Prospects

No. 26/236 – 18 November 2026

South Korea – The moment of truth

- South Korea is undoubtedly at a pivotal moment: the boom in AI and semiconductors is restoring growth, external surpluses and the leeway to undertake financial and monetary reforms, starting with the internationalisation of the won, but this momentum has not yet spread throughout the economy.
- South Korea's strength lies in a very specific comparative advantage: its dominance in memory components. Samsung Electronics and SK Hynix, two global vertical integrators, design, manufacture, test and market their own chips, enabling them to coordinate R&D, mass production, yields and investment on a very large scale.
- South Korea's industrial strategy currently pursues three objectives. The first is to strengthen production capacity. The second aims to reduce external dependence, particularly on China for rare earths, through the diversification of sources, strategic stockpiling, recycling and the development of a domestic sector for the separation, refining and production of magnets. The third aims to close the gap in Korea's capabilities in the field of logic semiconductors, design and equipment manufacturing.
- This success, however, raises the question of excessive dependence on a very specific sector. South Korea is experiencing not so much overall growth as a supply shock and a surge in technological investment, the benefits of which for households are delayed and unevenly distributed. Since the end of the Covid-19 pandemic, nominal wages have risen, but purchasing power has followed a highly uneven trajectory. The share of consumption in GDP remains below its pre-Covid level, and private consumption remains fragile, held back by virtually stagnant real wages, inflation above target and very high household debt.
- The risk of a 'Dutch disease of semiconductors' is real, even if this is a sector-specific variant: a technological competitiveness windfall and an AI-driven demand shock are concentrating capital, profits, talent and political attention in a highly capital-intensive sector that creates few jobs, yet without any sustained appreciation of the won at this stage.
- The central question is therefore whether South Korea can convert this positive shock into a new, more balanced growth model, driven by consumption, services, productivity and financial depth, or whether the country risks repeating its historical vulnerability: a highly open, highly industrialised economy, yet dependent on a small number of technologies, markets and a global investment cycle.
- The ultimate tension is therefore not only between growth and redistribution, but between the short-term cycle – exceptional profits and tax revenues – and structural needs – an ageing population, housing, the energy transition and regional rebalancing. It is precisely this dilemma that makes the 'Korean moment' both promising and still uncertain.

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

South Korea: three scenarios

Scenario	Mechanism	Consequences
'Korean moment' confirmed	Economic growth spills over into services, wages and SMEs; consumption recovers; the won gains in strength and credibility.	More resilient growth, better-controlled inflation, gradual financial reclassification, reduction in the 'won discount'.
Prolonged sectoral cycle	Semiconductors remain the main driver, but consumption and productivity are failing to take off.	Decent but unstable growth, increased dependence on the global cycle, vulnerability to a reversal in AI.
Asymmetric overheating	Technology investment and the property market are tightening, whilst household demand remains weak.	Persistent inflation, rising interest rates, pressure on household debt, risk of a property market correction and a depreciation of the won.

The 'Korean moment': a hypothesis to be qualified

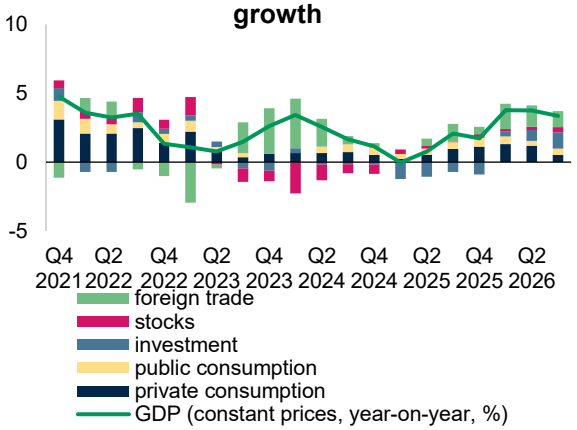
The return to growth

South Korea is currently benefiting from a combination of four factors: a recovery in the global technology cycle, the country's position within AI value chains, a return to growth above perceived potential, and the opening of a window of opportunity for financial and monetary reform. In 2026, **growth is therefore expected to stand at around 3.5 per cent,** driven by exports and investment. However, this growth remains largely concentrated, with the Bank of Korea (BoK) estimating that the 'computers, electronics and optical equipment' sector – of which semiconductors form the core – accounts for 60 per cent of growth.

Export momentum, which has largely underpinned growth over the last six quarters, came to the rescue of a South Korean economy that had almost ground to a halt: in the first quarter of 2025, growth stood at 0.0% before embarking on a new phase of acceleration.

In a country where growth remains largely dependent on the performance of foreign trade, exports have followed a three-stage trajectory since the end of the Covid-19 pandemic: **a sharp surge in 2021, a decline in 2022–2023, followed by successive record highs since 2024**. The downturn in 2022–2023 resulted from a contraction in demand for smartphones, computers and other consumer electronics following an exceptional boom driven by lockdowns, remote working and component shortages. The decline was exacerbated by a price effect, compounded by a fall in export volumes.

