Domestic Economic and Inflation Outlook (2026 Q1)

Look ahead for this year (2026) as a whole, rising international oil prices driven by the recent military **conflict in the Middle East could fuel higher inflation** and dampen global demand, with potential implications for Taiwan's economic performance. However, **ongoing development of emerging technology applications** such as those for artificial intelligence (AI) and high performance computing (HPC), coupled with **increasing capital expenditures (cap-ex) by major global** cloud service providers **(CSPs)**, would drive **continued growth in Taiwan's exports**. Meanwhile, private investment, which is closely linked to export performance, has also been bolstered by robust export growth. Expanding export opportunities for emerging technology applications have boosted **investment in advanced processes** and related supply chains. With key components in short supply, relevant companies are **expanding facilities, constructing new plants, and upgrading production lines in Taiwan**, leading to a larger scale of capital expenditure. Coupled with increased aircraft procurement by airlines to meet rising cross-border travel demand, these factors are expected to **sustain growth in private investment**.

In addition, **a higher minimum wage and further improvements to the income tax system** this year, along with strong corporate profits in 2025, are likely to encourage companies to issue higher dividends and bonuses and raise salaries. This will boost disposable household income and, combined with a steady domestic economy and stable employment, lead to **a pickup in private consumption**. Accordingly, the Bank has **raised its GDP growth forecast for the year to 7.28%**, up from the 3.67% estimated last December.

Regarding **inflation**, despite the lagged effects of selective commodity tax cuts and exemptions and the continued moderation in services prices, the Middle East conflict has pushed up international energy prices, including crude oil, while rising production costs for consumer electronics are intensifying the pressure for price hikes. Consequently, the Bank has **revised** its forecasts for Taiwan's **CPI and core CPI annual growth rates for this year upward** from the previous forecasts of 1.63% for both to 1.80% and 1.75%, respectively.

Amid heightened global economic uncertainty, **the Bank will closely monitor the effects of U.S. tariff policies**, including Section 301 measures, **and developments in the Middle East conflict on Taiwan's economy and inflation**. The following sections outline domestic economic growth, price developments, and the outlook for this year.

I. With AI demand exceeding expectation, 2026 GDP growth rate is upgraded from 3.67% to 7.28%

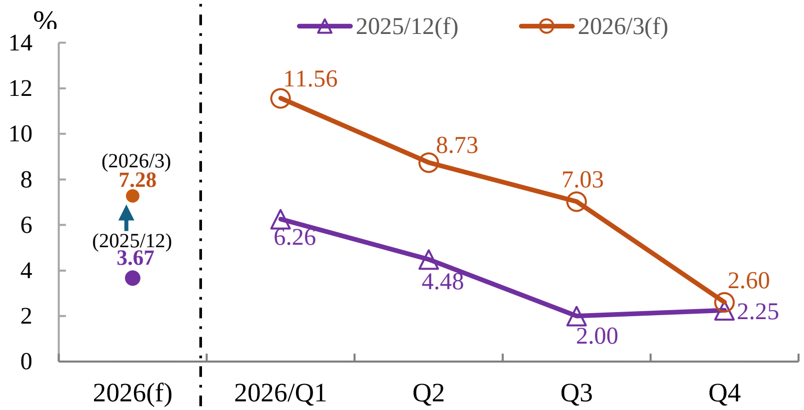
1. The growth forecast for this year has been revised upward from the previous estimate (Fig. 1), primarily reflecting the **stronger-than-expected cap-ex by major global CSPs and the expanded capacity investments by Taiwan's key component manufacturers**, leading to **upward revisions** in the growth forecasts for exports and private investment.

(1) The top four U.S. CSPs are expected to **increase their capex by more than 50% year on year (YoY) to over US$600 billion** this year (Table 1), continuing to support export growth among Taiwan's related supply chain firms.

(2) With the U.S. shifting to a "10%+MFN" tariff approach based on Section 122,[1] the rate is now **more favorable than the "20%+MFN" tentative reciprocal tariff** announced last year. This transition is expected to mitigate tariff pressures on U.S.-bound traditional goods exports. In addition, **the semiconductor industry continues to benefit from Section 232 preferential tariffs** under the Taiwan-U.S. Investment MOU (signed in early 2026), a status expected to sustain export momentum for the sector.

(3) As the global buildup of AI computing infrastructure accelerates, driving robust demand for IT products, shortages of key parts and components and capacity constraints in high-end production have emerged. In response, Taiwan's supply chain firms are actively expanding facilities and ramping up capacity, further strengthening the momentum of private investment.

Figure 1 Projected GDP Growth Path for Taiwan



Source: CBC

Table 1 CSP Cap-Ex Plans; Taiwan's Trade and GDP Growth

	Cap-Ex of Top 4 U.S. CSPs*		Taiwan		
	Amount (US$bil.)	Growth (YoY)	Export Growth (YoY)	Import Growth (YoY)	GDP Growth (YoY)
2025	**413.2**	**93.5%**	**31.82%**	**26.75%**	**8.68%**
2026(f)	**630-670**	**52 – 62%**	**12.85%****	**9.83%****	**7.28%****

Note: * Google, Meta, Microsoft and Amazon; figures with** are CBC forecasts.
Sources: DGBAS, CBC, respective company earnings reports and investor call materials, and media coverage

[1] On February 21, President Trump stated on social media that the rate would increase to "15% + MFN," though this has not been formally implemented as of March 18. Regardless, both the "10% + MFN" and "15% + MFN" scenarios represent an improvement over last year's "20% + MFN" tentative reciprocal tariff. According to a government-commissioned impact analysis, the "15% + MFN" global tariff under Section 122 would yield more favorable outcomes for Taiwan's exports and GDP compared to the 2025 scenario. These positive effects are further amplified when accounting for Section 232 most-favored treatment. For details, please refer to the Executive Yuan's special report, "Outcomes and Impacts of Taiwan-U.S. Tariff Negotiations" (2026/03/03). Nevertheless, U.S. tariff policy remains highly volatile and requires close monitoring.

