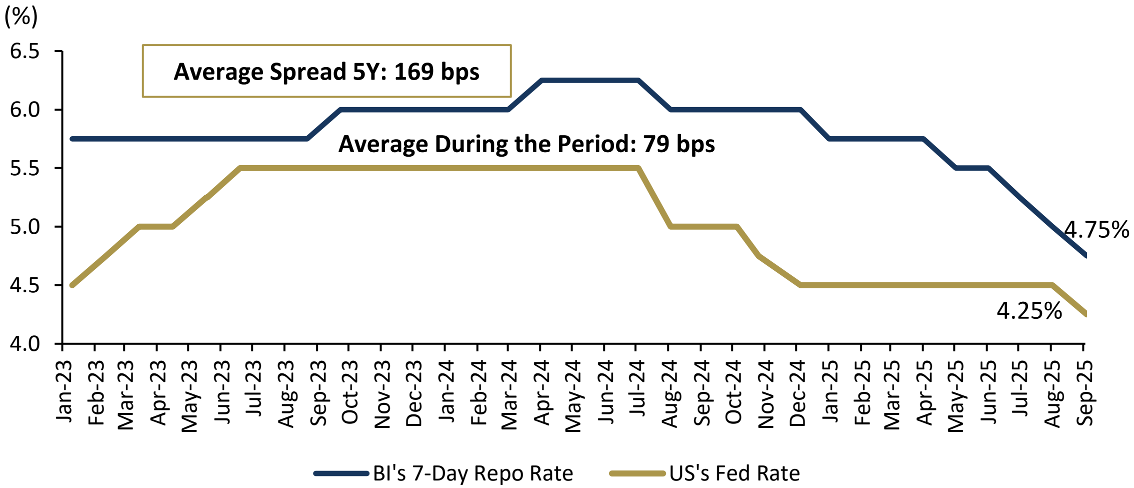
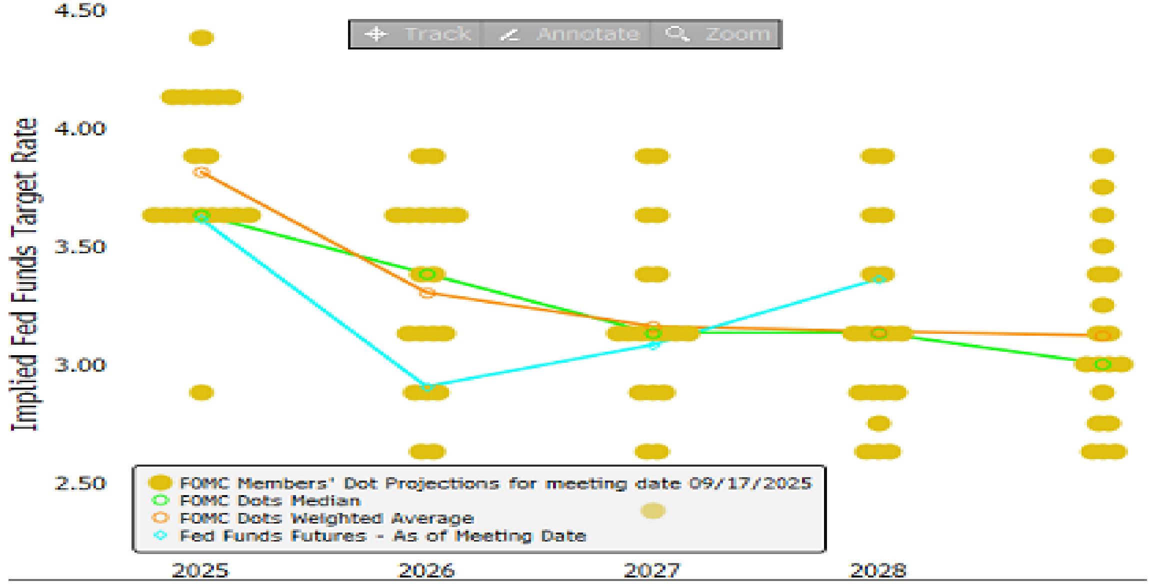
Fed Rate Meeting: 18 September 2025