South Korea: contributions to growth

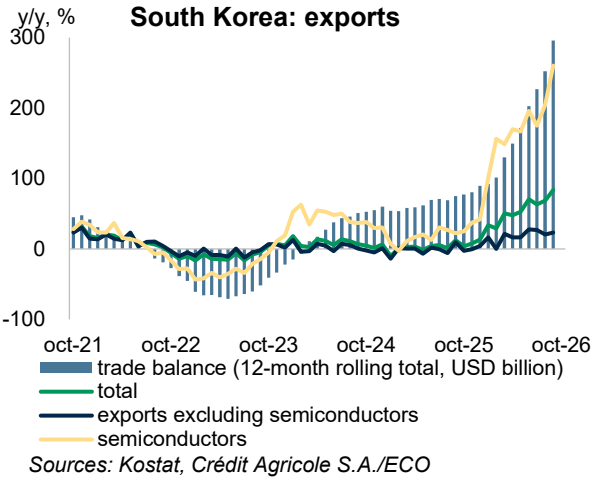


Sources: Kstat, Crédit Agricole S.A./ECO

Since 2024, demand linked to AI, data centres and high value-added memory chips has revitalised the sector. The share of semiconductors in total exports has thus risen from 15.6 per cent to 24.4 per cent between 2023 and 2025 and is expected to grow further this year. Despite pressure on import prices (particularly for energy products, which accounted for 22 per cent of South Korea's total imports in 2025), **the trade surplus is expected to exceed $350 billion by the end of the year, whilst the current account surplus is set to reach $450 billion** – a historic high. This demand has also helped to sustain investment momentum. Semiconductors are now the largest component of private productive investment in South Korea, accounting for 25–30 per cent of investment in equipment.

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

In the third quarter, contributions from foreign trade (1.2 pp) and investment (1.2 pp) thus accounted for 70 per cent of total growth (3.4 per cent). **South Korea is now the world's 15th largest economy in terms of GDP, but the 8th largest in terms of exports.**



Sources: Kostat, Crédit Agricole S.A./ECO

Building a strong comparative advantage: how can South Korea's success be explained?

South Korea has succeeded in dominating a key segment of the technology value chain: memory components. Its success is based on a rare combination of factors: *chaebols*[1] (large conglomerates) capable of investing heavily and rapidly, a long-standing specialisation in the field, global economies of scale, and a government that supports infrastructure, R&D and investment. As early as the 1980s, the authorities acted as a catalyst by investing in the electronics sector and developing a favourable and coherent ecosystem comprising trade policy, industrial credit and planning.

At the top of this chain, two global vertical integrators, **Samsung Electronics** and **SK Hynix,** design, manufacture, test and market their own chips. This integration enables the coordination of R&D, mass production, yields and investment on a very large scale.

Samsung and SK dominate specific segments in particular: system memory, DRAM, HBM and NAND. These components have become the processing and storage units of almost all digital systems. **They are used to process data rapidly for processors and to store it long-term**, from smartphones to AI data centres, as well as in the automotive, industrial, telecoms, healthcare and defence sectors. HBM[2] has thus become indispensable to the GPUs[3] and AI accelerators produced by Nvidia, AMD and major cloud providers, enabling the training of large models and their inference – that is, their use in production.

The sector's development continues with government support

At government level, the ***K-Semiconductor Strategy*** and the ***Semiconductor Mega Cluster Strategy*** aim to consolidate the memory sector whilst catching up in the areas of logic semiconductors, *fabless* companies and equipment manufacturers.

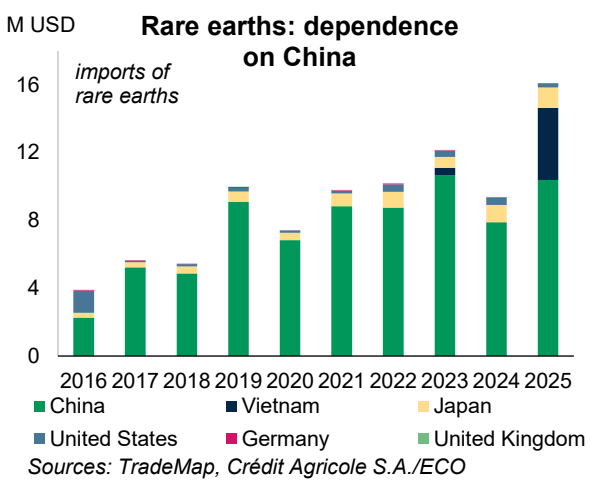
- ✓ **Production capacity is being expanded** through the development of the Yongin mega-cluster (45 km south of Seoul). This site is funded notably by SK Hynix ($410 billion) and Samsung ($250 billion) to develop new memory chip manufacturing plants and foundries by 2045. The site also hosts numerous equipment manufacturers, as well as companies specialising in materials and spare parts.

