Korea Matches Brazil Rate Cut as World Growth Stumbles

South Korea cut interest rates hours after Brazil as economies around the world shield themselves from the risk of a deeper slowdown driven by weakness in China and austerity measures in Europe.

Governor Kim Choong Soo and his board in Seoul today lowered the benchmark seven-day repurchase rate to 2.75 percent from 3 percent, a decision predicted by 13 of 16 economists surveyed by Bloomberg News. Brazil’s Selic rate fell by the same amount to a record low 7.25 percent.

Five years after the global financial crisis began, policy makers meeting in Tokyo this week are still battling threats to growth, with the International Monetary Fund cutting its worldwide forecasts and the U.S. nearing a so-called fiscal cliff of spending cuts and tax increases. South Korea’s central bank lowered estimates for the nation’s expansion and Kim said the rate reduction reflected “deteriorating conditions.”

“Central banks need to be in an easing mode at least until early next year,” said Masamichi Adachi, a senior economist at JPMorgan Securities in Tokyo and a former central bank official. “We still have a lot of uncertainties centered on the European debt crisis, the U.S. fiscal cliff and China’s slowdown.”

Leadership Needed

Asian stocks swung between gains and losses, with the MSCI Asia Pacific Index (MXAP) down 0.1 percent as of 1:04 p.m. in Tokyo, after Spain’s debt rating was cut to one level above junk by Standard & Poor’s.

Gary D. Cohn, the chief operating officer of Goldman Sachs Group Inc., told Bloomberg Television today that the world economy is in a tough place and lacks leadership. In another sign of weakness in Asia, Japan’s machinery orders fell more than economists forecast in August, declining 3.3 percent, a Cabinet Office report showed today.

“A rate cut now is better than doing it later to support growth,” Governor Kim told reporters in Seoul. “Monetary easing now will do more good than harm.”

The Bank of Korea lowered its forecast for the nation’s growth in 2012 to 2.4 percent from a July estimate of 3 percent. The economy will expand 3.2 percent next year, and the inflation rate this year will be 2.3 percent, it said, lower than an earlier prediction of 2.7 percent.

In an interview at the Bloomberg News office in Seoul this week, Finance Minister Bahk Jae Wan said the nation’s economy will see a “weak” rebound this quarter after hitting bottom in the previous three months.

‘Harmful Effects’

Using “all available fiscal, monetary and financial policy means” could have harmful effects, Bahk said, indicating why the government has resisted adding a supplementary budget. President Lee Myung Bak’s administration targets a fiscal deficit of 0.3 percent of gross domestic product for next year, a six-year low.

In Brazil, the central bank said keeping monetary conditions stable for a “sufficiently prolonged period” will balance inflation risks with continued “complexity” in the global economy. Policy makers led by bank President Alexandre Tombini have cut rates 525 basis points since last August, more than any Group of 20 nation.

“Rates will stay at the current level for a long time, and a long time means at least a year,” Jankiel Santos, chief economist at Banco Espirito Santo Investment bank, said in a phone interview from Sao Paulo. Prior to the decision, Santos had expected the bank to begin raising rates by August 2013.

No Joke
Brazil’s central bank last month cut to 1.6 percent from 2.5 percent its forecast for growth this year, falling in line with private estimates that Finance Minister Guido Mantega as recently as June ridiculed as a “joke.”

“At the beginning of this year, policy makers worldwide expected the global economy will recover in the second half of this year but they have been proven to be wrong,” said Adachi of JPMorgan Securities.

The world economy will grow 3.3 percent this year, the slowest since the 2009 recession, and 3.6 percent next year, compared with July predictions of 3.5 percent in 2012 and 3.9 percent in 2013, the IMF said in report this week. It also reduced its forecasts for South Korea, now projecting 2.7 percent growth for 2012 and 3.6 percent for 2013.

“Korea’s export-oriented economy has struggled due to weakness in Europe, the U.S. and China, all of which are important markets for its exporters,” Sukhy Ubhi, an economist at Capital Economics Ltd. in London, said before today’s decision.

“Global growth is likely to remain weak not just for the remainder of this year but in 2013 too. The BOK will loosen policy both this year and next.”

**Producer Prices**

Also today, South Korea’s producer prices rose at the fastest pace in four months in September, while elsewhere in the region, Australian employers hired almost three times the number of workers economists forecast for September, even as the unemployment rate jumped to a 2 1/2-year high.

In Europe, Germany and France will report inflation data for September, while Sweden will publish its unemployment rate.

The U.S. trade deficit probably widened to $44 billion in August from $42 billion in July, according to a Bloomberg survey. Initial jobless claims probably climbed 3,000 to 370,000 in the week ended Oct. 6, another Bloomberg survey of economists showed. The Bloomberg Consumer Comfort Index is also due today.

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