2. Net external demand is expected to contribute more to growth than domestic demand this year, reflecting an economic growth pattern in which net external demand drives capital formation.

(1) With major global CSPs ramping up AI-related cap-ex, **Taiwan's exports are expected to remain robust** this year and continue to serve as **a key driver of economic growth**. Net external demand, after accounting for imports, is projected to contribute 4.09 percentage points to economic growth (Table 2).

(2) As **investment and exports are closely linked** in Taiwan, continued expansion of domestic investment by related supply chain firms this year is expected to support **sustained capital formation**. Along with **a rebound in private consumption growth**, domestic demand is projected to **contribute 3.19 percentage points** to economic growth.

(3) The pattern of economic growth this year resembles that of last year, with **net external demand and capital formation** serving as the primary growth drivers, **jointly contributing 5.55 percentage points**, or 76.2%, to GDP growth.

Table 2 Taiwan's GDP Growth by Component and Contribution

Unit: %; percentage points

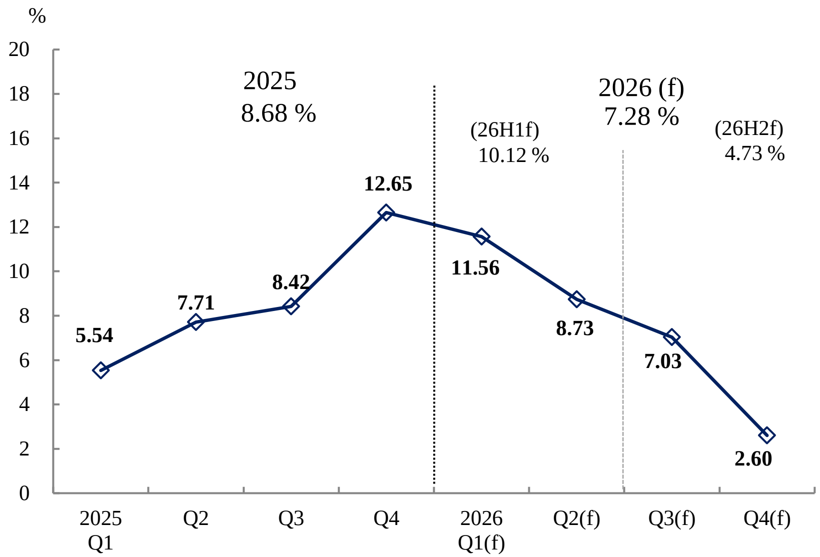
		GDP Growth Rate =(a)+(b)+(c)+(d)	**Domestic Demand** =(a)+(b)+(c)	Private Consumption (a)	Government Consumption (b)	Capital Formation (c)					**Net external demand** (d)	Exports	(−) Imports
							Private Investment	Government Investment	Public enterprise investment	Inventory Changes			
2025	Growth Rate	8.68	2.32	1.46	1.22	4.37	10.81	5.06	16.38	--	–	31.82	26.75
	Contribution		2.02	0.68	0.16	1.17	2.30	0.15	0.26	-1.54	6.66	20.02	13.36
2026(f)	**Growth Rate**	**7.28**	**3.96**	**2.46**	**5.32**	**5.87**	**3.81**	**8.47**	**-5.56**	**--**	**–**	**12.85**	**9.83**
	Contribution		**3.19**	**1.07**	**0.66**	**1.46**	**0.81**	**0.25**	**-0.09**	**0.50**	**4.09**	**9.43**	**5.34**

Note: f denotes forecast; the others are DGBAS actuals.
Sources: DGBAS (actual); CBC (forecast)

3. With **continued momentum in exports and investment** of emerging tech applications and related supply chains, coupled with **a higher base in 2025 H2**, the GDP growth rate was projected to be 10.12% in 2026 H1, higher than the 4.73% forecasted for 2026 H2 (Fig. 2).

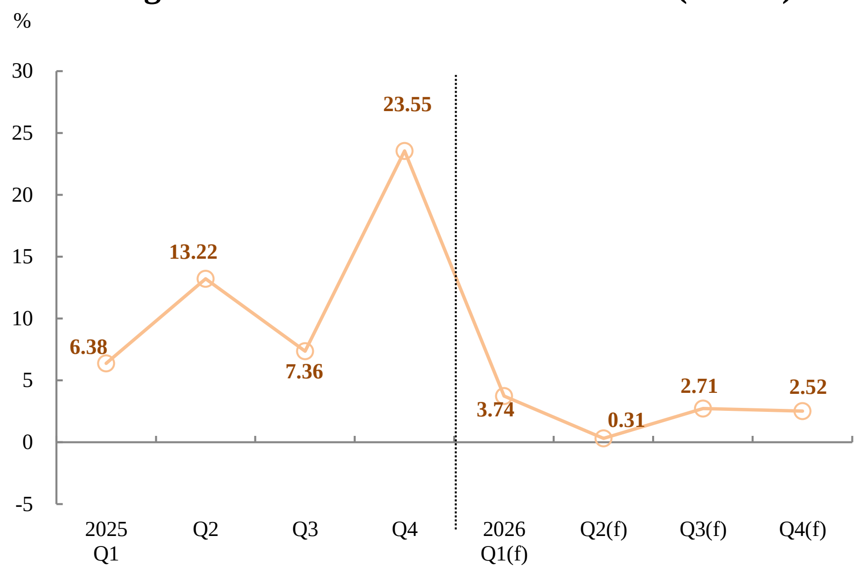
4. **Real GDP** growth on a seasonally adjusted annualized rate (SAAR) basis indicates **steady expansion** this year (Fig. 3).

