

Shutting down when September ends

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Summary

- Disagreements over the extension of ObamaCare provisions have led to another U.S. government shutdown, weakening the short-term outlook for the U.S. economy.
- The weakening outlook has fuelled expectations of further Fed rate cuts, sending the Rupiah and several other currencies into a relief rally.
- The stabilising Rupiah may tempt Bank Indonesia to adopt a more accommodative stance, although several challenges continue to weigh on the currency.

- From the “liberation day” tariffs announcement to the passage of the One Big Beautiful Bill Act (OBBA), each quarter of this year has started with a bang. The final three-month stretch of the year is no exception; as September ends, the US Congress fails to agree on a funding bill, resulting in yet another federal government shutdown. For context, there have been only about 92 or so days of federal shutdowns throughout the 236 years of US history, nearly half (48.7%) of which occurred during the less-than-five years of Donald Trump’s presidency.
- The latest US congressional session showed that neither the Republican nor the Democratic funding proposal managed to break the party line, with only three Democratic senators willing to cross over to vote for the closest Republican proposal. Details of what is included in the Republican proposal remain scant. However, given President Trump’s apparent agenda to reduce the size of the federal government (*see Chart*

1), the Republican version of the funding bill may not be as expansive (spending-wise) as the Democrats’ version.

- Of particular concern for the Democrats is federal spending on healthcare, particularly the extension of the Affordable Care Act (ACA) tax credits. Politically, the Democrats may regard the ACA, more popularly known as ObamaCare, as a testament to their legislative success, having been enacted during the 111th Congress, when the party last held a governing trifecta (control over the presidency and both houses of the US Congress).
- However, beyond its political significance, the Democrats’ insistence on extending the ACA tax credits also carries sound economic reasoning. American consumers’ spending on health insurance has been trending upward, rising from 3.8% of total spending when the ACA was first enacted in 2010 to 5.7% in 2017, when President Trump’s Tax Cuts and Job Act (TCJA) ended payment of cost-sharing

subsidies to insurers (*see Chart 2*), thereby undermining the ACA by reducing insurer participation and driving up premiums.

- Therefore, allowing the ACA tax credits to expire (as President Trump demanded) would drive the share of healthcare to total spending even higher, with one analysis suggesting that premiums could rise by as much as 79.8% for a middle-income family of four. At best, the higher premiums mean that healthcare may contribute more to the inflation figure (*see Chart 3*), although the headline number may not significantly bulge as the adverse impact on purchasing power could dampen inflationary pressures in other categories.
- At its worst, the higher premiums could price some individuals or families out of the private insurance market, putting a squeeze on the

middle-income population that could exacerbate uncertainty and erode confidence in the economy. This further hit to confidence is particularly concerning given the current macroeconomic backdrop, as the cooling labour market means workers are unlikely to negotiate for more comprehensive insurance benefits or seek higher-paying jobs to offset the impact of rising insurance premiums on their disposable income.

“Furloughed workers due to the shutdown negatively affect the labour market, but ending it on the Republican terms may hit the purchasing powers of many American households”

Amidst chaos, a (temporary) relief

- Given the threats posed by the ongoing government shutdown, it is unsurprising that yields on the shorter end of the UST curve are currently declining (*see Chart 4*). Indeed, the weakening outlook for (federal) employment and the broader economy may compel the Fed to respond, prompting our expectation of another 50 bps of FFR cuts by the end of the year.
- Growing expectations of further FFR cuts have thus provided relief for other financial markets, including the Indonesian financial market. Indeed, the Rupiah has strengthened by around 0.7% since the start of the month – a trend that may continue if market expectations of FFR cuts lead to further depreciation of the USD (*see Chart 5*).
- Apart from the softening global pressure, the recent relief rally in the USDIDR exchange rate

seems to be fuelled by a plethora of other factors. For instance, the August 2025 trade surplus is recorded at a solid USD 5.49 Bn, improving the outlook on Indonesia’s balance of payment. Meanwhile, consumer spending as observed by BCA big data seems to be picking up lately, indicating an improved short-term economic outlook that may help to attract investors into the Indonesian financial market. Hence, the stabilising Rupiah may reopen the room for Bank Indonesia to act on its rate-cutting signal, as the central bank, in coordination with the government, is seeking to reinvigorate loan growth by lowering lending rates, despite the sporadic demand for loans.

