

Snap | 23 April 2026

SOUTH KOREA

South Korean GDP surges, but K-shaped growth is challenge for central bank

South Korea produced remarkable first-quarter growth amid strong chip demand, but growth is expected to slow in the second quarter. We upgraded our 2026 GDP outlook, as fiscal support and strong exports absorb some negative oil impact. A K-shaped recovery poses challenges for the Bank of Korea. Amid inflation risks, we expect rate hikes in the second half



Source: Shutterstock

1.7%

Higher than expected

1Q26 GDP (QoQ, sa)

3.6% YoY

Stronger-than-expected first quarter growth sets a faster pace for 2026 growth expansion

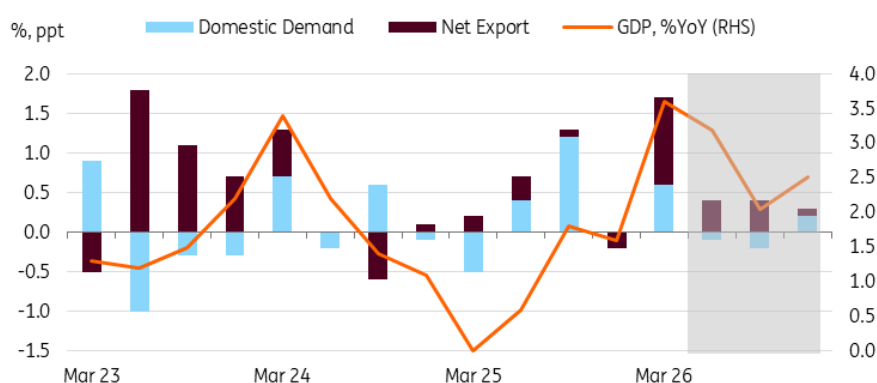
South Korea's GDP surged 1.7% quarter-on-quarter between January and March (vs -0.2% in 4Q25, 0.9% market consensus, 1.0% INGf) thanks to robust global chip demand and AI investment. In year-on-year terms, GDP grew 3.6%. So far, Middle East energy supply disruptions haven't affected the global chip cycle or AI trends.

Strong exports were the main driver of growth. Net exports contributed 1.1 ppt, while domestic demand also added a solid 0.6 ppt. Private consumption (0.5%), construction (2.8%), and facility investment (4.8%) all rose. Inventory contribution was negative (-0.4 ppt), likely due to oil and energy supply shortages, suggesting a possible slowdown in manufacturing activity in the current quarter and possibly beyond.

Growth is unlikely to remain at this high pace in the coming quarters

We expect strong chip momentum to continue, but also a slowdown in 2Q26 growth as energy disruptions affect activity across petrochemicals and other manufacturing sectors. The Korean government implemented a temporary export ban on Naphtha, and Korean companies increased oil and gas imports from outside the Middle East. Despite these measures, manufacturing activity still cannot be sustained at full capacity. Utilisation at Naphtha Cracking Centres (NCCs) has already fallen to historic lows, while other industries have begun scaling back inventories and production.

Robust exports are expected to remain a key driver of growth



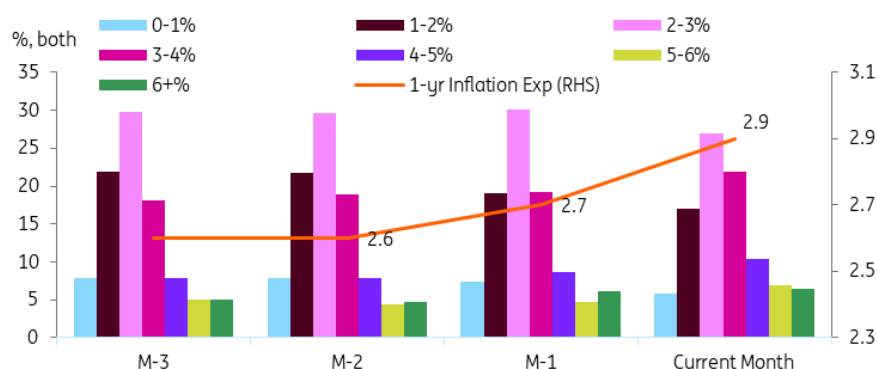
Source: CEIC

Weak consumer sentiment indicated slowdown in domestic demand

In a separate report, consumer sentiment worsened quite sharply in April. The composite sentiment index dropped to 99.2 from the previous month's 107, below the neutral level. Outlook indices dropped significantly, suggesting weakening consumer activity. The government's cash payout – 70% of the population gets up to a \$400 voucher - will begin in late April. Thus, it will mitigate some energy shocks and is likely to prevent the growth from falling into a contractionary territory.

Also, this report shows that inflation expectations rose to 2.9% from 2.7% previously. This will alarm the Bank of Korea, as it closely monitors the impact of energy prices on inflation expectations.

