Emerging Market Focus

15:18 CET
31 August 2026

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Taiwan: AI fuels double-digit GDP growth

- **We raise our 2026 GDP growth forecast to 11.3% and see signs of growth broadening beyond exports in Taiwan. The 2026 current account forecast is raised to 23.6% of GDP.**
- **We see macro conditions as in place for the CBC to hike in December given strong growth and rising inflation concerns.**
- **Strong fundamentals, a record-high basic balance and renewed foreign equity inflows are supportive of TWD appreciation into year-end, with USD/TWD forecast to reach 31.6 by end-2026.**
- **For more about Taiwan's macro fundamentals, explore our interactive Taiwan dashboard.**


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Riding the AI wave

We raise our Taiwan GDP and current account forecasts as the economy remains in 'booming mode', with signs that growth is broadening beyond exports to domestic demand as capital expenditure surges and private consumption firms up. Despite still elevated external uncertainty, inflation is expected to remain contained given government stabilisation measures. We expect the CBC to deliver a 12.5bp rate hike in December. Strong fundamentals, a record-high basic balance and renewed foreign equity inflows lay the groundwork for gradual TWD appreciation into year-end, with USD/TWD forecast to reach 31.6 by end-2026.

CACIB forecasts (old forecasts in parentheses)

	2025	2026	2027
GDP (% YoY)	**8.8**	**11.3** *(8.2)*	**3.8** *(3.6)*
CPI (% YoY)	**1.7**	2.2	*2.0*
Current Account (% GDP)	**20.0**	**23.6** *(20.3)*	**22.5** *(21.5)*
USD/TWD	**31.4**	**31.6** *(31.8)*	**31.2** *(31.5)*

Source: Crédit Agricole CIB

Growth is broadening

We are upgrading our Taiwan GDP forecast for 2026 and 2027 to 11.3% and 3.8% from 8.2% and 3.6% respectively. The latest upward revision is still driven by strong external demand but also a further firming up of domestic demand with the Taiwan economic monitor indicator signalling an economy that has been in "booming" mode for all of 2026. Taiwan's Q2 GDP grew at 12.5% YoY, a slightly slowdown from 15.2% YoY in Q1, but nonetheless at an exceptional pace. While exports remain a strong engine, net exports contributed 5.1ppt to growth falling behind domestic demand for the first time since end-2024. Domestic growth was driven by a strong pick-up in capital expenditures (4.2ppt) as Taiwan corporates ramped up efforts to build capacity. In mid-July, TSMC has also raised its 2026 capex estimate to between USD60-64bn from USD52-56bn which is supportive of the semiconductor supply chain in Taiwan. Private consumption also contributed 2.4ppt to growth for its best performance since Q323.

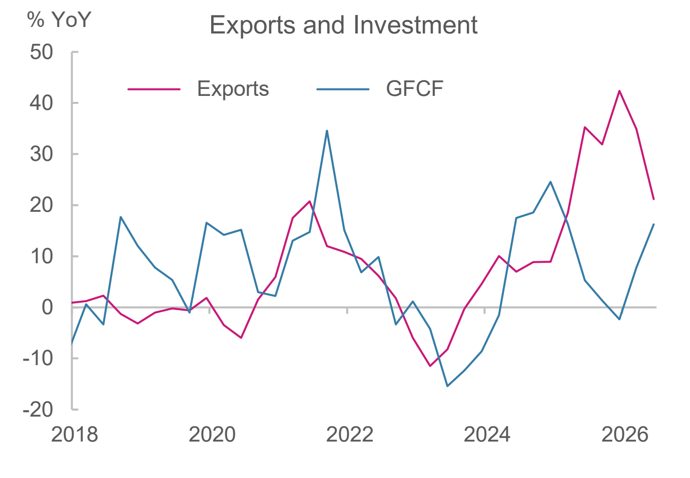
Looking ahead, our forecast revision incorporates the view that the local economy will extend its strong performance. The National Development Council (NDC) Leading Index, which tracks economic trends in Taiwan, climbed to 23 in Q2, its best performance since Q123. Our new forecast is slightly above the official government forecast of 11.05%, but we think that is achievable as it only requires

Taiwan average 1% QoQ growth in the coming two quarters, half the pace of that in H1.

With private consumption also firming up, we think the risk to Taiwan is still likely to come externally. Markets have become less sensitive to the developments around Iran, and the risk of key material shortages has not materialised. However, a rise in geopolitical tensions will still have an impact given Taiwan's heavy energy dependency (almost 100% reliant on energy imports), and should it disrupt Taiwanese supply chains.