- However, we should note that challenges may still be mounting against the Rupiah. First, the growing weakness in the US economy could dampen global manufacturing activity, which

may, in turn, reverberate negatively across the global commodity market. The potential hit to Indonesia's exports could therefore weigh on the Rupiah through the balance-of-payment channel, particularly as foreign investors continue to withdraw capital from the Indonesian financial market.

- Indeed, the domestic financial market's inability to reverse the outflow trend constitutes the second key risk to the Rupiah. Foreign investors recorded net sales to the tune of USD 0.59 Bn in the domestic financial market throughout the past week, with USD 0.55 Bn exiting from the SBN market alone. While sustained demand from domestic banks and Bank Indonesia's readiness to intervene have so far helped to keep the benchmark 10Y

SBN yield at a historically low 6.23%, the subdued yield may compel alpha-seeking investors to look elsewhere for higher returns, with higher yields in developed markets, such as the JGB market, being a prime example.

- Third, as we have argued before, BI has been reliant on market interventions to keep the Rupiah relatively stable throughout the past month, as indicated by the sharp decline in its FX reserves position (USD 148.7 Bn as of September 2025, the lowest level in the past 14 months). As such, the US shutdown-induced rally may tempt BI to take another step on its rate-cutting campaign, although threats to its pro-stability mandate are still lying further down the road

Chart 1

It is getting empty in Washington

President Trump's threat to "shrink" the US federal government may further loosen the labour market, forcing the Fed to realise its rate-cut signal.

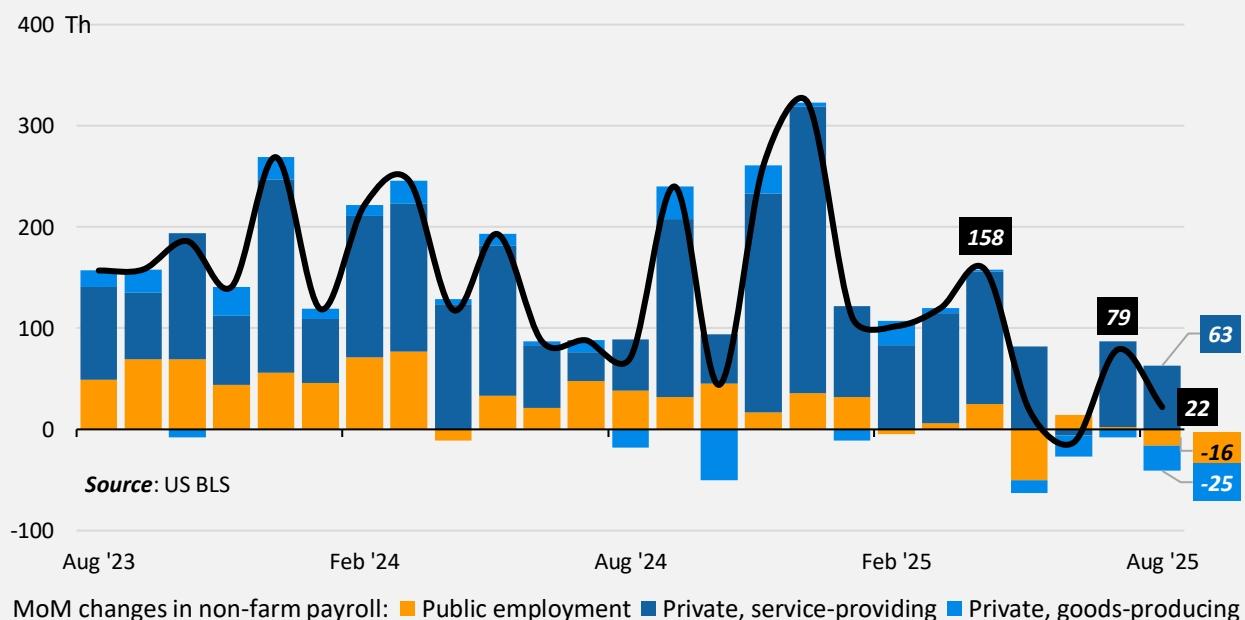


Chart 2

Getting healthy is expensive

Allowing the ACA provisions to expire may lead to a sharp increase in health insurance premium, squeezing average American's disposable income

