

Domestic Economic and Inflation Outlook (2026 Q2)

In the **first quarter** of this year (2026), robust growth in exports, private investment, and private consumption propelled **Taiwan's economy** to **grow by 14.55%**, significantly exceeding expectations. Looking ahead, the continued expansion of business opportunities arising from **emerging technology applications**, particularly artificial intelligence (AI) and high performance computing (HPC), is expected to **sustain growth momentum**, with the **economic growth rate** projected to **reach 12.74% in the first half of the year**.

Looking ahead to the second half of the year, exports and private investment driven by AI are expected to remain key drivers of Taiwan's economic growth. With **major global cloud service providers (CSPs) raising their capital expenditures (cap-ex)** for this year and major economies actively **investing in AI infrastructure**, **AI demand** is expected to **remain strong**.

Meanwhile, the focus of AI development is gradually expanding from model training to inference, accelerating the adoption of **agentic AI**, **edge AI**, and **physical AI** across various applications. Together with the mass production of **new AI server architectures**, these developments are **boosting demand** for advanced semiconductor manufacturing and key AI components, supporting Taiwan's export growth in the second half of the year.

In addition, **capacity constraints in advanced process, advanced packaging, and key AI components** are prompting domestic **firms to expand production lines and facilities** and **optimize manufacturing processes**, adding momentum to private investment. This, along with expected continued growth in private consumption, is likely to support economic growth in the second half of the year. However, owing to the high comparison base in the second half of 2025, **GDP growth** is projected at **6.50% in the second half of 2026**. Overall, the Bank **revised up** its forecast for **Taiwan's GDP growth rate** this year from 7.28% projected in March **to 9.45%**.

Regarding the inflation outlook, in view of the **slight upward revision** to the Bank's **forecast for the average international oil price** in 2026, the continued **rise in Taiwan's import prices**, and the **recent uptrend in services inflation**, inflation is expected to rise faster in the second half of the year than in the first half. Accordingly, the Bank **slightly revised up** its **forecast** for Taiwan's 2026 **CPI inflation rate** from 1.80% projected in March **to 1.91%**.

The following sections outline domestic economic growth, price developments, and the outlook for this year.

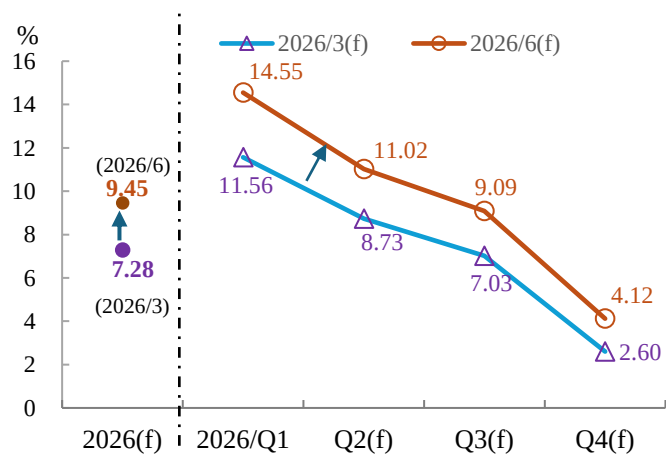
I. The ongoing expansion of global AI infrastructure is expected to support solid economic growth in Taiwan this year

1. The Bank forecasted Taiwan's GDP growth at 9.45% for 2026, up by 2.17 percentage points from the March forecast of 7.28% (Fig. 1). In addition to stronger-than-expected growth in Q1, the upward revision mainly reflects **higher cap-ex by the top four U.S. CSPs, increased investment by firms in capacity and facility expansion in Taiwan, and private consumption growth exceeding expectations.**

(1) The top four U.S. CSPs continue **expanding data centers** and **procuring AI servers** to strengthen their market leadership, with **projected cap-ex for 2026 revised up** from around US\$670 billion in Feb. to US\$725 billion, up by 75% year on year (YoY) (Fig. 2). Meanwhile, AI applications are expanding beyond generative AI to agentic AI, boosting demand for AI hardware. With strengths in advanced process, advanced packaging, server manufacturing, and thermal management solutions, **Taiwan is expected to benefit significantly**, supporting continued growth in related supply chain exports.

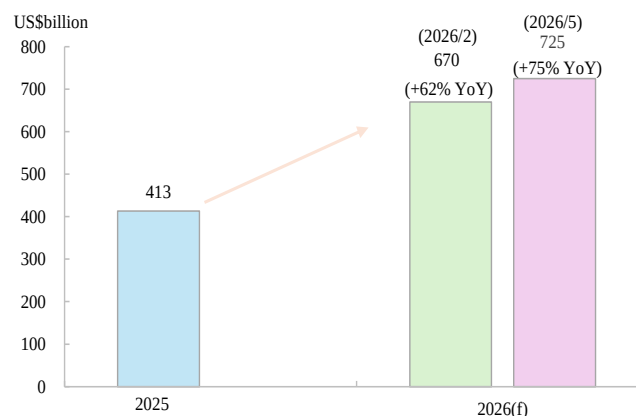
□ Driven by the race among major CSPs to expand AI infrastructure and the commercialization of agentic AI, the **global semiconductor industry is entering an upcycle**¹ (Fig. 3), continuing to support Taiwan's exports and domestic firms' cap-ex.

Figure 1: Projected GDP Growth Path for Taiwan



Source: CBC.