Inflation expectations continued to rise, concerns for the BoK



Source: CEIC

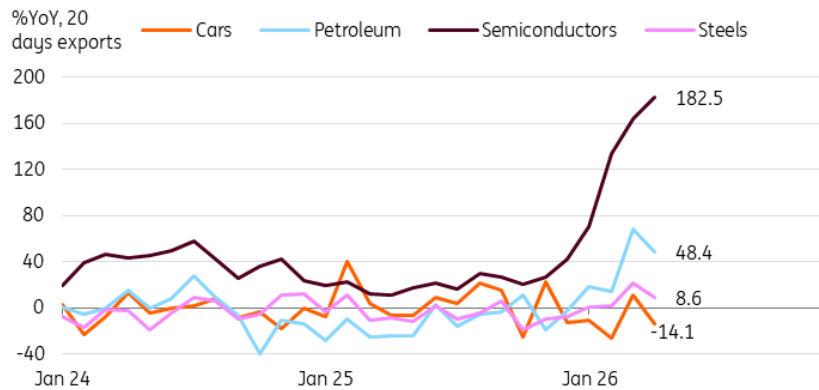
Despite expected growth slowdown, robust chip exports will continue to support growth

Early April export data (first 20 days of the month) showed total exports up nearly 50% YoY, and chip exports up 182%. This suggests continued momentum in chips, which may offset any near-term slowdowns from oil disruptions. Two major chipmakers reported record-high first-quarter earnings, with combined revenue of around \$100 billion. Additionally, one company stated that it has not experienced any supply disruptions due to geopolitical risks and has secured adequate inventories of helium and other essential materials. ING's base case scenario assumes a gradual improvement in oil supplies. We continue to believe the negative impact will mostly hurt growth in 2Q26 and 3Q26.

With solid first-quarter GDP and limited negative impact from the oil disruptions, we have revised up the 2026 GDP growth forecast from 2.0% YoY to 2.8%. We're concerned that

prolonged supply disruptions could hinder chip production and dampen investment in AI. If that happens, the economy could be hit even harder than other major economies because it relies heavily on the chip industry.

Chip exports are expected to grow at a faster pace in April

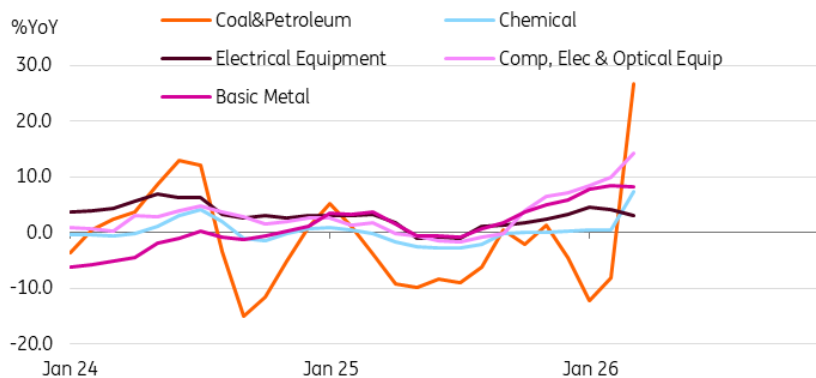


Source: CEIC

Inflation is expected to accelerate in 2Q and 3Q

The government's fuel price cap measures helped to limit the gasoline prices at the pump for a couple of months. However, we have already seen other prices go up – airfare, travel, logistics prices. Pipeline prices – such as import prices and producer prices – went up quite meaningfully and showed that the inflationary pressures broadened. Due to the implementation of government measures, the monthly inflation rate is expected to remain lower than that observed in other Asian energy-importing countries. We expect that the Consumer Price Index will increase by at least 0.7% MoM in April. It's important to note that this rise is not only due to higher energy prices, but also "chipflation." The escalation in semiconductor costs has driven up prices for various electronic devices, including mobile phones, notebooks, and household appliances. Thus, the inflation is likely to climb in the coming months.

Pipeline inflations showed inflationary pressure is widening



Source: CEIC

Macro policy mix

K-shaped growth presents challenges for policymakers. Fiscal policy will likely aim to mitigate the energy shocks by supporting vulnerable groups – lower-income households and SMEs – while monetary policy is expected to prioritise anchoring inflation expectations. We believe that this combination of macroeconomic policies is not contradictory but complementary. Each fulfils distinct functions in supporting overall economic stability.

On the fiscal side, the government's supplementary budget (1% of GDP) was approved and will be deployed starting at the end of April. Cash payouts and other energy subsidies are designed to support lower-income households and small and medium-sized businesses. Also, it will help to secure energy sources outside of the Middle East.

On the monetary policy side, the K-shaped recovery will put the BoK in a difficult position and likely constrain its policy responses. However, if GDP grows much higher than potential, as we expect, and inflation expectations rise further from here, we expect the BoK will focus on its inflation-targeting mandate. Thus, we continue to expect the BoK to deliver policy hikes in 2H26.

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