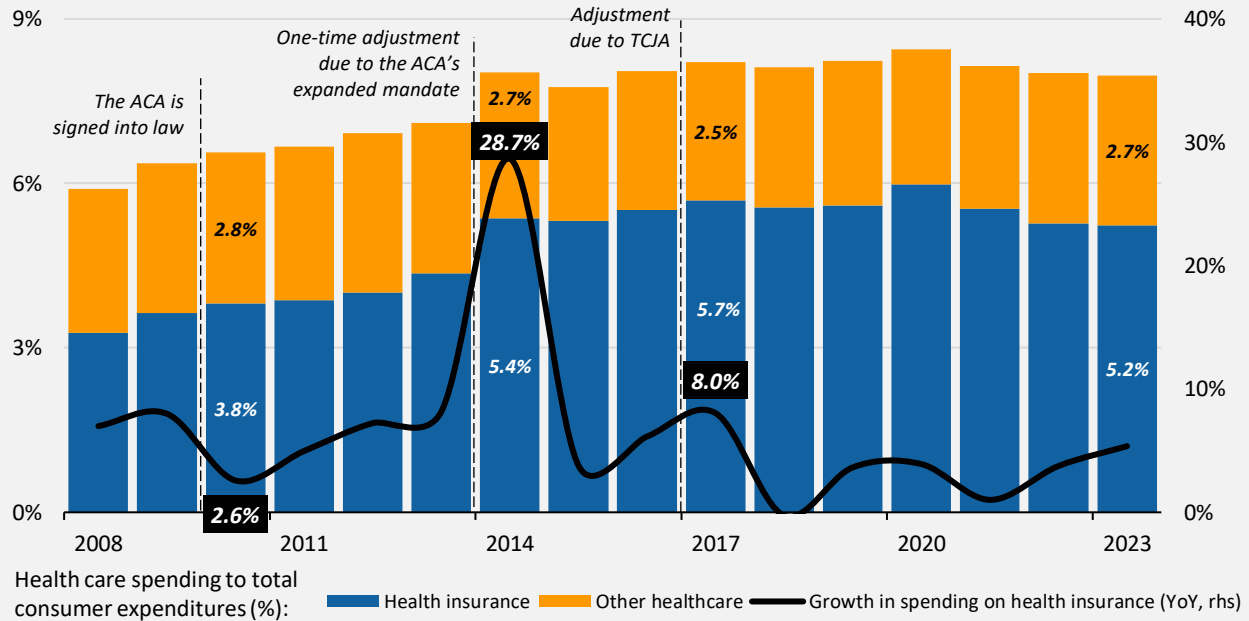


Chart 3

Health care inflation

The Republican funding bill may see health insurance premiums contributing more to the figure inflation, but the headline number may not significantly bulge