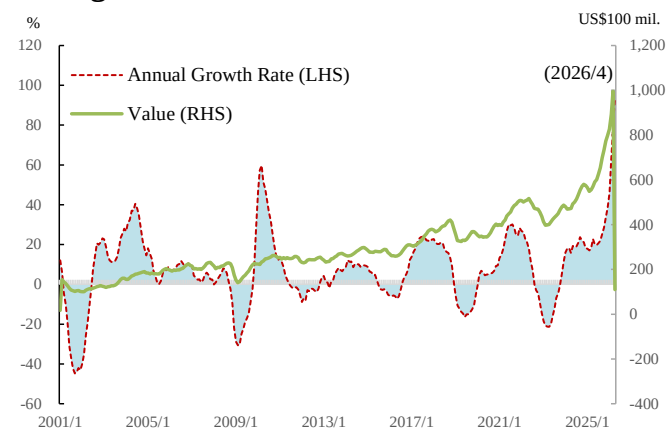
Figure 2: Cap-Ex of Top 4 U.S. CSPs*



Note: * Google, Amazon, Meta, and Microsoft. YoY growth rates are calculated based on the upper end of their projected cap-ex guidance.

Sources: Compiled from company earnings reports, investor call materials, and news reports.

Figure 3: Global Semiconductor Sales*



Note: * Three-month moving average sales.
Source: World Semiconductor Trade Statistics.

¹ Historically, semiconductor sales cycles have averaged around three to four years. The current cycle is expected to outperform previous cycles.

- (2) **Capacity** for **key AI components**, such as IC substrates, and **advanced semiconductor production** remains **tight**, prompting **domestic suppliers** to actively **expand capacity and facilities**. In addition, **Taiwan's tech sector** is at the **core of the global AI supply chain**, attracting **leading international firms** to establish partnerships and **invest in operations in Taiwan**, adding momentum to private investment growth.
2. For the year as a whole, **net external demand** and **capital formation** are expected to be the **main drivers of economic growth**, contributing 5.05 and 2.28 percentage points, respectively (Table 1).

Table 1: Taiwan's GDP Growth Forecasts (YoY) by Component and Contribution

Unit: %; percentage point (pp)

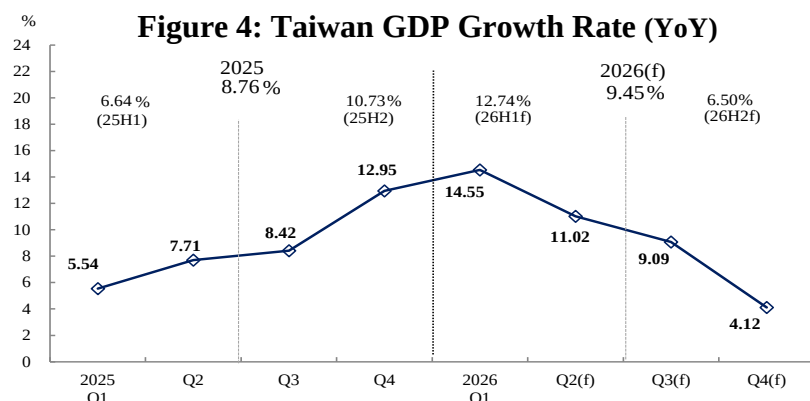
	GDP Growth Rate (%) =(a)+(b)+(c)+(d)	Contribution (pp)									
		Domestic Demand =(a)+(b)+(c)	Private Consumption (a)	Government Consumption (b)	(c)	Capital Formation			Net external demand		
						Private Investment	Government Investment*	Inventory Changes			
									(d)	Exports	(-) Imports
H1	12.74	4.31	1.95	0.42	1.93	1.41	0.20	0.33	8.44	20.10	11.66
H2	6.50	4.47	1.07	0.81	2.60	1.44	0.09	1.06	2.03	9.96	7.93
2026	9.45	4.40	1.49	0.62	2.28	1.43	0.14	0.71	5.05	14.75	9.69

Note: * Includes investment by government enterprises and the government.

Source: CBC.

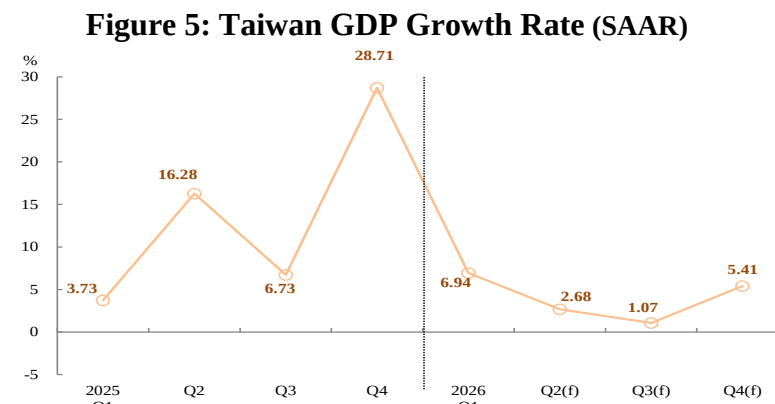
3. A higher comparison base will lead to slower economic growth in 2026 H2 than in 2026 H1.

- (1) Exports and investment related to emerging tech applications and their supply chains are expected to remain strong. However, owing to a higher comparison base in 2025 H2, the GDP growth rate (YoY) is projected at 6.50% in 2026 H2, down from 12.74% in 2026 H1 (Fig. 4).
- (2) Real GDP growth on a seasonally adjusted annualized rate (SAAR) basis indicates **steady expansion** this year (Fig. 5).



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

Sources: DGBAS (actual); CBC (forecast).



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Sources: DGBAS (actual); CBC (forecast).