Figure 2 Taiwan GDP Growth Rate (YoY)



Note: f denotes forecast; the others are DGBAS actuals.
Sources: DGBAS (actual); CBC (forecast)

Figure 3 Taiwan GDP Growth Rate (SAAR)



Note: f denotes forecast; the others are DGBAS actuals.
Sources: DGBAS (actual); CBC (forecast)

II. Exports are projected to post double-digit growth, helping sustain private investment expansion; private consumption is also expected to pick up

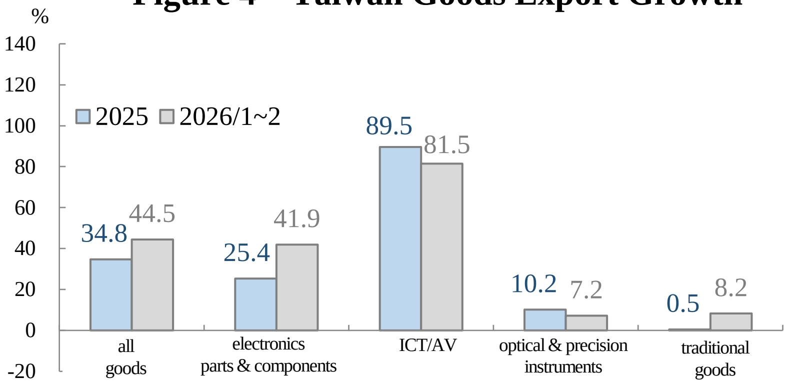
1. Robust demand for AI and other emerging tech applications helps sustain related supply chain export momentum

(1) While Jan.-Feb. 2026 exports of **traditional products were dampened** by global overcapacity and cheap Chinese dumping, their momentum showed early **signs of a pickup** (Fig. 4); expanding AI applications continued to fuel **a surge in electronic components and ICT exports**.

(2) Taiwan's goods export momentum is expected to extend, driven by aggressive global AI infrastructure deployment,[2] **expanding CSP cap-ex and rising demand for in-house chips**, and broader AI use cases.[3] Coupled with growing demand for low-earth-orbit satellites and autonomous driving applications, as well as **Taiwan's competitive advantages in advanced semiconductor manufacturing and server supply chains**, export momentum is expected to remain solid.

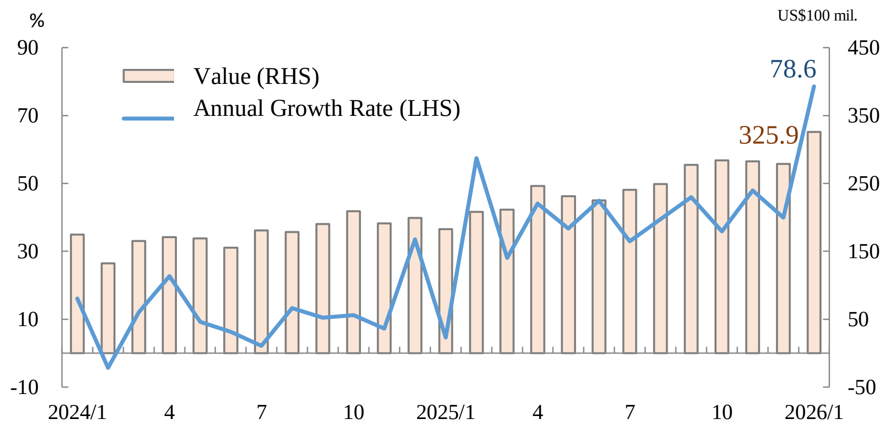
□ As demand for semiconductors, packaging and testing, and printed circuit boards has increased, export orders for electronic products showed steady growth in recent months along with a significant rise in value (Fig. 5).

Figure 4 Taiwan Goods Export Growth



Note: Valued in USD. Traditional goods refer to all products excluding agricultural and animal products and fats, prepared food, beverages and tobacco, electronic parts & components, ICT/AV products, and optical and precision instruments.
Source: Ministry of Finance

Figure 5 Export Orders of Taiwan Electronics Products



Source: Ministry of Economic Affairs

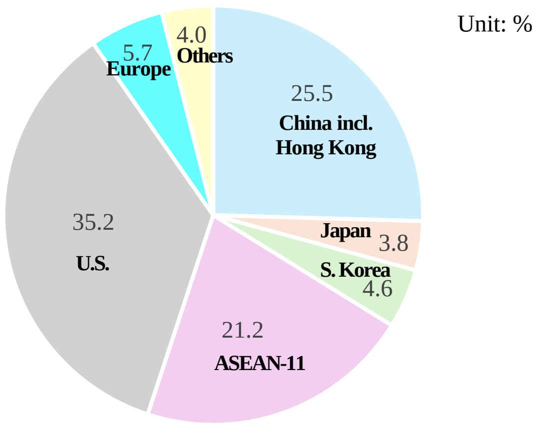
---

[2] For instance, Singapore and France are actively promoting sovereign AI.
[3] Examples include expansions into healthcare, military, AI agents, cybersecurity, fintech, and smart retail.

- ☐ Based on destination-specific data on electronics and ICT/AV exports in Jan.-Feb. 2026, **the U.S. remained Taiwan's largest export market** (Fig. 6). Moreover, s**emiconductors and related products would continue to be the key driver** of Taiwan's electronics and ICT exports, supported by the most favorable tariff treatment under Section 232.
- ☐ Mass production and shipment of **new AI server architectures** as well as ongoing product iterations,[4] coupled with the gradual ramp-up of **advanced chip and advanced packaging** capacity, are expected to fuel growth momentum for Taiwan's semiconductor and AI server exports.

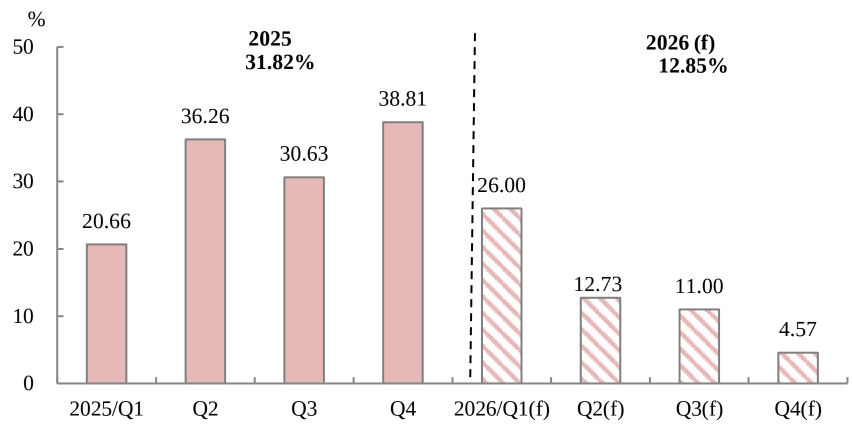
(3) Recent intensification of **geopolitical risks in the Middle East** could dampen global economic and trade activity. However, with **major CSPs stepping up capital expenditure**, AI-related exports are expected to remain supported by strong demand. The Bank projected **real export growth to be 12.85%** (YoY) this year (Fig.7).