- ✓ **Reducing dependence on foreign sources, particularly for rare earths**[4]. Like other countries in the value chain, South Korea remains heavily dependent on China for its supply of rare earths. Its strategy is to gradually reduce this dependence without severing it abruptly. The government is encouraging the diversification of overseas sources, the building up of strategic stocks, the development of recycling, technological substitution and support for a domestic sector specialising in separation, refining and magnet production. The February 2026 plan explicitly covers mining development, separation, refining and the production of finished goods, with the aim **of increasing the supply chain's self-sufficiency rate from 30 per cent to 50 per cent by 2030.**

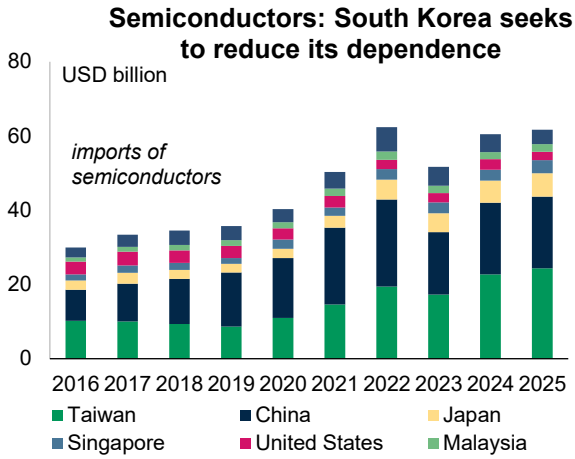
- ✓ **The development of logic semiconductors** – another area of Korean dependency[5] – *through* R&D funding. R&D expenditure on strategic technologies, including semiconductors, is eligible for tax credits of up to 40–50 per cent of the incremental expenditure, depending on the size of the company. South Korea is aiming to increase its global market share from 3 per cent to 10 per cent by 2030.

[1] The *chaebols*, modelled on the Japanese zaibatsu and later the keiretsu, lie at the heart of the Korean economic model. The links forged between *the chaebols*, the banking sector and the state explain both the successes and the structural weaknesses of this model – weaknesses that become apparent during periods of crisis (1997, 2008).
[2] *High Bandwidth Memory*: high-bandwidth memory
[3] *Graphics Processing Unit*: graphics processor
[4] South Korea is the world's fourth-largest importer of rare earths, behind Japan, Malaysia and Thailand.
[5] South Korea is the sixth-largest importer of semiconductors, behind China, Taiwan, Singapore, Vietnam and Malaysia.

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr



Sources: TradeMap, Crédit Agricole S.A./ECO



Sources: TradeMap, Crédit Agricole S.A./ECO

Growth in K, 'tech Dutch disease': pitfalls to avoid

This industrial success, however, raises the question of South Korea's reliance on this very specific sector for its growth trajectory.

The imbalance between supply and demand persists

To date, South Korea has experienced not so much overall growth as a **supply shock and a surge in technological investment**, the benefits of which for households remain delayed and unevenly distributed.

Since the onset of the Covid-19 pandemic, **nominal wages in South Korea have continued to rise, but purchasing power has followed a highly uneven trajectory**: sharp erosion in 2022–2023 due to imported energy and food inflation, a partial recovery in 2024–2025, followed by near-stagnation in 2026. Overall, real wages are only around 2.9 per cent higher than their level in the first quarter of 2021 – a modest recovery despite several years of nominal growth. The minimum wage illustrates this phenomenon well: it rose by 15 per cent in nominal terms between 2021 and 2025, but by only 0.8 per cent in real terms. **In other words, the nominal increase was largely offset by inflation.**

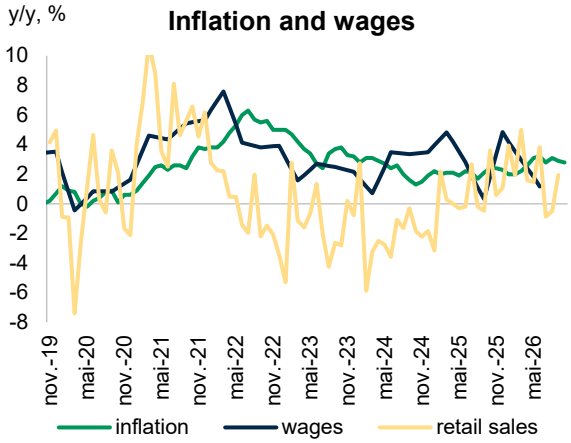
As a result, the share of consumption in GDP remains below its pre-Covid level. Private consumption is showing **a modest but fragile recovery**: it is growing in volume, but lags behind the momentum of exports and is hampered by virtually stagnant real wages, inflation above target and household debt that remains very high. Against this backdrop, retail sales remain volatile, due in particular to durable goods (cars and equipment), for which demand is still unstable.