II. Taiwan's exports are anticipated to grow further in 2026 H2, with solid private investment momentum and sustained private consumption growth

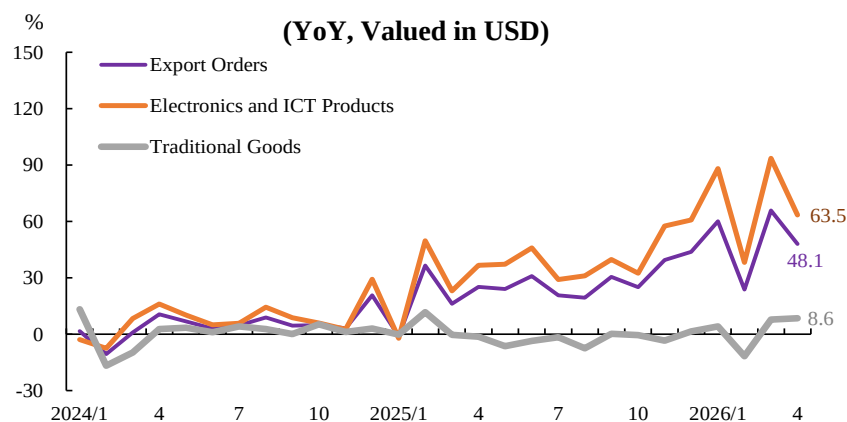
1. Exports are expected to maintain momentum in 2026 H2 and post double-digit growth for the year as a whole

(1) Major global CSPs are **expanding cap-ex**, while **governments** worldwide are actively **promoting sovereign AI initiatives** and accelerating **AI infrastructure** deployment. Robust demand for AI, HPC, and cloud data services, along with the expansion of AI applications into areas such as agentic AI and the rollout of **next-generation AI servers**, is expected to **boost demand for key parts and components**,² supporting Taiwan's **export growth in 2026 H2**.

□ In April, export orders for electronics and ICT products increased by 63.5% year on year, contributing to a **48.1% rise in overall export orders** (Fig. 6).

□ (2) Taking into account the aforementioned favorable factors and a higher comparison base in 2026 H2, the Bank forecasted real export growth to be 27.86% in 2026 H1, higher than the 13.34% projected for 2026 H2, and 20.05% for the year as a whole (Fig. 7).

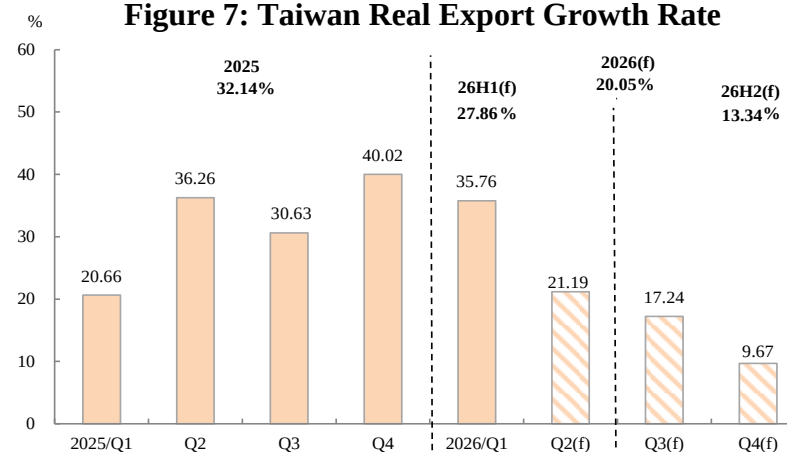
Figure 6: Taiwan Export Order Growth
(YoY, Valued in USD)



Note: Electronics and ICT products comprise electronic products and information and communication products; traditional goods mainly include chemicals, plastics and rubber products, textiles, base metals, machinery, electrical equipment, and transport equipment.

Source: Ministry of Economic Affairs.

Figure 7: Taiwan Real Export Growth Rate



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

Sources: DGBAS (actual); CBC (forecast).

² For example, the Vera Rubin platform is expected to be launched in 2026 H2. Its enhanced hardware performance and higher component usage are likely to significantly boost demand across related supply chains, including semiconductor assembly and testing, IC substrates, thermal management, and power management.

2. As firms stepped up investment in Taiwan, private investment momentum is expected to remain solid in 2026 H2 and for the year as a whole

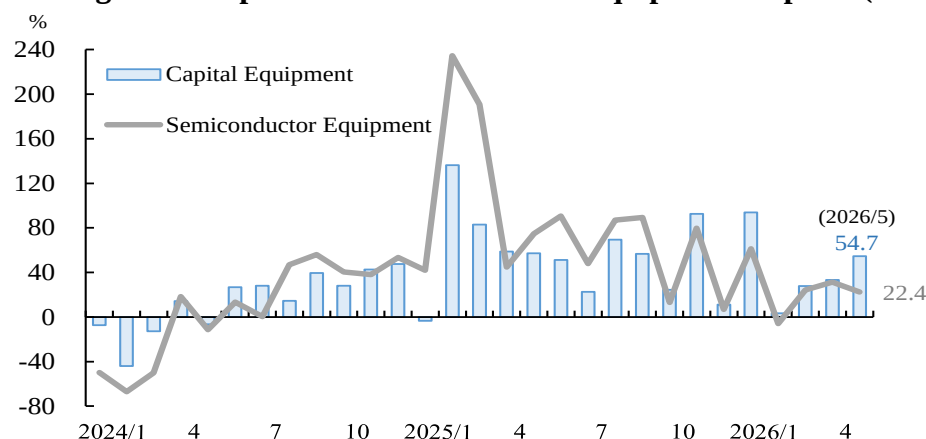
(1) Taiwan's semiconductor supply chain continues to **maintain its lead in manufacturing process, expand high-end production capacity, and increase R&D spending**. Meanwhile, growing applications of AI and other emerging technologies have prompted **domestic firms** in semiconductor assembly and testing, IC substrates, and servers to **increase cap-ex**³ for capacity expansion, while **major global firms** continue to **step up investment in Taiwan**.⁴ These factors **add momentum to private investment**.

□ In May, semiconductor equipment purchases continued to increase, with imports up 22.4% YoY, while capital equipment imports grew by 54.7% (Fig. 8).

(2) Buoyant demand for outbound travel and air freight services for AI products has led **airlines** to **expand their passenger and cargo fleets**, further **supporting private investment**.

