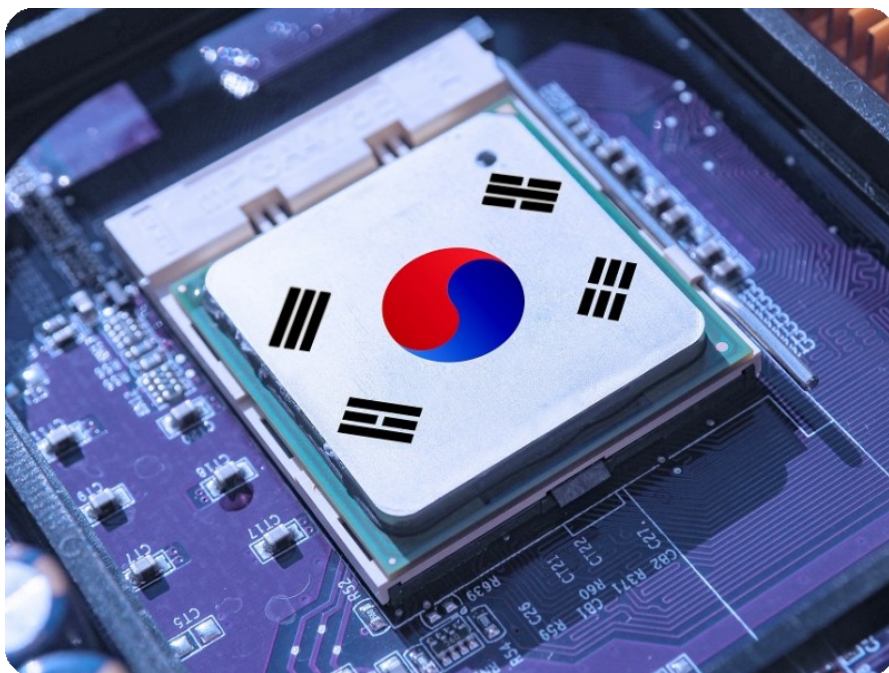


Article | 22 June 2026

SOUTH KOREA

ING lifts South Korea 2026 GDP growth forecast to 4% from 3%

Under ING's latest energy scenario, supply conditions should improve for South Korea in the second half of 2026. Semiconductor momentum, meanwhile, will remain stronger than previously assumed. This is supporting private consumption and investment, on top of government spending. We've raised our 2026 GDP forecast to 4% from 3%



Source: Shutterstock

Thriving semiconductors drive meaningful recovery in domestic demand

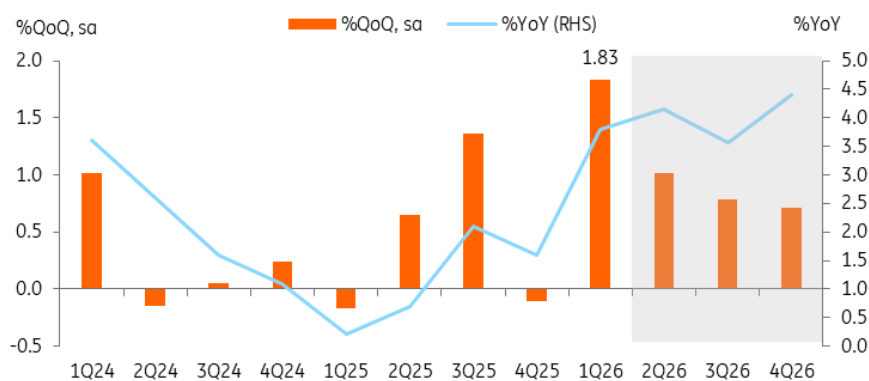
Despite heavy reliance on Middle Eastern energy, South Korea has so far limited the impact on growth and inflation through price caps, subsidies, fiscal support, and diversifying imports from non-Gulf countries. Meanwhile, the global AI boom fuelled remarkable growth in the first quarter.

The semiconductor boom is expected to remain the key driver of growth across the economy. Whilst strong exports will undoubtedly be the most significant, the boom will lay the

foundations for growth in private consumption, government spending and investment. This will happen via channels including a stock market rally, rising labour incomes, higher capex, increasing tax revenue, and a boost in sentiment.

Despite the US-Iran ceasefire, the situation in the Middle East remains fragile and fluid. Recent developments have been broadly consistent with [our base-case energy scenario](#) so far. Even with risk scenarios such as 60-day US-Iran negotiations getting stuck or a re-escalation of tensions, we firmly believe that the AI boom will overshadow energy shocks throughout the year. As such, growth is expected to accelerate to well above 3.0% year-on-year.