Figure 6 Shares of Taiwan's Electronics & ICT/AV Exports (by Destination)



Source: Ministry of Finance

Figure 7 Taiwan Real Export Growth Rate



Note: f denotes forecast; the others are DGBAS actuals.
Sources: DGBAS (actual); CBC (forecast)

[4] For example, NVIDIA's Vera Rubin platform is expected to begin mass production in 2026 H2.

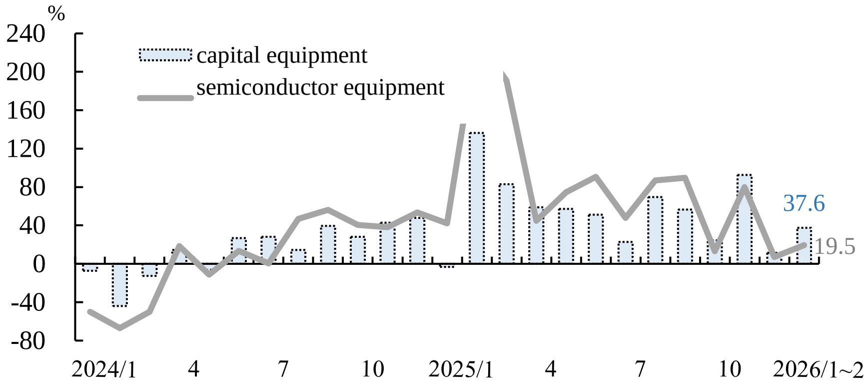
2. Private investment to pick up in 2026 amid expansion into emerging tech applications and capacity enhancement

(1) To maintain technological edge and capitalize on AI-related opportunities, **semiconductor firms** are scaling up capacity of advanced process and advanced packaging while boosting R&D spending. Meanwhile, **server supply chain firms** have increased and optimized capacity in Taiwan, with some of them building new plants or expanding existing facilities amid shortages of key components. These developments are expected to bolster private investment.

- Semiconductor equipment import growth averaged 19.5% YoY in Jan.-Feb., leading capital equipment imports to rise 37.6% (Fig. 8)
- The production index of investment goods surged in January, signaling continued growth in private investment (Fig. 9).

(2) Amid a sustained boom in cross-border travel, **domestic carriers** have expanded their route networks and acquired new fleets. **An expected wave of aircraft deliveries** this year[5] is poised to boost investment growth in transportation equipment. Furthermore, **the government's strategic blueprint** for tech industries,[6] combined with budgetary support for **corporate net-zero transitions**, will provide additional momentum for private investment.

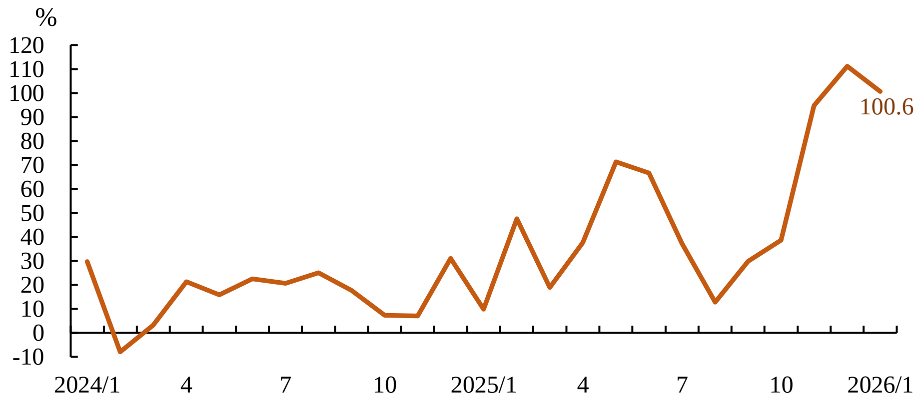
Figure 8 Capital and Semiconductor Equipment Imports (YoY)



Note: Valued in USD.

Source: Ministry of Finance

Figure 9 Production Index of Investment Goods (YoY)



Source: Ministry of Economic Affairs

---

[5] For example, Starlux Airlines is scheduled to take delivery of 14 aircrafts this year.

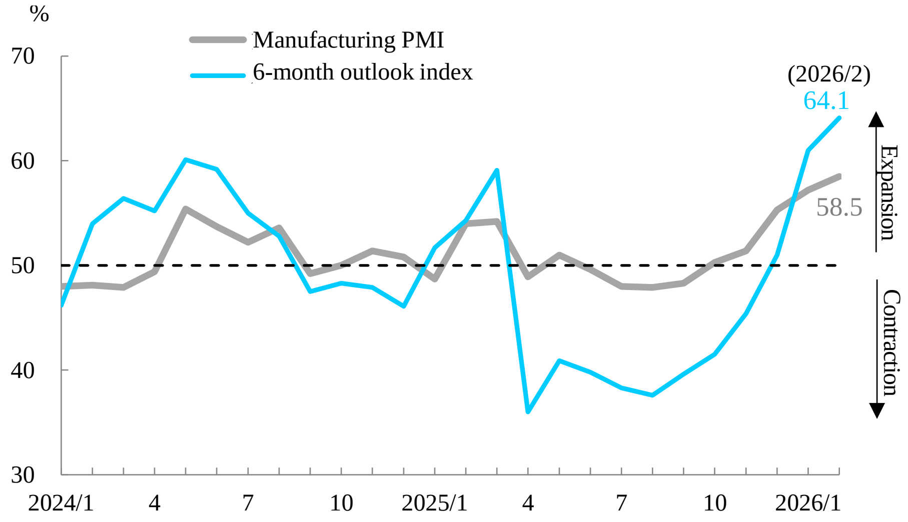
[6] Encompasses 13 strategic fields: Semiconductors, AI, silicon photonics & quantum technologies; and the AI robotics, defense, security, next-generation communications, critical minerals, biomedical, "Asian asset management center," infrastructure & urban renewal, cultural & creative, and "Trillion-Dollar Tourism" industries.