(3) Taking into account these favorable factors, the Bank projected **real private investment** to **grow by 6.17%** in 2026 H1, **7.30%** in 2026 H2, and **6.71%** for the whole year (Fig. 9).

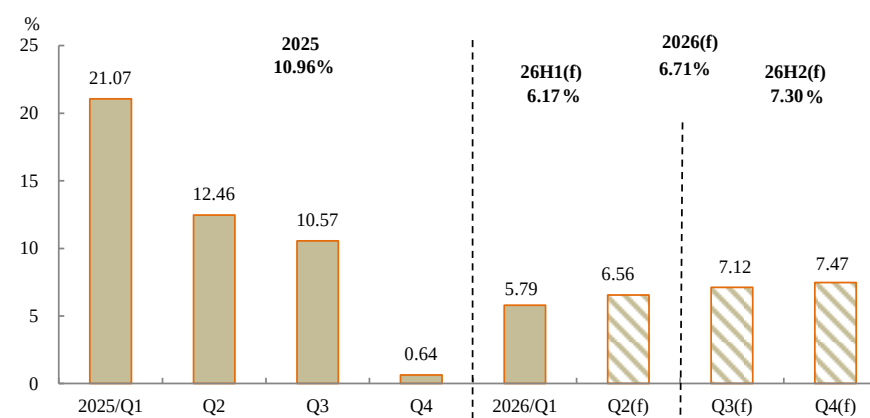
Figure 8: Capital and Semiconductor Equipment Imports (YoY)



Note: Valued in USD.

Source: Ministry of Finance.

Figure 9: Real Private Investment Growth Rate



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

Sources: DGBAS (actual); CBC (forecast).

³ TSMC's cap-ex for 2026 is estimated to be between US\$52 billion and US\$56 billion, with the latest outlook pointing to the upper end of the range. Investment by semiconductor assembly and testing firms, including ASE, Powertech, and KYEC, could reach NT\$368.7 billion, NT\$41.4 billion higher than the February estimate.

⁴ For example, in May, AMD announced a US\$10 billion investment in Taiwan to ensure the smooth ramp-up of AI server rack production capacity in 2026 H2 and meet capacity needs over the next three years. Google has also committed an additional NT\$27 billion this year to expanding its data centers in Taiwan.

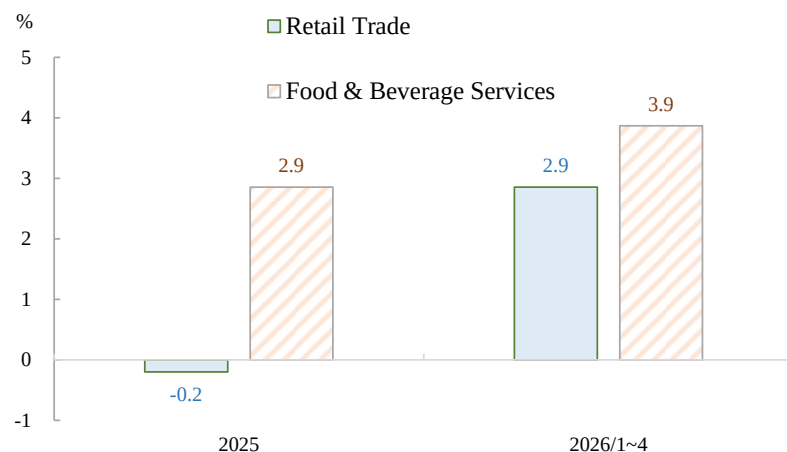
3. Steady economic expansion and wage growth are expected to sustain private consumption momentum through 2026 H2, with full-year growth picking up

(1) **Continued wage growth** amid stable domestic economic conditions and a resilient labor market, together with firms' greater willingness to distribute **cash dividends** this year following higher profits last year, has **boosted household disposable income**. This, along with increased spending on financial service fees amid **active stock market trading**, has supported a pickup in private consumption. **Sustained demand for outbound travel**⁵ has provided a further boost to private consumption.

□ Favorable factors, including wage growth, an increase in entertainment and exhibition events, and the government's continued domestic tourism subsidies, have bolstered consumer spending on food and beverage services and retail purchases (Fig. 10). For Jan.-Apr. this year, sales in food and beverage services and retail trade grew faster than last year.

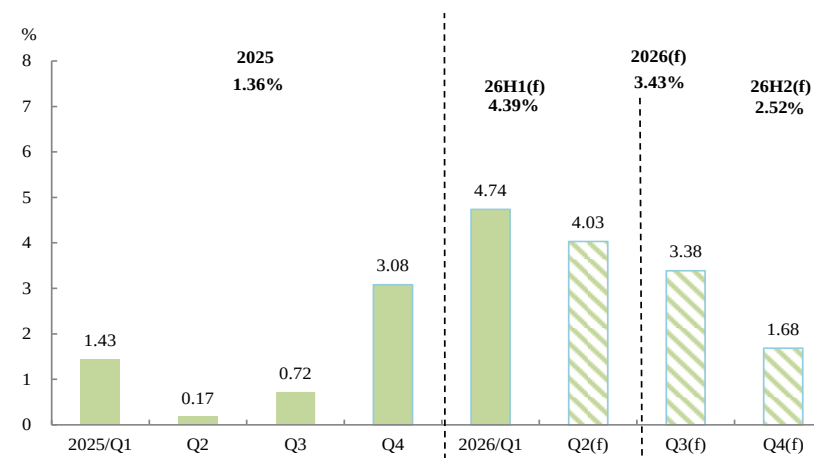
(2) In view of these favorable factors, the Bank projected **real private consumption** to **expand by 4.39%** in 2026 H1, **2.52%** in 2026 H2, and **3.43%** for the year as a whole (Fig. 11).

Figure 10: Retail Trade and Food & Beverage Services Sales Growth (YoY)



Source: Ministry of Economic Affairs.