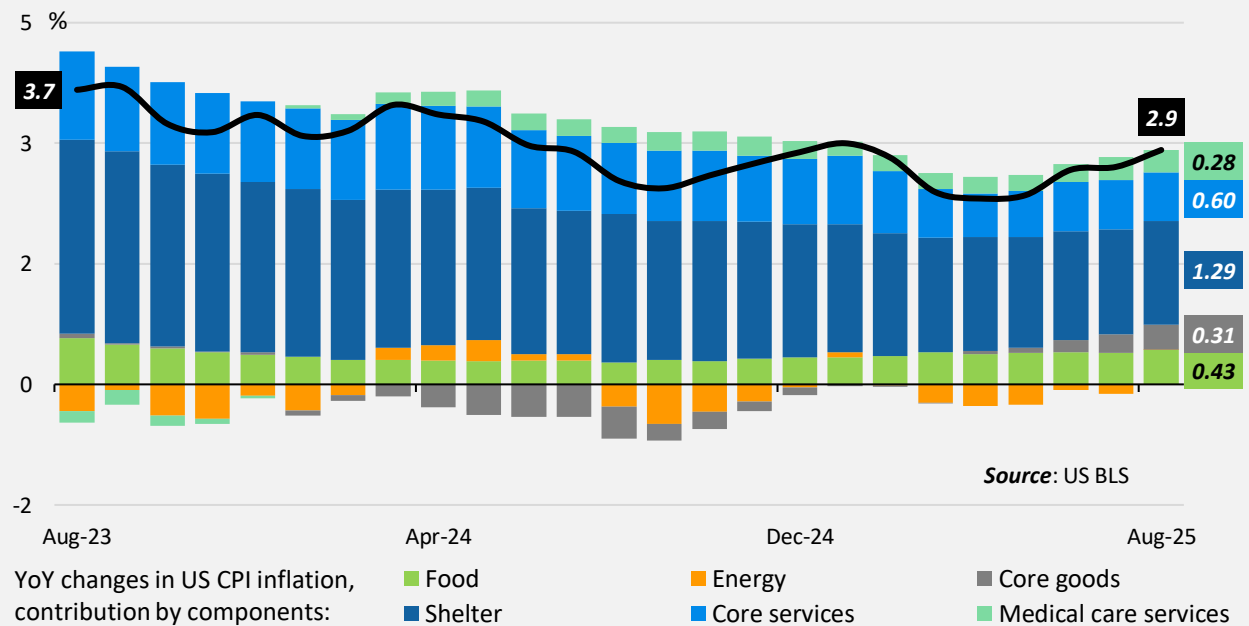


Chart 4

Lower on the short

Short-term yields are declining as suspended public spending amidst the shutdown is expected to be a drag on the US economy, but long-term yields are still marching northwards