GDP is expected to grow 4.0% YoY in 2026



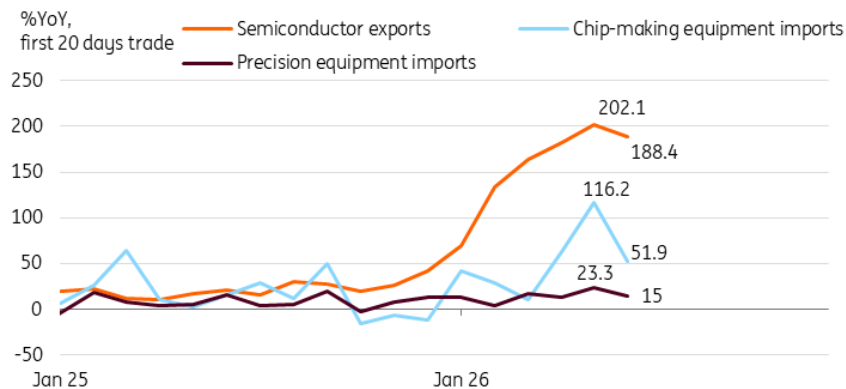
Source: CEIC, ING estimates

Export momentum likely to stay strong beyond 2026

Early June export data showed another strong 60.4% YoY increase, led by a 188.4% surge in semiconductor exports. Working-day-adjusted exports rose 49.7%, signalling that underlying export momentum has firmed up. By destination, exports to China and the US rose by 86.9% and 53.9%, respectively.

While we had expected chip momentum to remain firm throughout the year, the scale of the upside far exceeded our expectations. As we've argued before in [our previous research](#), the semiconductor outlook remains exceptionally strong. Rising demand for high-end chips, structural shortages in legacy chips, limited supply-capacity expansion, and heavy hyperscaler investment should extend and strengthen the chip cycle. More recently, China has stepped up investment in AI. Europe is accelerating efforts to build sovereign AI capabilities and reduce reliance on foreign technology. Thus, we expect AI adoption to broaden globally, extending the current semiconductor supercycle for a considerable period.

Semiconductors are boosting both exports and imports



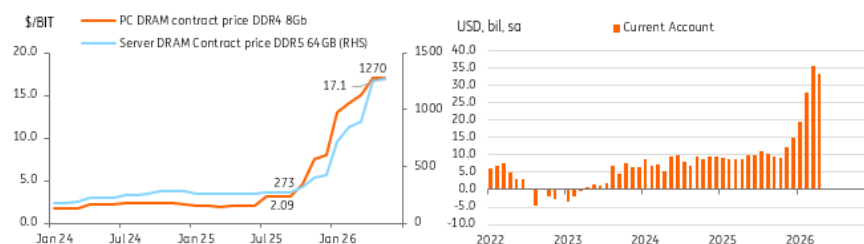
Source: CEIC

Strong chip pricing supporting record current account surplus in 2026

While DRAM prices have stabilised somewhat over the past two months, they're more than four times higher than a year earlier. With 2026 HBM prices rising by 20-30%, triple-digit chip export growth should continue into early 2027. We expect DRAM prices to soften around 2028 as structural supply conditions improve. In particular, Chinese chipmakers are expected to complete new production lines.

Thanks to strong chip performance, the current account surplus had already reached \$102.6bn by April, compared with \$123.1bn for all of 2025. We expect the current surplus to widen to nearly \$250 billion for 2026.

DRAM price to remain strong while current account surplus to double



Source: CEIC

K-shaped recovery in investment; positive spillover to facility investment vs soft construction

Korea's K-shaped recovery is most evident in the gap between strong facility investment and weak construction activity.

Strong chip performance is expected to increase chipmakers' capex. Recent ING research noted that Korean chipmakers are expanding semiconductor capacity. Today's trade data also confirmed the sharp rise in semiconductor manufacturing equipment imports. Imports rose 23.2%, led by a 52% increase in semiconductor manufacturing equipment. Business surveys showed a strong recovery after a temporary slide in April, with the recovery most pronounced in manufacturing. We believe the optimistic view on global AI expansion has offset the geopolitical risks so far.