(3) Looking ahead, supported by recovering manufacturing sentiment, the February Manufacturing PMI and the six-month outlook index are expected to stay in expansionary territory (Fig. 10), despite fewer working days due to the Lunar New Year holiday.

(4) With global economic uncertainty rising amid the Middle East geopolitical tensions, firms turn cautious on investment.

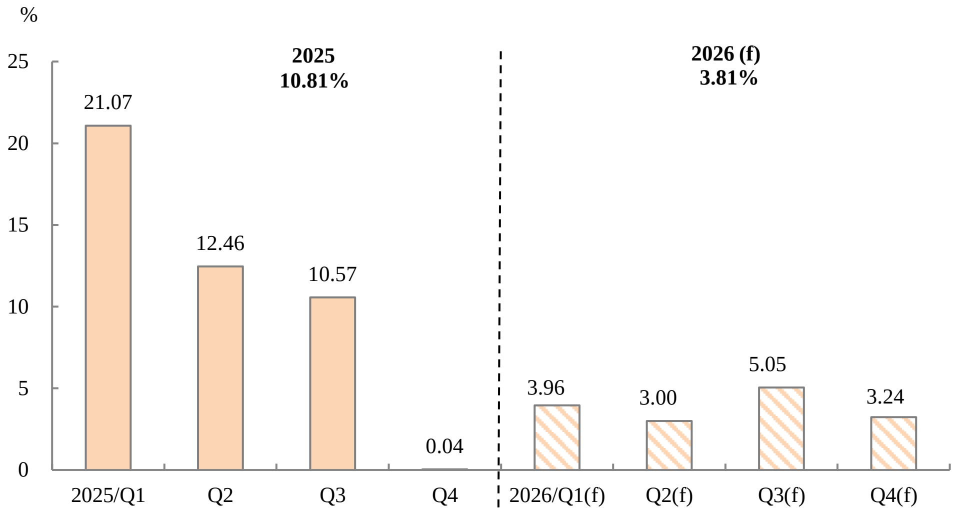
Taking all the abovementioned factors into consideration, the Bank forecasted real private investment to expand 3.81% (YoY) in 2026 (Fig. 11).

Figure 10 Manufacturing PMI and 6-Month Outlook Index



Note: Readings above 50 indicate expansion while those below 50 indicates contraction.
Source: National Development Council (NDC)

Figure 11 Real Private Investment Growth Rate



Note: f denotes forecast; the others are DGBAS actuals.
Sources: DGBAS (actual); CBC (forecast)

3. Private consumption growth is expected to pick up in 2026 amid continued robust economic growth

(1) **Taiwan's stock market has traded briskly and outperformed** most major markets year to date, with the **wealth effect** expected to encourage consumer spending. Major international sporting events have also sustained **outbound travel demand**, further supporting private consumption.[7]

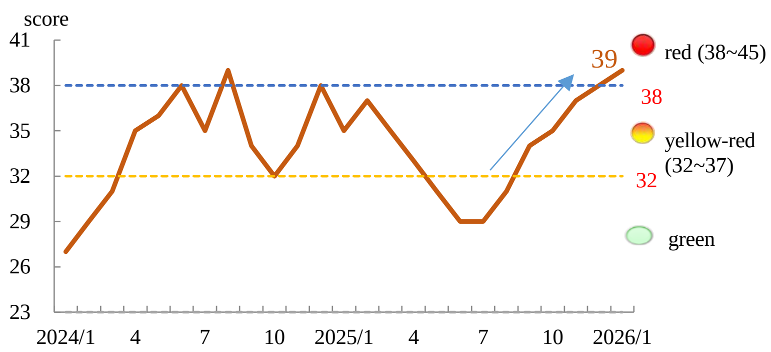
- ☐ Outbound travel reached 1.77 million trips in January, a new high since 2019 before the pandemic, up by 9.4% year on year.

(2) Looking ahead, rising oil prices driven by the Middle East conflict and **higher domestic inflationary pressures could weigh on consumer spending.** However, **strong corporate profit growth last year** may boost firms' willingness to raise wages, bonuses, and dividends this year. In addition, **the minimum wage hike, continued income tax optimization** (incl. higher basic living expense allowances, personal exemptions, and deductions), and tax relief (e.g., commodity tax cuts and exemptions) is expected to boost purchasing power. **A rebound in auto sales** amid stable domestic economic conditions and a resilient labor market is also expected to support private consumption growth.

- ☐ The Taiwan business cycle monitoring indicator continued to rise in January, while the signal remained in the red range (Fig. 12).
- ☐ Excluding the Lunar New Year distortion in February, vehicle registrations have shown a gradual recovery in recent months.

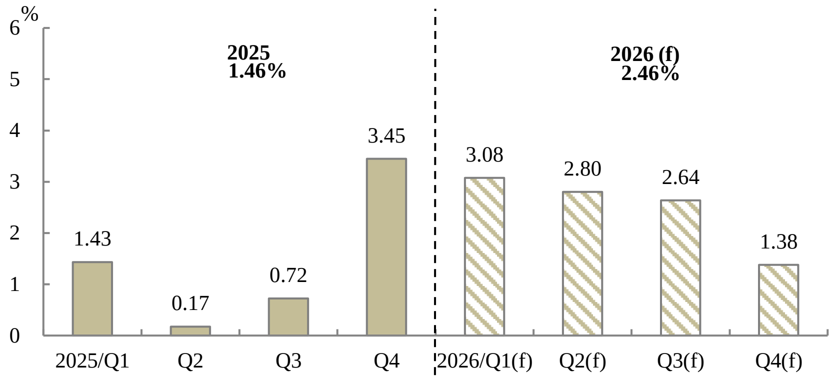
(3) Overall, **real private consumption growth** is expected to pick up, reaching **2.46%** year on year in 2026 (Fig. 13).