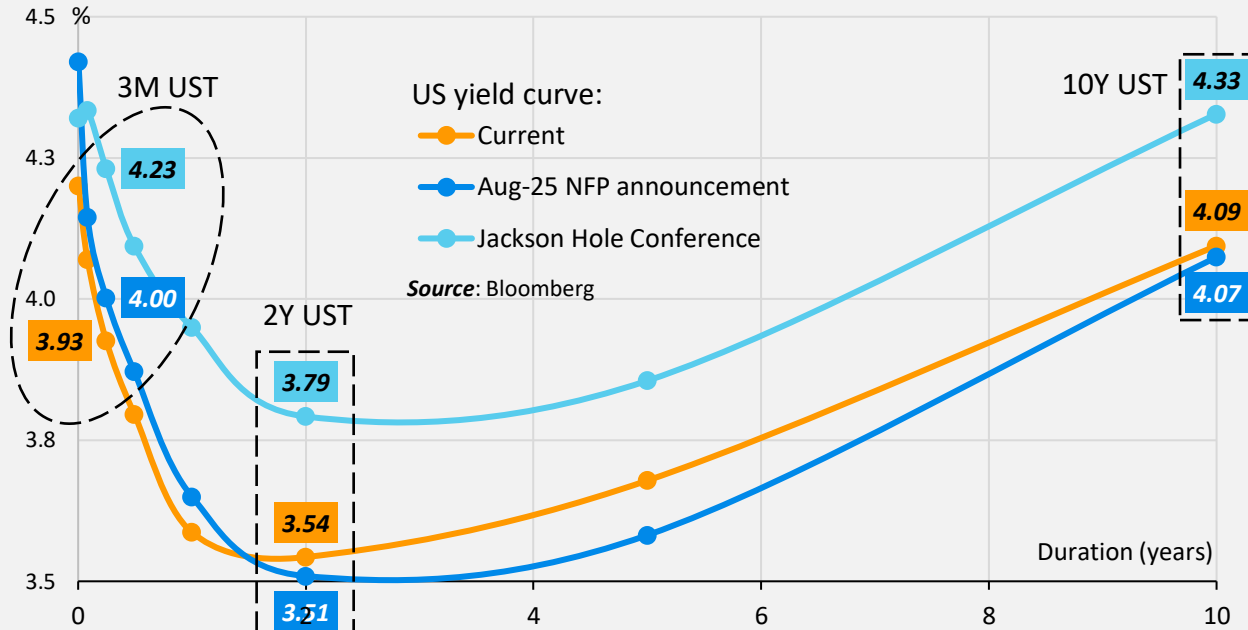
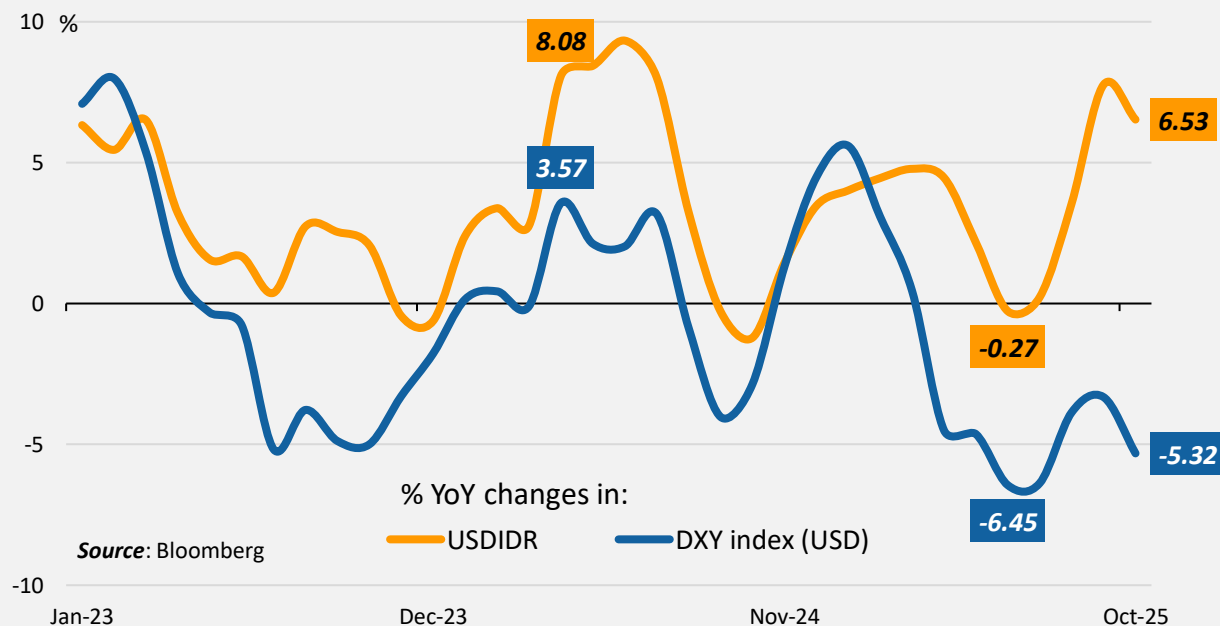


Chart 5

From chaos, a relieve

The weakening sentiment on the US short term growth outlook explains the depreciating USD, which may provide a relief for the Rupiah



Economic Calendar				
		Actual	Previous	Forecast*
01 October 2025				
ID	S&P Global Manufacturing PMI	50.4	51.5	52
ID	Trade balance (Aug-25), USD Bn	5.49	4.18	3.9
ID	Inflation Rate YoY, %	2.65	2.31	2.4
US	S&P Global Manufacturing PMI	52.0	53.0	52
06 October 2025				
EA	Retail Sales YoY, %	1.0	2.1	2.0
07 October 2025				
ID	Foreign Exchange Reserves, USD Bn	148.7	150.7	159.0
US	Trade balance, USD Bn		-78.3	-67
08 October 2025				
ID	Consumer Confidence		117.2	120
ID	Motorbike Sales YoY, %		0.7	-
09 October 2025				
ID	Retail Sales YoY, %		4.7	3.9
ID	Car Sales YoY, %		-19.0	-
13 October 2025				
CN	Trade balance, USD Bn		102.33	88
15 October 2025				
CN	Inflation Rate YoY, %		-0.4	0.0
ID	Foreign Direct Investment YoY, %		-7	-6.0
US	Inflation Rate YoY, %		2.9	3.0
16 October 2025				
US	Retail Sales YoY, %		5	2.9
20 October 2025				
CN	Retail Sales YoY, %		3.4	6.2
22 October 2025				
ID	BI-Rate Decision, %		4.75	4.5
ID	Loan Growth YoY, %		7.56	7.5
23 October 2025				
ID	M2 Money Supply YoY, %		7.6	-
30 October 2025				
US	Fed Interest Rate Decision, %		4.25	4.0
31 October 2025				
US	PCE Price Index YoY, %		2.7	2.8