Figure 11: Real Private Consumption Growth Rate



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

Sources: DGBAS (actual); CBC (forecast).

⁵ Higher outbound travel spending has boosted private consumption but also increased services imports, with the two effects offsetting each other and leaving overall GDP unchanged.

4. Despite many economic uncertainties in 2026 H2, major institutions have broadly revised up their 2026 GDP growth forecasts for Taiwan

(1) These economic uncertainties include the following:

Geopolitical tensions and extreme weather increasing global inflation risks: The U.S. and Iran reached a tentative ceasefire agreement in June this year. However, the full resumption of shipping through the Strait of Hormuz will take time, while energy production facilities in the Middle East still require repairs, adding uncertainties to the global inflation and economic outlook. In addition, frequent extreme weather events, including high temperatures, droughts, and natural disasters, could push up food and fuel prices. Higher prices could feed through to manufacturing, logistics, and raw material costs, further intensifying global inflationary pressures, dampening consumption and firms' willingness to invest, and weighing on global economic growth.

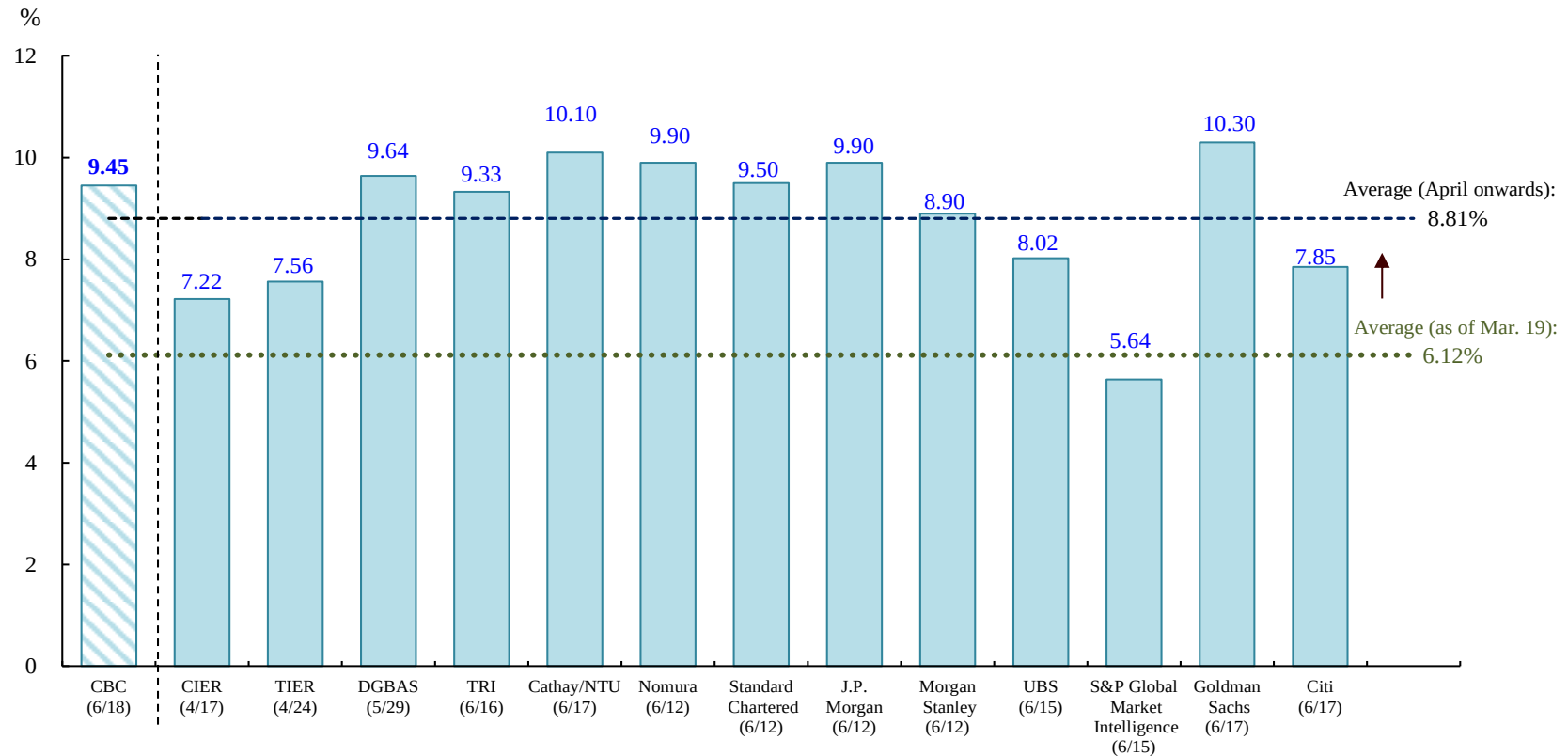
Future monetary policy paths of major central banks: The Middle East conflict has driven up energy prices, and the resulting increases in transportation and fuel costs could be passed on to a broad range of goods and services, heightening inflation risks. This could lead major central banks to adopt tighter monetary policy stances, thereby weakening business investment, affecting future cross-border capital flows, and undermining stability in global equity, FX, and bond markets.

Changes in AI firms' cap-ex levels and equity repricing risks: Major CSPs are actively building out AI infrastructure, and changes in their cap-ex levels could significantly affect Taiwan's export growth this year. In addition, share prices of AI firms worldwide have surged. Some AI firms have increased leverage through off-balance-sheet financing using special purpose vehicles (SPVs) and through private credit, or have engaged in circular transactions with one another to support business expansion. If corporate earnings fail to justify current elevated valuations, investor sentiment could reverse sharply, triggering substantial share price corrections and undermining global financial market stability.