Figure 12 Taiwan Business Cycle Monitoring Indicator



Note: A green light indicates stable economic conditions; a red light indicates a booming economy; and a yellow-red light signals close monitoring.
Source: NDC

Figure 13 Real Private Consumption Growth Rate



Note: f denotes forecast; the others are DGBAS actuals.
Sources: DGBAS (actual); CBC (forecast)

---

[7] Higher outbound travel spending boosts private consumption but increases services imports equally, offsetting any impact on overall GDP.

4. Taiwan's economy still faces many uncertainties, but major institutions mostly project a solid expansion in 2026

(1) These uncertainties include the following:

- ☐ **Middle East conflict adds to uncertainty over global inflation and economy**: Tensions have risen since the U.S.-Israel joint military actions against Iran at end-February. If energy prices further move up due to a prolonged U.S.-Iran conflict that began at end-February and the Hormuz blockade continues, this could undermine inflation stability and economic growth globally and in Taiwan.

- ☐ **Post-IEEPA U.S. tariff measures could disrupt global economic and trade activity**: Following the IEEPA invalidation, the Trump administration shifted to Section 122 of the Trade Act. However, Section 122 imposes across-the-board tariffs rather than country-specific arrangements, and may also conflict with preferential commitments under existing bilateral trade agreements, undermining the stability of trade and economic agreements between the U.S. and its trading partners.

  In addition, given that Section 122 faces a 150-day expiration window, the U.S. recently initiated Section 301 investigations against key trading partners including Taiwan,[8] potentially using the action as leverage in future talks. It may also invoke Section 232 of the Trade Expansion Act to launch product-specific investigations. These developments could lead to a more challenging global trade environment and affect future global trade operations.

[8] On March 11, the USTR announced Section 301 investigations into 16 trading partners, including Taiwan, China, the EU, Japan, South Korea, and Singapore. On March 12, it launched additional investigations into 60 economies over forced labor concerns. See Selected Issue 4 from the Supplementary Materials for the Post-Monetary Policy Meeting (2026Q1) Press Conference (in Chinese language).

- ☐ **Monetary policy paths of major central banks would drive cross-border capital flows**:

  - — U.S. Fed: Future rate-cut paths would hinge on U.S. inflation and labor market developments, as well as the policy stance of the next Fed Chair.
  - — ECB: Despite stabilizing inflation and economic resilience, elevated external uncertainties has kept the ECB from pre-committing to a future rate path.
  - — BOJ: Takashi administration's large-scale fiscal stimulus plans and preference for easy monetary policy could add uncertainty to BOJ's rate-hike path.
  - — PBoC: The PBoC continues to maintain a loose monetary policy stance to support the domestic economy.

  In addition, developments in international oil prices will also influence the monetary policy paths of major economies. All these factors could affect future cross-border capital flows and undermine the stability of global equity, FX, and bond markets.

- ☐ **AI-related development plays a key role in supply chain operational health:**

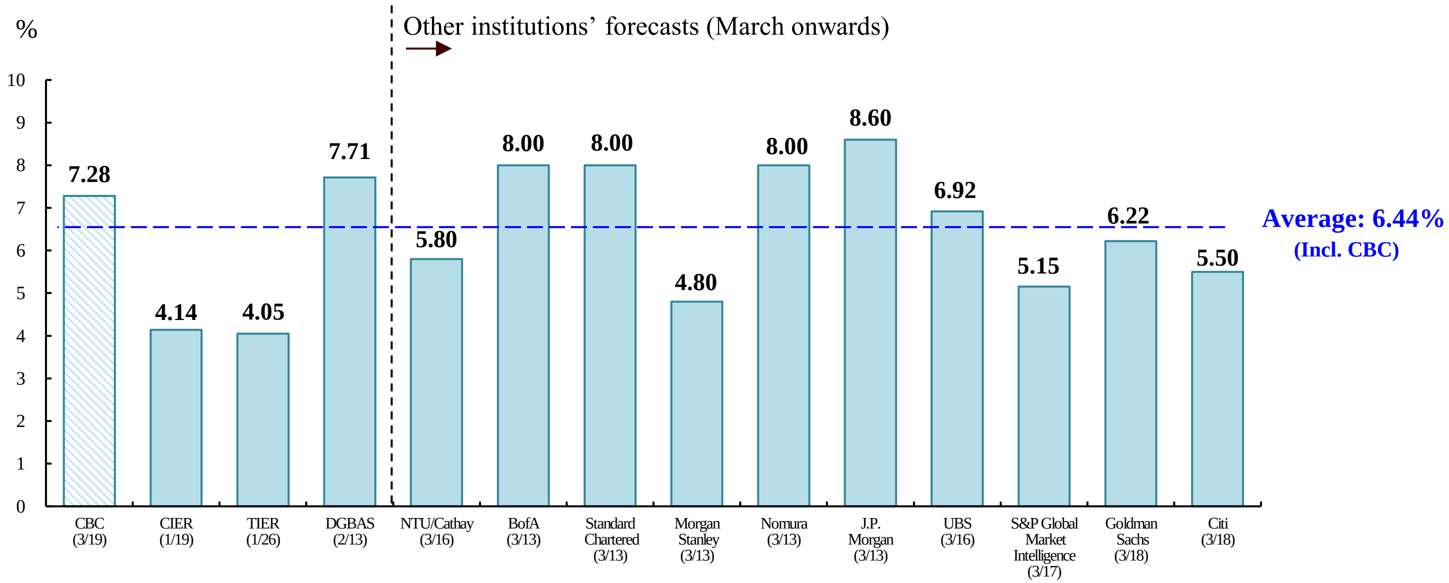
  Ongoing expansion in AI computing infrastructure building underpins demand for semiconductor and server supply chains. In the future, though, if AI fails to translate into productivity and profit growth, CSPs could scale down cap-ex, impacting Taiwan's exports of semiconductor and server related products. On the other hand, the AI boom has caused a shortage of key parts and components for consumer electronics and driven up end-product prices, which threatens to stifle retail demand and dampen related tech exports.[9]

[9] Citing potential memory supply pinches and surging prices, IDC projects global smartphone and PC shipments to contract by 12.9% and 11.3% (YoY), respectively, in 2026.