Whilst the household debt-to-GDP ratio is falling (from 99 per cent at its peak in 2021 to 85 per cent in the first quarter of 2026), this trend should primarily be interpreted as **relative deleveraging, driven by nominal GDP growth, rather than as a net reduction in household debt**. It is also the result of stricter credit rules. Nevertheless, South Korean household debt remains among the highest in advanced economies and constitutes a lasting drag on consumption. Debt also remains concentrated both sectorally (property) and geographically (the Seoul region): high property prices are forcing households to borrow more, and an increasing proportion of their income is being spent on repaying loans.

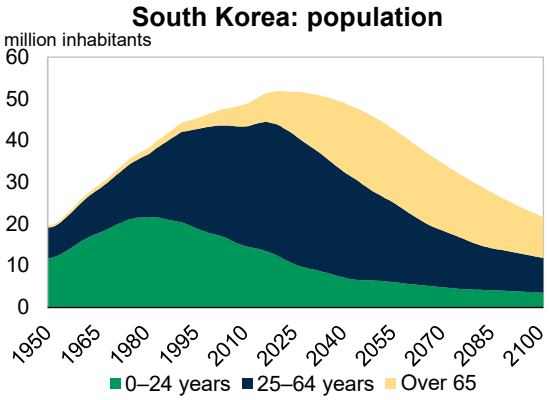
To curb debt and stabilise the Seoul property market, the South Korean government has implemented a range of restrictive measures[6], designed to manage rising prices. Freeing up scope for consumption is all the more crucial given that South Korea is an ageing economy facing an extremely rapid demographic transition. If the current fertility rate persists, the population could fall by more than 50 per cent by 2100.

[6] *The* cornerstone of the regulations is the debt service ratio (DSR), which caps repayments based on the borrower's income (generally at 40 per cent for banks). The government also imposes strict limits on the absolute value of mortgage loans in tight housing markets, particularly the Seoul region. Furthermore, specific measures target multiple property owners and investors: a ban on new loans for the purchase of additional residential properties and an end to credit extensions. Finally, the government has increased the risk weightings for credit on banks' balance sheets. If a bank issues too many loans for high-value properties or to multiple-property owners, it incurs heavy capital charges, which provides a strong incentive for it to tighten its own lending criteria.

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr



Sources: Kostat, Crédit Agricole S.A./ECO



Sources: UN, Crédit Agricole S.A./ECO

The 'Dutch disease' of semiconductors?

The risk for South Korea is therefore that it will develop a two-speed economy in which the strong performance of certain sectors masks the difficulties faced by others and, in the long run, leads to **a form of 'Dutch disease', that is to say, a technological competitiveness windfall and an AI-driven demand shock that concentrate capital, profits, talent and political attention in a highly capital-intensive sector that creates few jobs.** Three mechanisms closely linked to the Dutch disease are thus in full swing in South Korea:

- ✓ **the sectoral crowding-out effect**, with the tech sector drawing on engineers, resources, capital and public priorities to the detriment of more traditional industries,
- ✓ **the weak domestic spillover effect**
- ✓ **the concentration of gains**, as stock market capital gains and high incomes mainly benefit affluent households, whose marginal propensity to consume is lower.

That said, South Korea is not experiencing a 'pure' Dutch disease for several reasons. **The won has not appreciated sustainably to the extent of eroding the competitiveness of exports as a whole.** Above all, semiconductors are not an exogenous, exhaustible source of rent: they are the result of accumulated industrial capacity, massive investment and continuous innovation. **The risk is therefore that South Korea could become dependent on a cyclical boom in AI demand, where prices and volumes could reverse abruptly, before stabilisation mechanisms have had a chance to be put in place.**

To avert this risk, the authorities must therefore ensure both that the gains from semiconductor-led growth are distributed – notably through a more accommodative fiscal policy targeting the sectors and economic agents excluded from the boom – and that **they continue to strengthen the macroprudential rules governing the opening up of the foreign exchange and capital markets.**

The internationalisation of the won: the other facet of the current situation in South Korea?

The South Korean authorities recognise that the current growth momentum presents a favourable opportunity to **undertake certain reforms, particularly in the area of financial regulation**. The biggest challenge concerns the foreign exchange and capital markets. President Lee Jae-myung has therefore pledged to move South Korea from emerging market status to that of an advanced market, which in particular entails the full internationalisation of the won – an issue long put on the back burner by the government.