Further developments in U.S. tariff and related policies: In Feb. 2026, the U.S. imposed a temporary 10% tariff on imports from all countries based on Section 122 of the *Trade Act of 1974*. The U.S. Court of International Trade later ruled the measure unlawful in May, and litigation remains ongoing. Going forward, the U.S. may use Section 301 of the *Trade Act of 1974* and Section 232 of the *Trade Expansion Act of 1962* to impose differentiated tariffs by country and product, respectively. Future developments in U.S. tariff policy and whether trade agreements between the U.S. and other countries are fully implemented add to uncertainties surrounding the global economy and trade.

(2) Driven by continued robust production in electronics and ICT manufacturing, **major domestic and international institutions** have generally become **more optimistic about Taiwan's 2026 economic outlook** than they were in March, with **GDP growth forecasts** ranging from **5.64% to 10.30%** and averaging 8.81% (Fig. 12).

Figure 12: Taiwan 2026 GDP Growth Forecasts by Major Institutions

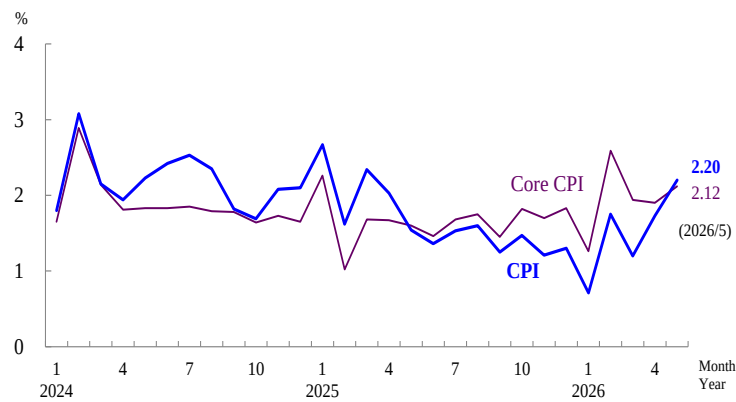


III. Domestic inflation remains moderate; the Bank revised up the 2026 forecasts for CPI and core CPI inflation to 1.91% and 1.90%, respectively

1. Inflation rate remains moderate

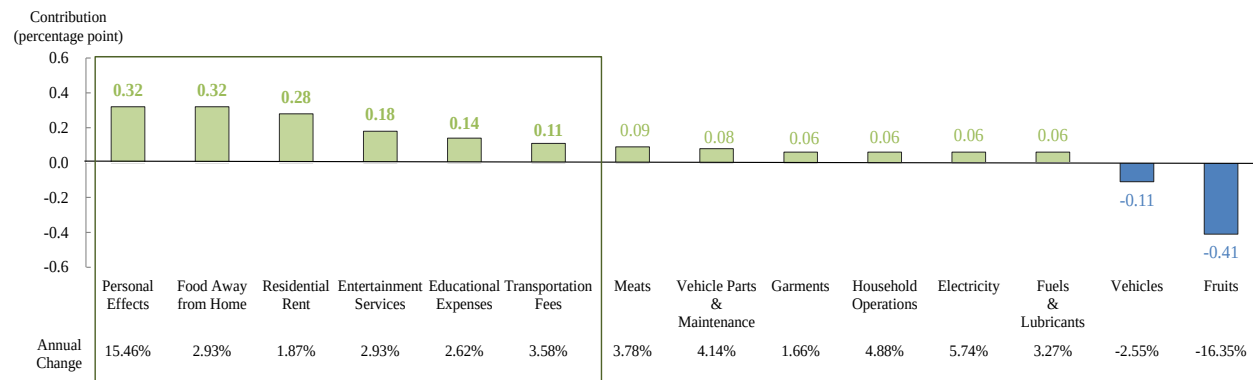
- (1) In March this year, the CPI inflation rate eased to 1.20% as the effect of the Lunar New Year holiday dissipated. Subsequently, **fuel prices rose** at a faster pace, while higher fuel surcharges were reflected in **airfares, pushing up transportation and entertainment service costs**. As a result, the **CPI inflation rate rose to 2.20% in May 2026**, the highest level since April 2025 (Fig. 13). **Core CPI** (excluding vegetables, fruit, and energy) **inflation also rose to 2.12%**.
- (2) **CPI inflation averaged 1.52% for Jan.-May**. The main drivers 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, education services, and transportation services** (Fig. 14).

Figure 13: Taiwan CPI and Core CPI (YoY)



Source: DGBAS.

Figure 14: Primary Contributors to Inflation (Jan.-May 2026)



Source: DGBAS.

2. Domestic imported inflationary pressures remain manageable

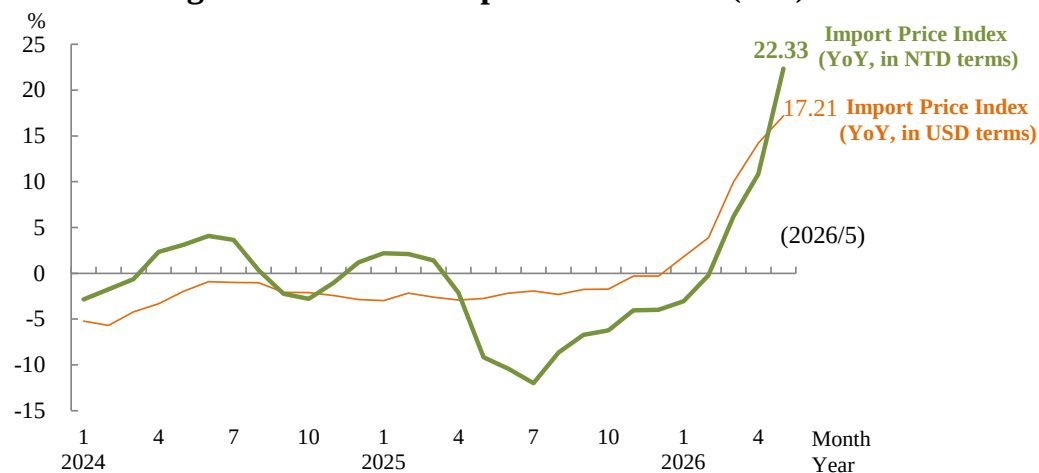
(1) Import prices have trended upward since the beginning of the year

- In May, import prices in US dollar terms continued to rise, with the annual growth rate reaching 17.21%, the highest since April 2022. Meanwhile, the annual growth rate of import prices in NT dollar terms went up to 22.33%, the highest since July 1980 (Fig. 15).
- For Jan.-May, import prices in US dollar and NT dollar terms rose by 9.26% and 6.94% year on year, respectively.