- The Federal Reserve's September 2025 decision to cut the federal funds rate by 25bps to 4.00%–4.25% marked its first easing since December and was broadly anticipated by markets. While most officials favored a measured move, new Governor Stephen Miran dissented in favor of a 50bps cut, highlighting internal debates over the pace of easing amid a mixed macro backdrop. Updated projections signal another 50bps of cuts by year-end and 25bps more in 2026, underscoring a gradual recalibration rather than an aggressive pivot.
- On growth, the Fed raised its GDP forecasts to 1.6% for 2025 (from 1.4%), 1.8% for 2026, and 1.9% for 2027, reflecting resilient demand and labor momentum. Inflation remains sticky, however, with 2026 PCE forecasts nudged higher (2.6% vs 2.4%), limiting room for deeper cuts. Unemployment is projected at 4.5% in 2025 and 4.4% in 2026, reinforcing the "soft-landing" narrative.
- Globally, the Fed's move affirms a broader easing cycle among major economies, easing US yield volatility and supporting capital flows into emerging markets. For Indonesia, this dovetails with Bank Indonesia's own easing—yesterday BI cut its policy rate by 25bps to 4.75%, the third straight monthly cut and lowest since October 2022. BI's move reflects confidence in subdued inflation (2.31% in August) and rupiah stability, while reinforcing domestic growth after Q2 GDP expanded 5.12% YoY the fastest in two years.
- Looking ahead, synchronized global and domestic easing, combined with Indonesia's IDR 16.23 trillion fiscal package targeting 3.5 million jobs, provides a supportive policy mix to sustain growth above 5%. Risks remain from persistent US inflation, potential capital flow reversals if Fed cuts lag expectations, and domestic structural hurdles in job creation and productivity. While Indonesia appears well placed to benefit from global easing cycle, jitters in socio-political conditions have caused the IDR to have recently underperformed the USD, thus potentially requiring continued interventions by BI and resulting in lower FX reserves.

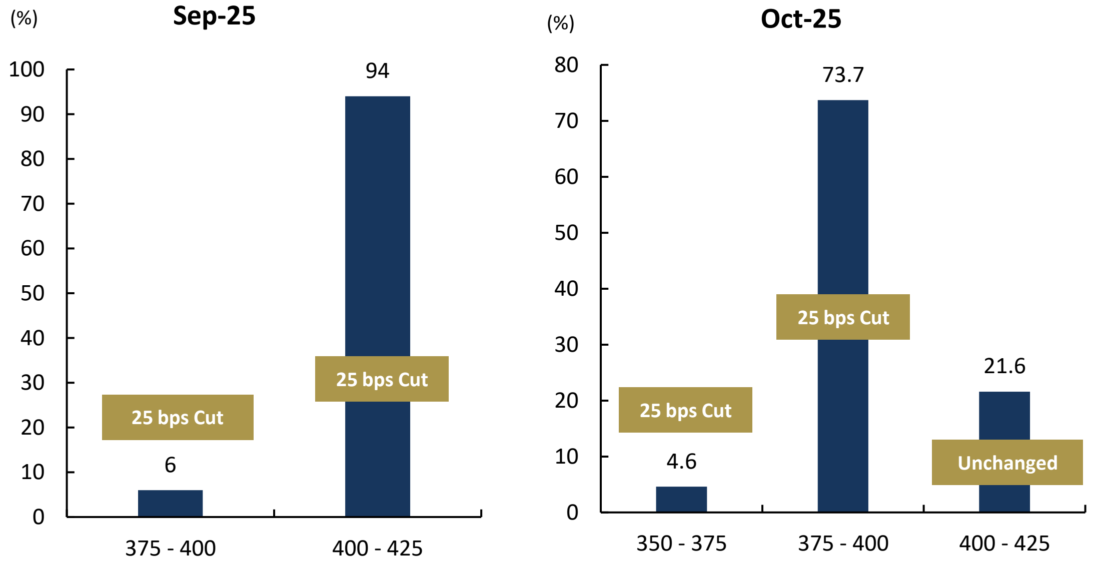
US' Fed Rate and BI's 7-Day Repo Rate



FOMC Dot Plot



Target Rate Probabilities for Sep & Oct-25 Fed Meeting



Sources: Bloomberg, SSI Research

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