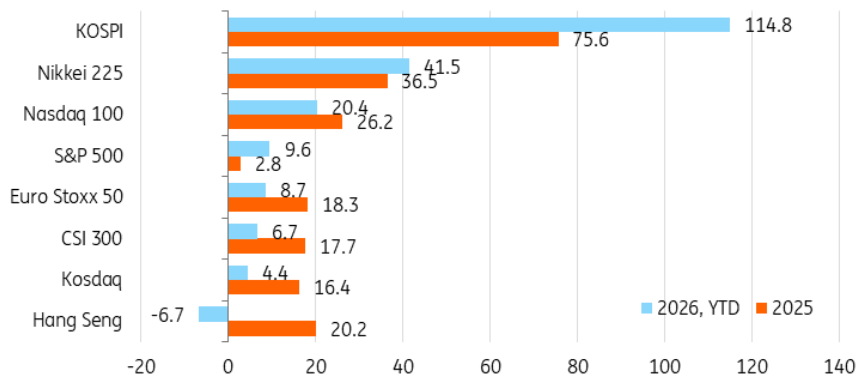
Meanwhile, construction growth is seen remaining sluggish. A modest recovery is expected as the business cycle slowly turns around after the five-year downturn. However, disruptions in the Middle East led to shortages of key construction materials and higher material costs. Given its relatively high sensitivity to interest rates, higher borrowing costs should weigh on the construction sector.

Consumption positive, but income inequality seen widening

Strong chip performance has been the main driver of the remarkable KOSPI rally, with the two major chipmakers accounting for more than half of the total market capitalisation. Beyond the significant equity gains, both companies – SK Hynix and Samsung -- have also pledged sizeable employee bonuses and dividend payments to shareholders. Whilst the direct beneficiaries of these measures are likely to be quite limited, they are expected to have a positive impact on consumer spending, albeit a modest one. Also, for the second quarter in particular, the government's fiscal measures to mitigate the energy shocks are expected to contain any sudden drop in private consumption.

Market reports showed that the number of stock accounts holding more than KRW 1bn in financial assets more than doubled in 2026, rising to 162k from 65k in 2025. Anecdotal evidence points to private pension gains of at least 40% over the past 12 months. These all indicate equity market rallies leading to broader positive wealth effects among households holding financial assets. But we still see widening income inequality as stock ownership is usually concentrated in higher-income and higher-wealth households. In addition, given high household debt, the translation of a positive wealth effect into consumption may be modest.

Positive wealth effects are expected to support consumption

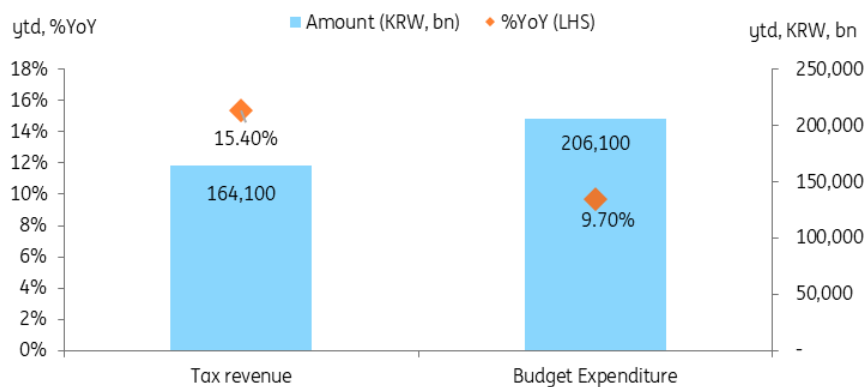


Source: CEIC

Fiscal outlook improves on stronger tax revenue

Strong semiconductor performance has led to increased tax revenue from corporate, equity transactions, and income taxes. Government fiscal balance data showed a sharper increase in revenue up to April. Cumulative government revenue for January to April 2026 rose by 15.4% YoY year-to-date. This will likely maintain the government's expansionary fiscal stance, with higher spending on social welfare and R&D. Also, we expect some excess tax revenues to be used to consolidate the fiscal account.

Fiscal balance to improve thanks to strong tax revenue



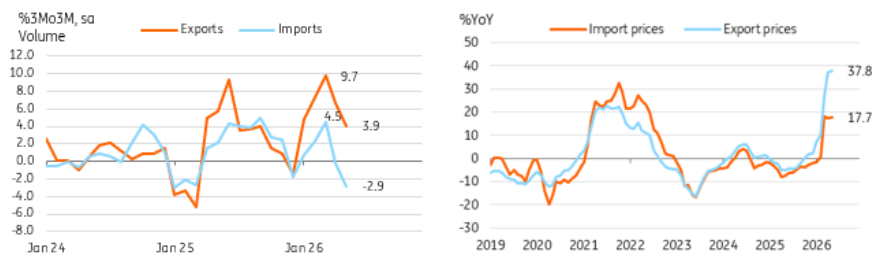
Source: CEIC

Moderating growth expected in 2Q26 amid energy shocks

After a remarkable 1.8% quarter-on-quarter, seasonally-adjusted, expansion in 1Q26, we expect growth to moderate in 2Q26. GDP should still rise at a solid 1.0% QoQ pace. Net exports are likely to contribute positively to overall growth. Monthly data point to slower export

growth, but a sharper contraction in imports, implying a trade surplus. The sharp improvement in terms of trade will eventually play a positive role in the domestic economy. Sentiment dipped only briefly; survey data now show a clear and sustained improvement. With fiscal support, private consumption is expected to expand modestly. We believe that a peace deal would provide a stronger boost to growth, while its impact on prices should remain limited.