(2) **Import prices have moved up**, driven mainly by rising prices of electronic components (e.g., integrated circuits) and energy minerals (e.g., crude oil). However, as **price increases for electronic components are largely reflected in export prices**, and the government has proactively implemented measures to stabilize energy prices, **imported inflationary pressures remain contained**.

- For example, in May this year, import prices of integrated circuits rose by 27.95% year on year, yet the increase was mostly reflected in the export prices of related products. Moreover, as consumer electronics products such as PCs and mobile phones account for only a small share of the CPI basket (1.21% and 0.64%, respectively), limiting their impact on CPI inflation to 0.07 and -0.05 percentage points, respectively.
- Import prices of energy minerals (e.g., crude oil and natural gas) surged by 56.60% year on year in May. However, through the government's energy price stabilization mechanism⁶ and other proactive supply-side measures, the inflationary pressures have been effectively mitigated.

Figure 15: Taiwan Import Price Index (YoY)



Source: DGBAS.

⁶ Government energy price stabilization measures: (1) Maintaining the dual-smoothing mechanism and absorbing 60%+ of price hikes via the special price stabilization mechanism; (2) Freezing utility rates (natural gas, LPG, and electricity).

3. The Bank slightly revised up its forecasts for Taiwan's 2026 CPI and core CPI annual growth rates to 1.91% and 1.90%, respectively

(1) In view of the slight **upward revision to the Bank's forecast for the average international oil price**⁷ in 2026, the continued **rise in Taiwan's import prices**, and the recent **uptrend in services inflation** (Fig. 16),⁸ **inflationary pressures in Taiwan have increased** this year. However, taking into account **the government's proactive supply-side measures**⁹ **to stabilize domestic prices**, the Bank modestly **revised up** its forecasts for Taiwan's 2026 **CPI and core CPI annual growth rates to 1.91% and 1.90%**, respectively, from 1.80% and 1.75% forecast in March (Fig. 17).

- The Bank continues to closely monitor developments in the Middle East conflict and their potential impact on international oil prices and domestic inflation.
- **Geopolitical risks and weather factors** are key **drivers for future domestic inflation** trends.

Figure 16: CPI Inflation Rates by Commodity and Service Group

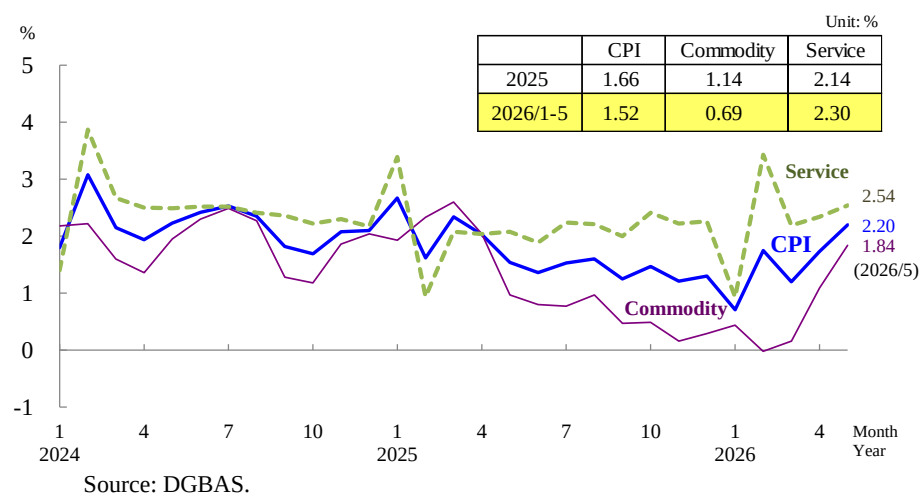
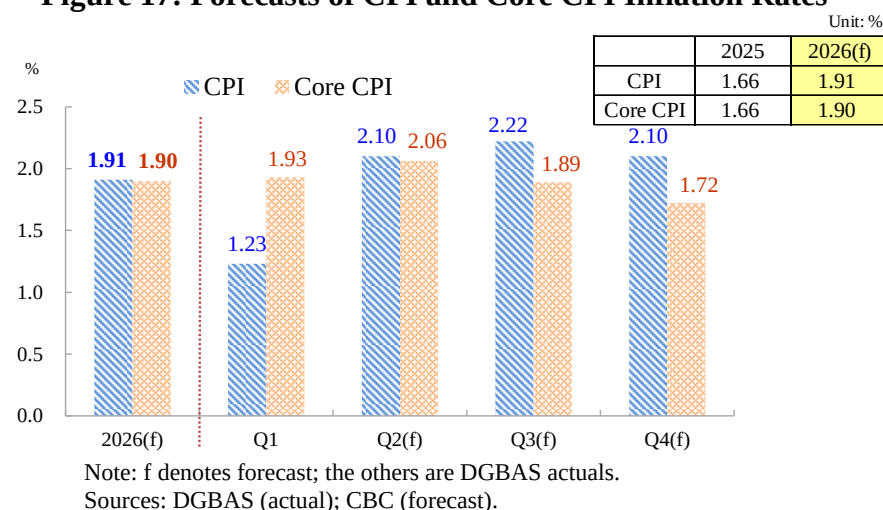


Figure 17: Forecasts of CPI and Core CPI Inflation Rates



⁷ From the beginning of the year to June 15, Brent crude oil prices averaged US\$93.7 per barrel. Following the U.S.-Iran interim ceasefire agreement reached in June, international oil prices are expected to decline. The Bank therefore assumed an average Brent crude oil price of US\$90 per barrel for 2026, slightly higher than the US\$85 per barrel assumed at the Bank's March Board Meeting.