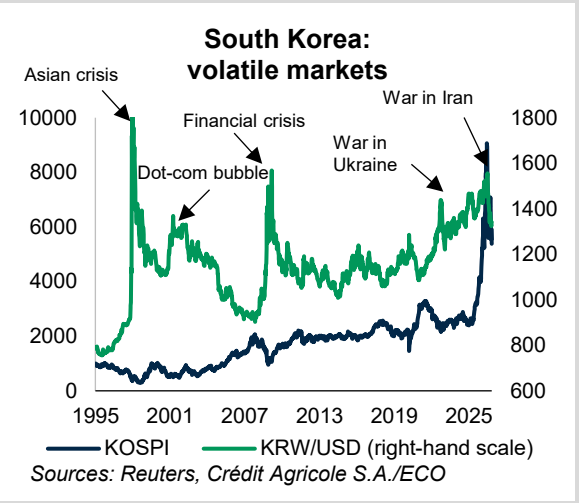
Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

A brief history of Korean crises

To understand the South Korean authorities' current choices and their cautious approach, it is necessary to look back at two significant episodes in South Korea's economic history.

The first is, of course, the legacy of the 1997 crisis. Although this was not primarily a currency crisis, but rather a crisis of solvency and liquidity in foreign currency – with over-indebted *chaebols*, poorly supervised banks and short-term external debt that had not been refinanced, all of which accelerated capital flight – it *ultimately* led to the collapse of the won. Above all, this crisis led to the signing of an agreement with the IMF in December 1997, which remains **an economic trauma for the country** to this day**.** The programme, totalling $58 billion (from the IMF, the World Bank, the Asian Development Bank and bilateral commitments, notably from the US), involved very high interest rates, fiscal consolidation, the restructuring of banks and *chaebols*, and greater openness to foreign investors *through* the liberalisation of the won's convertibility and capital movements.

The social and industrial consequences were severe: bankruptcies, redundancies, a fall in private demand and the forced reorganisation of the *chaebol* model. On the other hand, the real depreciation of the won bolstered exports and contributed to the recovery from 1998–1999 onwards. **The agreement with the IMF, which imposed rapid liberalisation of the capital account and a shift to a more flexible exchange rate regime, was, however, accompanied by targeted restrictions**, notably on borrowing in won by non-residents and on short-term external borrowing by firms deemed vulnerable, in order to limit speculation and reduce the risk of a renewed maturity *mismatch*.



Sources: Reuters, Crédit Agricole S.A./ECO

The 1997 crisis had highlighted the dangers of short-term external debt, weak supervision and poorly sequenced balance of payments liberalisation. Following this episode, Korea largely liberalised the capital account, but retained **targeted controls,** particularly on won-denominated borrowing by non-residents, **precisely to prevent an *offshore* won market from becoming a channel for speculation and destabilisation.**

In 2008, however, history nearly repeated itself. Whilst Korean banks and the Korean subsidiaries of foreign banks had heavily financed domestic positions through short-term dollar-denominated debt, the collapse of Lehman Brothers once again brought the interbank market to a standstill, triggering a slump in dollar refinancing, capital flight and a further collapse of the won, highlighting Korea's vulnerability to a sudden shortage of foreign currency liquidity. **However, Korea had higher reserves, a better-capitalised banking sector and, above all, international *swap* lines.**

The path to full internationalisation

The events of 1997 and 2008 explain **why the authorities long preferred a currency that was largely convertible on paper, but whose *offshore* use remained limited and closely monitored**. They feared that broader access to the won by non-residents would create a channel for speculation, capital outflows and more rapid exchange rate shocks.

Today, the perceived problem has shifted: the won is heavily dependent **on an *offshore* market for NDFs** (*non-deliverable forwards*), where contracts are settled in dollars without any actual delivery of won: transactions that are sometimes speculative and lack transparency can thus shift the won's spot rate even though no won is actually exchanged. These NDFs still accounted for around 80 per cent of won-denominated forward transactions in the third quarter of 2026, compared with a global average of around 20 per cent. During recent periods of tension, **the central bank explicitly stated that unilateral movements fuelled by *offshore* NDFs were amplifying volatility and announced its intention to repatriate them to the domestic market.**

Internationalisation is therefore not conceived as disorderly liberalisation, but as a means **of deepening the market and making price formation more continuous**. The transition to a market that is virtually open 24 hours a day since July 2026 should allow international shocks to be reflected gradually rather than accumulating during Seoul's overnight closure. **Prudence has not disappeared: it has shifted from**

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

restricting access to managing risk. The central bank is establishing an *offshore* won settlement system, strengthening the monitoring of transactions and emphasising the need to build up genuine won liquidity before further expanding access.

The Ministry of Finance also maintains controls (reporting requirements, registration of foreign institutions, monitoring of capital flows) whilst gradually removing barriers to the trading and settlement of the won outside Korea.

Beyond the won, Korea must above all demonstrate that foreign investors can **trade, hold, transfer, finance and settle Korean securities with the same ease as in a developed market**. The MSCI assesses accessibility across five dimensions: openness to foreign investors, freedom of capital flows, operational efficiency, availability of instruments and institutional stability. **The reforms undertaken to better protect minority shareholders, improve transparency and increase dividends form part of the roadmap and are also aimed at reducing the *'Korea discount*' – that is, the low valuation of Korean securities compared with their Japanese or US equivalents.**

The difficult trade-offs facing the Bank of Korea

Against this backdrop, the Bank of Korea must navigate complex trade-offs.

