S. Korea freezes interest rates at 2.5 pct

SEOUL, June 13 (Xinhua) -- South Korea's central bank froze its policy rate at 2.5 percent on Thursday in a bid to wait and see the effect of the prior month's rate cut on the sluggish economy.Bank of Korea (BOK) Governor Kim Choong-soo and monetary policy board members left the benchmark seven-day repurchase rate unchanged at 2.5 percent after lowering the rate by 25 basis points last month in a 6-1 vote. The seven-member committee lowered the borrowing costs by 25 basis points in July and October last year.The decision was in line with market consensus as experts predicted the rate freeze on expectations that the central bank would refrain from altering the rate for the time being to monitor the effect of the prior month's rate cut and fiscal stimulus policies.The Ministry of Strategy and Finance unveiled the supplementary budget plan of 17.3 trillion won (15 billion U.S. dollars) in mid- April after slashing its 2013 growth outlook from 3 percent to 2.3 percent. The downgraded figure was lower than 2.6 percent estimated by the BOK.Simultaneous stimulus measures from both monetary and fiscal sides came amid the still faltering economy. The Asia's No. 4 economy marked the zero-percent range growth for eight straight quarters in the first quarter.The BOK revised down the real gross domestic product (GDP) growth for the first quarter from 0.9 percent to 0.8 percent on an on-quarter basis.According to the survey by the Korea Financial Investment Association (KFIA) of 134 market watchers before the rate decision, 97.8 percent of the respondents projected the rate freeze this month on the back of the expected recovery arising from the fiscal and monetary stimulus.Expectations for additional rate cut remained amid concerns over the low-growth trend. "Economic uncertainties at home and abroad lingered. The BOK may cut interest rates further in July when it plans to unveil the revised 2013 growth outlook," said Lee Jungjoon, a fixed-income analyst at HMC Investment & Securities.Finance Minister Hyun Oh-seok on Tuesday expressed his worries about the unprecedented low-growth trend, citing external uncertainties such as quantitative easing, Abenomics and the possible exit by the U.S. from quantitative easing.Aggressive monetary easing in major economies helped moderate the global economic recession and stabilize international financial markets, but it caused unintended negative side effects such as the fluctuating capital flow in and out of emerging economies.The Abenomics, or the economic policy advocated by Japanese Prime Minister Shinzo Abe, caused the Japanese yen's depreciation against the U.S. dollar as well as the South Korean won, worsening the price competitiveness of local exporters which are competing with Japanese rivals in overseas markets.The finance minister cautioned that recovery momentum of the Asia's No. 4 economy remained weak despite the rebound in the first quarter, saying that the government will make all-out efforts in the second half to break the low-growth trend.