☐ **Persistent overcapacity and hyper-competition in China could weaken Taiwan's traditional goods export growth:** Lingering issues of overcapacity and cut-throat industrial competition are triggering spillover effects and intensifying global trade tensions. Meanwhile, China's economy faces compounding structural challenges, including tepid consumer confidence, elevated youth unemployment, and a property market downturn, all of which are unlikely to improve in the near term. These headwinds could weigh on the pace and strength of the recovery in Taiwan's traditional goods exports.

(2) Given that higher international oil prices driven by the U.S.-Iran conflict have so far exerted **limited drag on Taiwan's economic growth**, and with **robust AI demand** expected to continue, major institutions at home and abroad maintain the view that **Taiwan will sustain strong expansion** this year. Their forecasts range from 4.05% to 8.60%, averaging 6.44% (Fig. 14).

Figure 14 Taiwan 2026 GDP growth forecasts by major institutions



III. The Bank revised up the 2026 forecasts for CPI and core CPI inflation to 1.80% and 1.75%

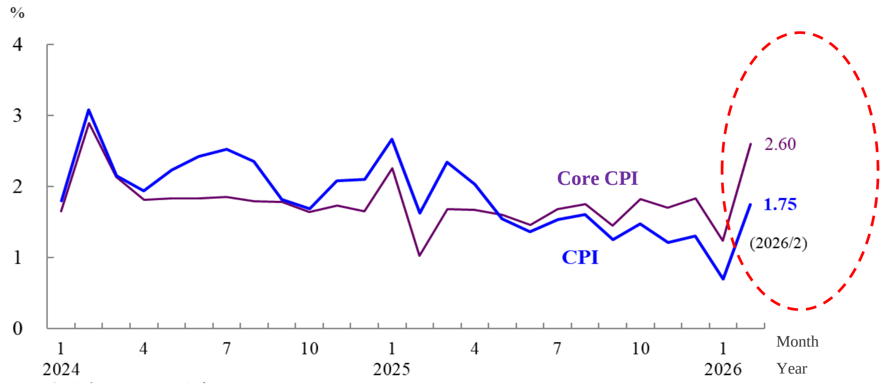
1. Inflation rate remains stable

(1) The **CPI** inflation rate further **moderated to 1.66%** in 2025 from 2.18% in 2024, marking the lowest level since 2021 and falling below the 2% threshold for the first time since 2022. **Core CPI** (excluding vegetables, fruit, and energy) inflation **eased to 1.66%** from 1.88% in 2024.

(2) Owing to base effects from the shifting timing of the Lunar New Year, inflation experienced larger fluctuations in January and February of this year (Fig. 15). However, **CPI and Core CPI inflation averaged 1.23% and 1.93% respectively** for Jan.-Feb., signaling **mild inflation**.

(3) The main drivers for the 1.23% average CPI inflation rate in Jan.-Feb. were **the price increases in (1) personal effects** (e.g., gold items and jewelry); **(2) food away from home**, as restaurants passed on higher ingredient, personnel, and rent costs; **(3) residential rent**; and **(4) entertainment services**, reflecting hikes in travel group fees and accommodation costs (Table 3).

Figure 15 Taiwan CPI and Core CPI (YoY)



Source: DGBAS

Table 3 Primary Contributors to Inflation (Jan.-Feb. 2026)

Item	Weight (‰)	Annual change (%)	Contribution (percentage point)
CPI	1,000	1.23	1.23
Personal Effects	19	17.36	**0.35**
Food Away from Home	106	2.94	**0.32**
Residential Rent	149	1.92	**0.29**
Entertainment Service	65	2.64	**0.17**
Meats	22	4.60	0.11
Vehicle Parts & Maintenance	18	4.06	0.08
Garments	38	1.89	0.07
Household Operations	12	5.48	0.07
Eggs	3	19.23	0.06
Electricity	12	5.68	0.06
Medical Care Service	29	1.82	0.05
Total			1.63
Fruits	21	-11.99	**-0.31**
Fuels & Lubricants	22	-7.62	**-0.18**
Vegetables	16	-9.14	**-0.14**
Vehicles	41	-2.36	-0.11
Communication Equipment	7	-6.93	-0.04
Total			-0.78
Others			0.38

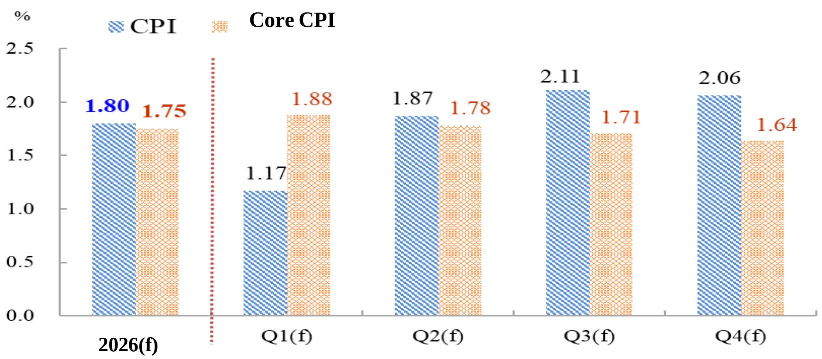
Source: DGBAS

2. The Bank revised its 2026 CPI and core CPI inflation rate forecasts upward to 1.80% and 1.75%, respectively

(1) **Recent Middle East conflicts pushed up international crude oil and other energy prices**, while **sharply rising production costs for consumer electronics products** such as PCs added pricing pressures on firms. The Bank therefore **revised up** its forecasts for this year's **CPI and core CPI** inflation rates from 1.63% projected in December last year **to 1.80% and 1.75%**,[10] respectively (Fig. 16).

