

South Korea's Economy Expands 0.6% in Q2, But Tariff Uncertainty Clouds Market Outlook

EBC Financial Group analyses how a stronger economic print, policy recalibration, and unresolved U.S. trade risks are redefining outlooks for Korean assets

SEOUL, SOUTH KOREA, July 25, 2025 /EINPresswire.com/ -- South Korea's economy grew at its fastest pace in over a year in the second quarter of 2025, challenging expectations for near-term monetary easing even as trade tensions with the U.S. threaten to cloud the outlook. [EBC Financial Group \(EBC\)](#) highlights how a convergence of stronger domestic data and external policy risk is reshaping investor positioning across bonds, FX, and sector-specific equities.



South Korea's economy shows modest Q2 growth, but tariff uncertainty looms large. EBC Financial Group unpacks the macro signals behind the numbers.

The Bank of Korea (BoK) held its benchmark interest rate steady at 2.50% during its 10 July meeting—a move initially viewed as a cautious pause in a broader easing cycle. But in the weeks since, macroeconomic data has significantly shifted the picture. According to advanced central bank estimates released on 24 July, GDP rose 0.6% quarter-on-quarter, outpacing the 0.5% consensus forecast and reversing a 0.2% contraction in the previous quarter.

“South Korea's rebound is built on firm export momentum, but markets shouldn't assume this removes downside risk,” said David Barrett, CEO of EBC Financial Group (UK) Ltd. “Growth, policy caution, and tariff uncertainty are converging at once. That's what makes this moment especially sensitive for cross-asset positioning.”

Momentum Anchored in Exports and Consumption

The Q2 expansion was driven by a 4.2% surge in exports, led by semiconductors and petrochemical products—marking the strongest performance since Q3 2020. Private consumption also climbed 0.5%, bolstered by increased spending on motor vehicles and culture-

related services. Government spending contributed an additional 1.2%.

However, areas of weakness remain. Both facility investment and construction investment fell 1.5%, revealing persistent fragility in corporate capital expenditure and infrastructure momentum. The BoK noted that net exports and domestic demand each contributed 0.3 percentage points to quarterly growth, highlighting the delicate balance across drivers.

The economic upturn also followed the resolution of a months-long political crisis. A snap presidential election on June 3 ended institutional uncertainty after the constitutional court upheld former President Yoon Suk Yeol's impeachment in April. While the transition restored market confidence, investors remain focused on the policy signals coming from Seoul and abroad.

Trade Deadline Looms: August 1 as Risk Pivot

A critical point of concern is the August 1 deadline tied to U.S. trade negotiations. President Donald Trump's proposed 25% reciprocal tariffs against South Korea, announced in April, are currently on hold pending the outcome of talks. While not yet in force, key industries such as automotive and steel have already been affected by high product-specific tariffs.

Recent developments suggest growing uncertainty. A scheduled meeting with U.S. Treasury Secretary Bessent was abruptly cancelled, and Korean officials now describe the process as entering a "critical phase." Any failure to strike a deal could trigger tariff escalation, rekindling export and FX volatility across Korean markets.

Despite the Q2 GDP rise, the BoK maintains a 0.8% GDP growth forecast for 2025, citing persistent weakness in consumption and the overhang of U.S. trade policy.

For investors, South Korea's Q2 growth—marginally above consensus—has tempered the urgency for further interest rate cuts, prompting yield curve adjustments as capital flow risks persist. In the currency markets, the Korean won (KRW) remains exposed to trade-related volatility, with USD/KRW movements likely to respond directly to developments around the August 1 tariff deadline. Equities are similarly split—export-sensitive sectors such as automobiles and steel may face downside risk if trade negotiations falter, while domestic consumption and AI-linked industries are expected to find support from ongoing fiscal stimulus.

With stronger near-term data offset by medium-term risks, EBC continues to advise clients on interpreting Korea's evolving macro story through a tactical, cross-asset lens. As central bank caution intersects with trade diplomacy and fiscal recalibration, South Korea remains a key market to watch in Asia's second half.

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