Inflation and financial stability versus growth and support for economic activity: inflation remains above target, but growth is robust and the property market (high prices and household debt) remains under strain. This justifies a restrictive stance, even as private demand remains weak and first-time buyers are set to suffer from higher interest rates, with the real interest rate having returned to slightly positive territory since October.

Exporters' strategies versus exchange rate stability: although the Bank of Korea (BoK) has a simple mandate, it considers exchange rate stability to be part of price stability. Why, despite a significant structural current account surplus, might the won tend to depreciate? Exporting firms had retained a large proportion of their profits, notably in anticipation of future investment in the United States under the US-South Korea investment agreement[7], with the result that South Korea's surpluses had not translated into increased demand for the won. This trend has reversed over the past few months, helping to underpin the won's appreciation against the dollar and to offset downward pressures (imported inflation driven by rising energy prices). South Korea's classification as an emerging market also accounts for a significant proportion of the won's volatility[8].

Domestic fundamentals versus global and US cycles: the Fed's initiation of a new cycle of monetary tightening is putting pressure on the BOK via the interest rate differential channel (the yield spread between US and Korean government bonds).

The AI cycle and monetary policy: growth driven by capital investment does not feed through in the same way as growth driven by consumption. The BoK must distinguish between sectoral overheating and macroeconomic overheating.

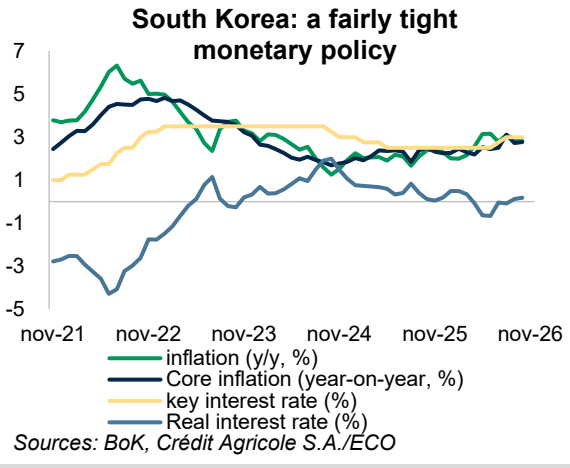
Internationalisation of the won versus stability: the BoK must promote liquidity and convertibility without losing its ability to stabilise the foreign exchange market in times of stress.

The Bank of Korea must therefore pursue a 'restrictive but selective' monetary policy, as the risk lies not only in inflation, but also in the coexistence of a dual real economy, a financial cycle in the property sector that remains under strain, and a volatile currency subject to US pressures.

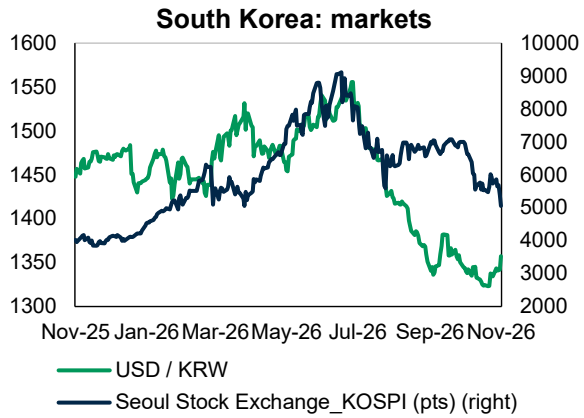
[7] The agreement signed between the United States and South Korea in October 2025 provides for Korean investment of $350 billion, including $150 billion for cooperation in the shipbuilding sector.

[8] South Korea is, after Taiwan, the second-largest market in the MSCI Emerging Markets Index (accounting for 21.4 per cent of the index). The total market capitalisation of the index stands at $14,000 billion, compared with $100,000 billion for the equivalent index covering advanced economies. As the KOSPI has outperformed over the past two years, the valuation of South Korean assets within the indices has risen sharply, leading portfolio managers to sell shares to maintain the indices' weightings, hence the downward pressure on the won, which may seem counter-intuitive. Inclusion in the developed markets index would give Korea access to a much deeper market, which would largely limit this type of volatility.

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr



Sources: BoK, Crédit Agricole S.A./ECO



Sources: BoK, Crédit Agricole S.A./ECO

How sustainable is the Korean model?