*Forecasts of some indicators are simply based on market consensus

Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	6-Oct	-1 mth	Chg (%)
US	4.25	Sep-25	1.35	Baltic Dry Index	1,932.0	1,979.0	-2.4
UK	4.00	Aug-25	0.20	S&P GSCI Index	550.8	543.3	1.4
EU	2.15	Jun-25	-0.05	Oil (Brent, \$/bbl)	65.5	65.5	-0.0
Japan	0.50	Jan-25	-2.20	Coal (\$/MT)	107.2	110.1	-2.7
China (lending)	2.00	Sep-24	4.75	Gas (\$/MMBtu)	3.32	3.05	8.9
Korea	2.50	May-25	0.40	Gold (\$/oz.)	3,961.0	3,586.7	10.4
India	5.50	Jun-25	3.43	Copper (\$/MT)	10,613.1	9,829.5	8.0
Indonesia	4.75	Sep-25	2.10	Nickel (\$/MT)	15,302.6	15,054.1	1.7
Money Mkt Rates	6-Oct	-1 mth	Chg (bps)	CPO (\$/MT)	1,039.7	1,037.3	0.2
SPN (1Y)	4.99	5.10	-10.9	Rubber (\$/kg)	1.75	1.78	-1.7
SUN (10Y)	6.28	6.37	-9.6	External Sector	Aug	Jul	Chg (%)
INDONIA (O/N, Rp)	4.04	4.53	-48.6	Export (\$ bn)	24.96	24.75	0.87
JIBOR 1M (Rp)	5.16	5.53	-37.5	Import (\$ bn)	19.48	20.58	-5.35
Bank Rates (Rp)	Jun	May	Chg (bps)	Trade bal. (\$ bn)	5.49	4.17	31.50
Lending (WC)	8.62	8.64	-1.78	Central bank reserves (\$ bn)*	150.7	152.0	-0.84
Deposit 1M	4.89	4.86	2.28	Prompt Indicators	Aug	Jul	Jun
Savings	0.71	0.70	0.82	Consumer confidence index (CCI)	117.2	118.1	117.8
Currency/USD	6-Oct	-1 mth	Chg (%)	UK Pound	0.742	0.740	-0.18
UK Pound	0.742	0.740	-0.18	Euro	0.854	0.853	-0.05
Euro	0.854	0.853	-0.05	Japanese Yen	150.4	147.4	-1.94
Japanese Yen	150.4	147.4	-1.94	Chinese RMB	7.122	7.133	0.15
Chinese RMB	7.122	7.133	0.15	Indonesia Rupiah	16,554	16,420	-0.81
Indonesia Rupiah	16,554	16,420	-0.81	Capital Mkt	6-Oct	-1 mth	Chg (%)
Capital Mkt	6-Oct	-1 mth	Chg (%)	Manufacturing PMI	Sep	Aug	Chg (bps)
JCI	8,139.9	7,867.3	3.46	USA	52.0	53.0	-100
DJIA	46,695.0	45,400.9	2.85	Eurozone	49.8	50.7	-90
FTSE	9,479.1	9,208.2	2.94	Japan	48.5	49.7	-120
Nikkei 225	47,944.8	43,018.8	11.45	China	51.2	50.5	70
Hang Seng	26,957.8	25,418.0	6.06	Korea	50.7	48.3	240
Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)	Indonesia	50.4	51.5	-110
Stock	3,846.5	3,760.3	86.20				
Govt. Bond	912.8	1,213.4	-300.66				
Corp. Bond	4.1	4.5	-0.40				

Source: Bloomberg, BI, BPS

Notes:

*Data from an earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, >50 indicates economic expansion, <50 otherwise

Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	5.0
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.2
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5100
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.8
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.32
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,461
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,625
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.75

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time

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