⁸ Elevated international oil prices have pushed up fuel surcharges significantly. Higher fuel surcharges prompted international airfares and foreign tour package fees to reflect higher selling prices, causing domestic services inflation to shift upward.

⁹ Government supply-side measures: (1) Maintaining the dual-smoothing mechanism (Asian-neighbor price benchmarking & fuel price stabilization); (2) Absorbing 60%+ of price hikes via the special price stabilization mechanism; (3) Extending key raw material tax cuts to end-September & expanding commodity tax cuts for gasoline/diesel to 50%; (4) Reducing bottled LPG commodity tax by 50% from April (e.g., NT\$6.9 cut per 20 kg cylinder); (5) Freezing utility rates (natural gas & LPG: Apr.-Jun.; electricity: Apr.-Sep.); (6) Extending the public transit fare freeze to six months and increasing fuel subsidies for taxi operators (up to NT\$15,000 per vehicle); (7) Strengthening price monitoring of daily necessities (e.g., plastic bags) to prevent unreasonable stockpiling and price gouging.

(2) **Major domestic and foreign institutions** projected **Taiwan's CPI annual growth rate for 2026** to range between 1.80% and 2.10%, with an **average of 1.95%** (Fig. 18).

(3) Monthly average forecasts for **Taiwan's CPI inflation for 2026 published by Consensus Economics** generally stayed between 1.5% and 1.6% through March, rose to 1.9% in April, and remained at **1.9%** in both May and June (Fig. 19).

Figure 18: Institutional Forecasts of Taiwan 2026 CPI Inflation Rate

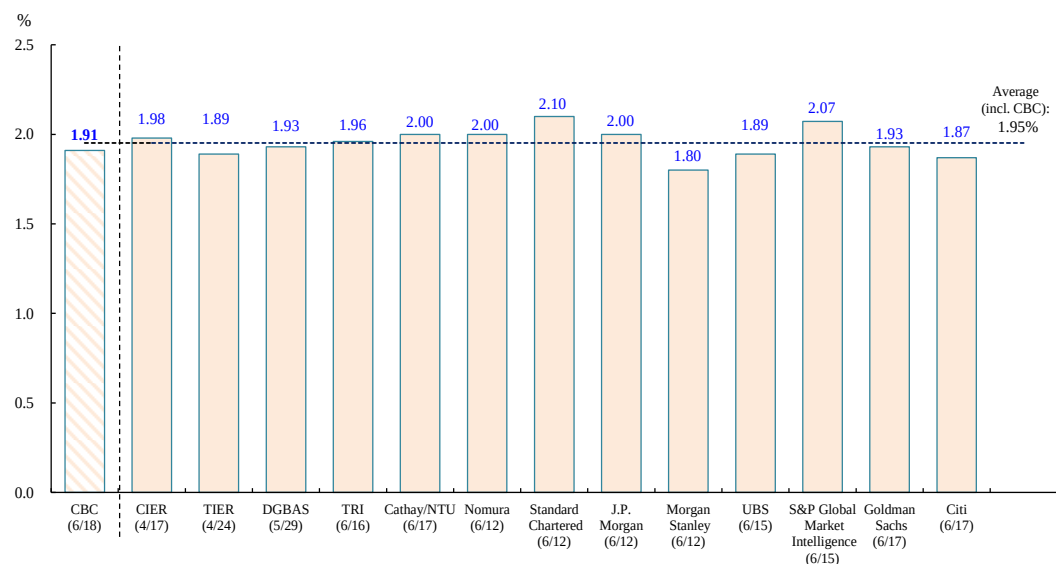
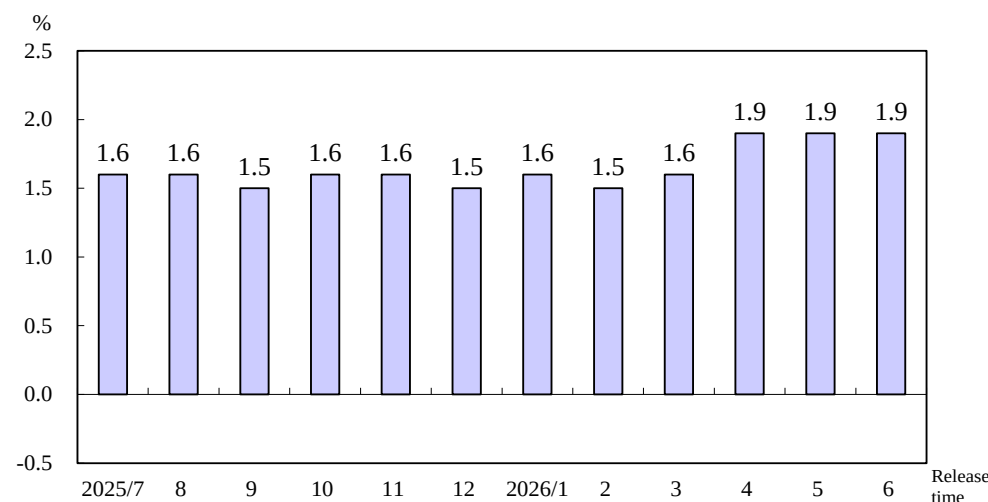


Figure 19: Forecast Average of Taiwan 2026 CPI Inflation Rate*



Note: * Average of the surveyed results by nearly 20 prominent forecasters.

Source: *Asia Pacific Consensus Forecasts*, Consensus Economics Inc.