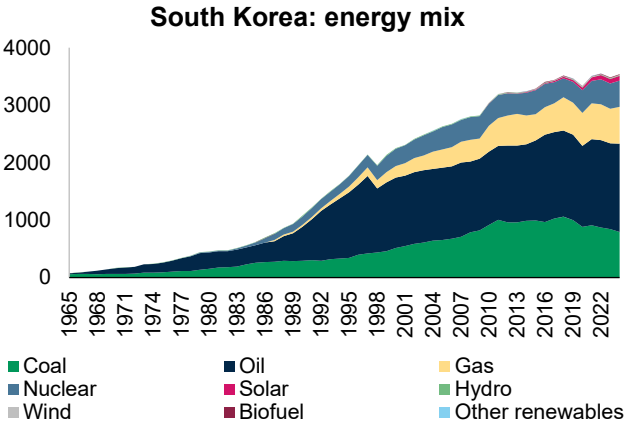
Due to its conflict with North Korea, South Korea has no passable land border. **The country must therefore be regarded almost as an island with limited energy and natural resources.** Is the development of a semiconductor sector that is so intensive in terms of water, electricity and space compatible with the country's physical constraints?

Energy and water: the issue of resources

The development of the semiconductor sector requires a very rapid and coordinated expansion of electricity, industrial water and recycling networks. The estimated requirements are colossal: an advanced fab consumes the equivalent of a nuclear reactor and requires a continuous power supply[9] , as well as 100,000 to 200,000 tonnes of water every day.

As regards water, the problem is not only the total volume, but also **competition with drinking water, agriculture and the environment**. The plans rely in part on converting agricultural and irrigation water into industrial water, which may lead to local opposition and conflicts during periods of drought. Scenarios involving severe drought are particularly sensitive in certain areas where tensions are already high. The government therefore plans to link dams, rivers and sewerage networks and to expand wastewater recycling, but these solutions require investment and social acceptance, both of which take time.

Whilst South **Korea's energy *mix* remains heavily reliant on fossil fuels** (coal and oil), the country is aiming for 100 gigawatt-hours (GWh) of installed renewable capacity by 2030 and over 30 per cent of electricity from renewable sources by 2035. By the end of 2026, installed capacity stood at just 40 GWh. The plan also aims to reduce the cost of solar and offshore wind power by 2035, whilst developing a domestic manufacturing capacity of 10 GWh of solar modules and 3 GWh of wind turbines per year. In the longer term, the government is targeting 220 GWh of commercial renewable capacity by 2040, comprising 155 GWh of solar and 61 GWh of wind power.



Sources: Our World in Data, Crédit Agricole S.A./ECO

South Korea has a solid foundation in solar power, but still lags significantly behind in wind power, particularly offshore wind. Solar power benefits from faster roll-out, lower costs and a more developed industrial supply chain. Offshore wind, on the other hand, depends on very large-scale projects, supply

[9] The confirmed requirements for the Yongin and Honam complexes, together with data centres, already stand at 30 GWh and exceed 40 GWh when potential projects are included. The government plans to bring forward the power supply timetable for the Yongin cluster by more than ten years, using LNG and upgrading transmission lines in the short term, followed by an expansion of the grid and generation capacity in the medium term; however, the transmission networks remain a weak point and are already heavily congested.

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

chains, maritime permits, grid connections and local acceptance, which makes the targets much more uncertain.

The weak point is the grid. In 2026, more than 70 per cent of new solar and wind projects reviewed by the Electricity Regulatory Commission had to wait for grid upgrades or accept production limits. The concentration of electricity generation, transmission and distribution in the hands of KEPCO (*Korea Electric Power Corporation*), in which the state is the majority shareholder, also creates bottlenecks.

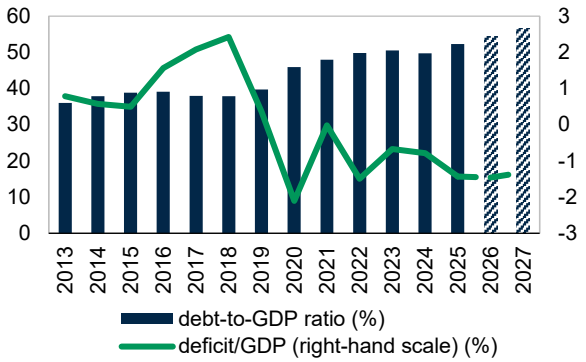
At this stage, it is therefore uncertain whether the commitments for 2030, or even 2035, can be met, particularly as the projects currently on hold depend on grid upgrades that have not yet been carried out.

The question of the social contract

South Korea is ultimately asking itself a question: what role should be given to the semiconductor sector, which consumes so many resources, and for what benefits? What social contract should be put in place to ensure that the population benefits from South Korea's comparative advantage?

South Korea remains a small country (53 million inhabitants, 100,000 km², an area five times smaller than that of mainland France), with a limited domestic market for companies the size of the *chaebols,* such as Samsung or SK Hynix. **This also entails trade-offs regarding the allocation of resources, whether human, physical (resources, but also emissions) or financial.**

South Korea: a sound fiscal position



Sources: IMF, Crédit Agricole S.A./ECO

The current approach is to allow these giants to grow, so that South Korea does not fall behind other countries in terms of technological leadership – particularly in the field of memory – which means giving them the space they need to do so, and therefore accepting their resource-intensive nature.