Better terms of trade and firm exports are likely to boost GDP throughout 2026



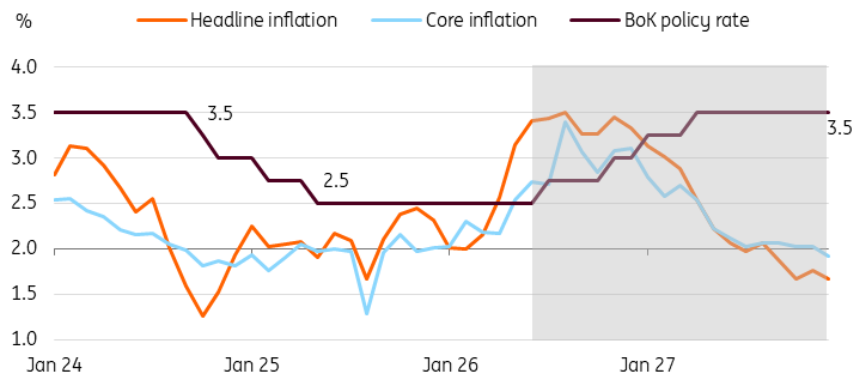
Source: CEIC, ING estimates

Inflation sticky despite sharp commodity price correction

We expect inflation to remain sticky even as energy supply normalises. Korea has relied mainly on fiscal measures, rather than monetary policy, to contain prices. These include fuel price caps, extended fuel-tax cuts, food vouchers, and frozen power bills for 3Q26. The impact of energy shocks was effectively mitigated by several measures, and the inflation spike was relatively mild compared with other major economies.

However, going forward, we expect more sustainable inflationary pressures to build up. Supply shock-driven inflation forces are expected to weaken, but once these temporary anti-inflation measures are lifted, then the second-round effects and demand-driven pressures are likely to dominate the future inflation path. We believe the second-round effects will continue to rise for a while, as energy conditions are normalised very gradually and businesses are likely to pass on earlier cumulative input price hikes to output prices. More importantly, we expect stronger demand-side pressures, such as asset-market rallies, rising labour income, and weak currencies, to add to inflationary pressures in 2H26 and beyond. We expect CPI to rise 3.0% YoY in 2026 (vs previous outlook of 2.8%)

CPI is expected to stay above 3%, supported by firm demand



Source: CEIC

Bank of Korea expected to deliver 100 bp of hikes by 1H27

We now expect the Bank of Korea to deliver more than the previously assumed 75 bp of additional rate hikes, with the terminal rate reaching 3.50% by 1H27. The BoK is likely to focus on demand-driven inflation rather than temporary supply-side price shocks. Stronger growth should lift core inflation once energy-related volatility fades. The BoK has clearly signalled that price stability is now its priority, and markets widely expect a 25 bp hike in July. Our base case for the BoK outlook is a 25 bp hike per quarter. While the BoK could frontload hikes in 2H26, we still see this as unlikely given pressure on rate-sensitive sectors. We therefore expect a gradual path of tightening as a base.

Following a 25 bps upward revision to the base rate forecast, we have also revised our Korean treasury bond (KTB) forecast. We remain of the view that the spread widening typically observed during a shift in monetary policy will narrow again once the market forms a reasonable expectation of the terminal rate. Now we see higher-for-longer rates pushing up 10y KTB yields during the early stage of rate hikes. We believe that the government will increase its redemptions by a slightly larger amount than expected. And that supply pressures aren't likely to be a burden on KTB rates for now. A key swing factor is the Federal Reserve. ING expects two US rate cuts in 2027. If we are right about the Fed outlook, 10Y KTB yields are expected to rise to 4.5% by the end of 2026, then fall to 4.25% by 1H27.

For the USDKRW, we expect it to stay near 1,500 throughout the year. Easing geopolitical tensions is likely to keep the USDKRW trading below 1,550 level, but a larger capital outflow is expected to keep the USDKRW above 1,475 by the end of 2026. Despite the historically high current account surplus expected, the main driver of USDKRW in the near term should remain capital flows and Fed actions. However, in 2027, we expect the BoK's policy rate to be set above the Fed fund rates, then it could probably lead to a more meaningful KRW appreciation.

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