- ☐ As recent Middle East conflicts have disrupted crude oil shipments and driven up international prices, the government has implemented **supply-side measures**, including: (1) continuously enforcing the "lowest-among-Asian-neighbors" price cap and the fuel stabilization system, alongside a **special smoothing scheme** to absorb 60% of retail price hikes; (2) extending raw material tax cuts through September 2026, and **boosting gasoline and diesel commodity tax cuts to 50%**.[11] These efforts will help alleviate domestic inflationary pressures.
- ☐ **The Bank will continue closely monitoring** the impact of Middle East conflicts on international oil prices and on Taiwan's inflation.
- ☐ **Geopolitical risks** and **weather-related factors** remain critical variables shaping the future trajectory of inflation in Taiwan.

Figure 16 Forecasts of CPI and Core CPI Inflation Rates



	2025	2026(f)
CPI	1.66%	**1.80%**
Core CPI	1.66%	**1.75%**

Note: f denotes forecast; the others are DGBAS actuals.

Sources: DGBAS (actual); CBC (forecast)

[10] The Bank raised its forecast for the full-year average price of international crude oil **from \$58.3 to \$85 per barrel** compared to the previous Board meeting, accounting for **the government's fuel price stabilization mechanism** (absorbing ≥60% of the price increases) and **the expansion of commodity tax cuts on petroleum products** to 50%.

[11] Includes tax exemptions on imported soybeans, corn, and wheat; a full tariff waiver on wheat; a 50% reduction in import duties on butter, baking milk powder, and frozen beef; a 50% reduction in commodity tax on Portland Type I cement; **increases in commodity tax cuts on gasoline and diesel** (from NT\$2.0 and NT\$1.5 per liter to NT\$3.415 and NT\$1.995 per liter, respectively).

(2) **Major institutions** at home and abroad **expect Taiwan's CPI inflation to average 1.67%** this year, with individual forecasts ranging from 1.50% to 1.91% (Fig. 17).

(3) Since last year, monthly average forecasts for **Taiwan's CPI inflation published by Consensus Economics** have mostly stayed between 1.5% and 1.6% (Fig. 18), reflecting market expectations of **mild and stable** inflation in Taiwan.

Figure 17 Institutional Forecasts of Taiwan 2026 CPI Inflation Rate

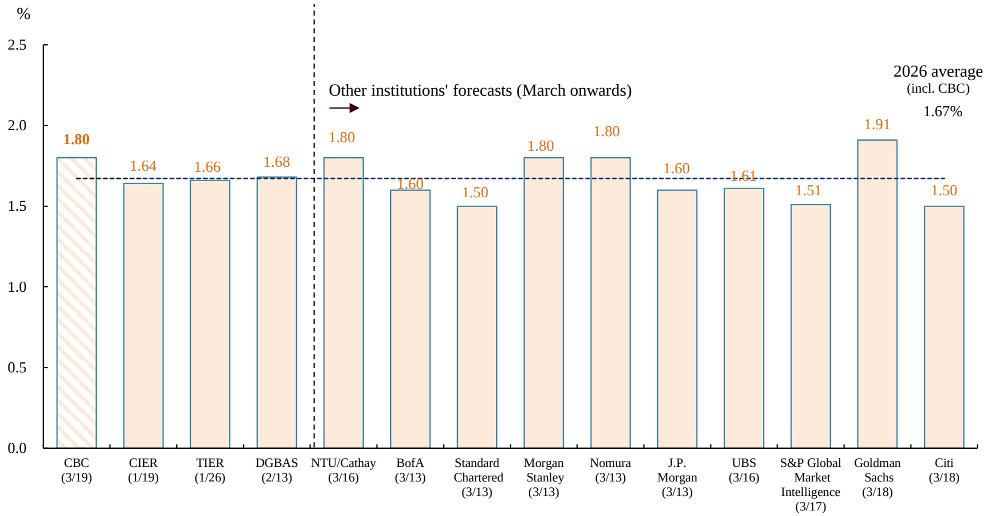
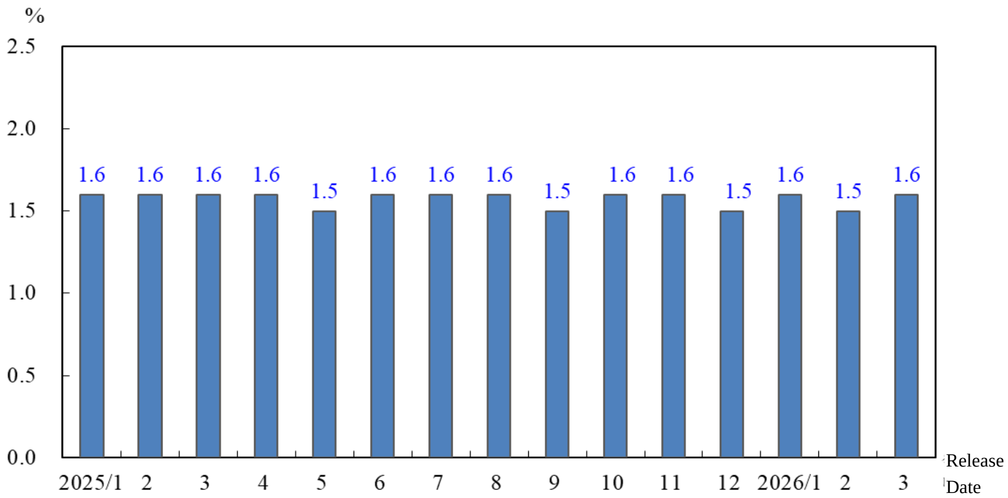


Figure 18 Forecast Average of Taiwan 2026 CPI Inflation Rate*



Note: * Average of the surveyed results by nearly 20 prominent forecasters.
Source: Asia Pacific Consensus Forecasts, Consensus Economics Inc.