In return, these companies are expected to have **a very positive impact on the real economy,** which is not yet entirely the case. The number of jobs directly linked to the semiconductor sector is therefore very low: 165,000 out of a total labour force of around 29 million people. In this highly capital-intensive sector, growth stems mainly from investment in equipment, automation, improved yields and rising memory prices, rather than from proportional recruitment. In 2024, full-time equivalent employment in the semiconductor sector rose by just 1.4 per cent, whilst the sector's value added increased by 11.8 per cent.

Against this backdrop, **the government has opted for an expansionary fiscal policy**, with planned expenditure set to rise by 12.8 per cent in 2027, aimed at capitalising on the exceptional growth linked to semiconductors. **The initiative rests primarily on two pillars: a redistributive pillar,** involving the expansion of benefits (health, unemployment, social protection, but above all family support); and **an investment pillar**, for strategic sectors (R&D, networks, infrastructure), with an explicit commitment to decentralisation to support the necessary rebalancing between Seoul and the rest of the country. Above all, the 2027 budget provides for the creation of a Future Response Fund of approximately $118 billion, financed in part by windfall revenues from the semiconductor cycle**. This fiscal stabilisation mechanism is intended to both reduce new debt issuance and finance priority expenditure.**

South Korea enjoys comfortable fiscal leeway: debt at around 50 per cent of GDP and a deficit under control. Why not undertake a greater redistributive effort? The authorities consider that redistribution remains constrained by demographics. **This means that the state will have to strike a balance between pensions, healthcare, industrial investment, youth and the regions.** The Future Response Fund can finance some of these priorities, but it does not provide a sustainable solution to the growing pressure from ageing-related and healthcare expenditure.

Ultimately, the tension lies not only between **growth and redistribution**, but also between **the short-term cycle** (exceptional profits and tax revenues) and **structural needs** (ageing population, housing, energy transition).

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

What role should institutions play?

- ✓ **Government and Ministry of Finance**: broaden the basis for growth through services, training, SME productivity, housing reform and a more effective redistribution of the benefits of technological progress.
- ✓ **Central Bank**: to preserve its anti-inflationary credibility whilst using targeted macroprudential instruments to address mortgage lending and household debt.
- ✓ **Financial authorities**: deepen bond markets, broaden access for non-residents, strengthen the *offshore* liquidity of the won and secure settlement infrastructure.
- ✓ **Industrial policy**: ensure that support for AI does not boil down to a race for capacity; prioritise technology dissemination, supply chain resilience and the diversification of markets.

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

Consult our latest open-access publications online:



World – Scenario 2026-2027 – October 2026

Layers of risk are piling up

Date	Title	Theme
04/11/2026	China–US: 'strategic stability' put to the test by Chinese ambitions	China/USA
28/10/2026	Geopolitics – What the midterms won't change: the breakdown of political compromise	Geopolitics
09/10/2026	United Kingdom – 2026-2027 Scenario: Resilience so far, but risks persist	United Kingdom
08/10/2026	Germany – Insight – From revival to rebuilding	Germany
08/10/2026	Germany – A change of strategy for a new geopolitical power	Germany
08/10/2026	Residential real estate – Will demographic aging alleviate the housing shortage in Germany?	Germany
08/10/2026	German industry – Facing China: a model under pressure	Germany
02/10/2026	World – Scenario 2026-2027: layers of risk are piling up	World

Crédit Agricole S.A. — Group Economic Research
12 place des États-Unis – 92127 Montrouge Cedex

Publication manager: Isabelle Job-Bazille
Chief Editor: Armelle Sarda
Information centre: Elisabeth Serreau – **Statistics:** Datalab ECO
Editor: Sophie Gaubert

Contact: *publication.eco@credit-agricole-sa.fr*

Consult Economic Research website and subscribe to our free online publications:
Website: https://etudes-economiques.credit-agricole.com/en
iPad : Etudes ECO application available on App store platform
Android : Etudes ECO application available on Google Play platform

This publication reflects the opinion of Crédit Agricole S.A. on the date of publication, unless otherwise specified (in the case of outside contributors). Such opinion is subject to change without notice. This publication is provided for informational purposes only. The information and analyses contained herein are not to be construed as an offer to sell or as a solicitation whatsoever. Crédit Agricole S.A. and its affiliates shall not be responsible in any manner for direct, indirect, special or consequential damages, however caused, arising therefrom. Crédit Agricole does not warrant the accuracy or completeness of such opinions, nor of the sources of information upon which they are based, although such sources of information are considered reliable. Crédit Agricole S.A. or its affiliates therefore shall not be responsible in any manner for direct, indirect, special or consequential damages, however caused, arising from the disclosure or use of the information contained in this publication.