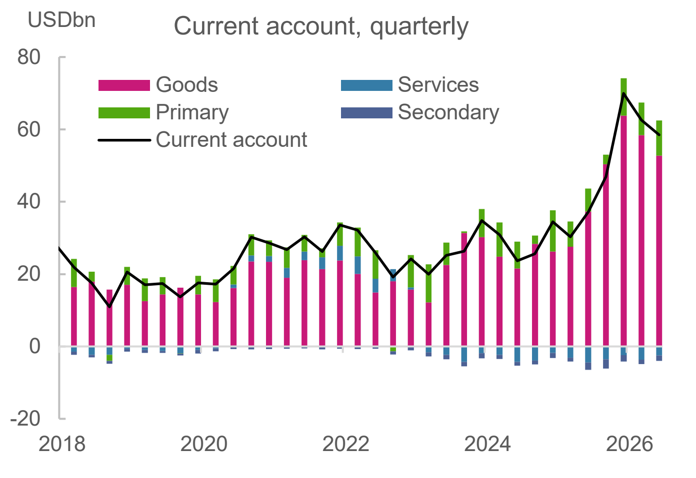
Barring a major disruption though, Taiwan's current account is likely to remain quite significant this year. We are revising our Taiwan current account forecast higher for 2026 and 2027 to 23.6% and 22.5% of GDP from 20.3% and 21.5% respectively. The bulk of the improvement continues to be made via the goods account. In the rolling four quarters to Q226, the current account reached USD238bn (23.7% of GDP), of which USD225bn came from goods. The orders pipeline is strong with tech firms reporting orders extending beyond 2027, this provides room for more upside from the existing current account numbers.

Exports and capex driving growth



Source: CEIC, Crédit Agricole CIB

Taiwan current account to remain significant



Source: CEIC, Crédit Agricole CIB

CBC to hike in December

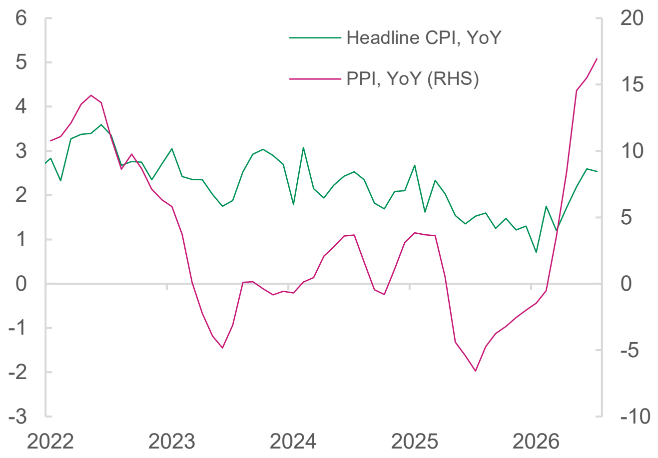
Our inflation forecasts are maintained at 2.2% and 2.0% for 2026 and 2027 respectively. Taiwan's inflation shows tentative signs with headline and core CPI slowing in July to 2.54% and 2.38% respectively from 2.59% and 2.44%. Taiwan inflationary pressures have been well capped by the government's price stabilisation measures and fuel subsidies which have prevented imported inflation from rearing its head. That said, PPI is still elevated. In July, PPI rose to a new multi-year of 16.9% YoY, within this, import price was a major factor rising 28.2% YoY. The rise in PPI is occurring despite an easing in the import price of petroleum falling to 34% YoY from as much as 92% YoY in May. Therefore, the developments in Iran remain key here, though government programmes will likely continue to blunt the main thrust of price rises.

We think the macroeconomic conditions are increasingly favourable for the CBC to hike the policy rate. In its June meeting, the CBC held rates unchanged, but there were two dissenters who called for the CBC to hike rates. The minutes for the June meeting suggested that one dissenter thinks there is a need to hike rates to anchor inflation expectations. Another said there is a need to hike rates for monetary policy normalisation as demand side factors expand and tightening supply side factors intensify. Other MPC members (13 in total) voted for a hold with some citing reasons such as inflation being more contained given price stabilisation measures and hence giving the CBC time to wait. Others saw as the economy is still imbalanced (externally driven while domestic demand is stable). And finally, there was a desire for prudence given still-elevated global uncertainty.

We think that since the June meeting, the domestic demand side is showing more signs of resilience. Therefore, that could cause more MPC members to see the conditions as being suitable for rate hikes. The window has certainly opened to a

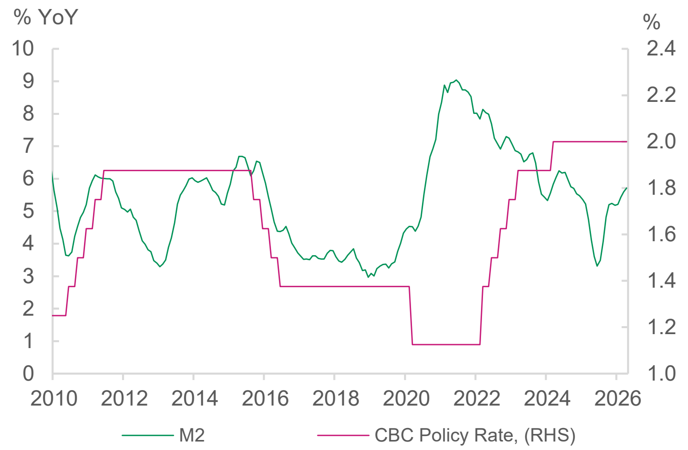
12.5bp rate hike in September, though we think that if considering other factors as well, the CBC is more likely to hike in December.

Price stabilisation measures have kept inflation contained despite higher PPI



Source: CEIC, Crédit Agricole CIB

Macroconditions are in place for the CBC to hike in December



Source: CEIC, Crédit Agricole CIB

TWD making up for lost time

We continue to see Taiwan fundamentals as supportive of TWD appreciation as evidenced by the upward revision to the growth and current account today. By our estimates, the basic balance has climbed to a record high of USD118bn, posing upward pressure on the currency. That said, the TWD has been a relative laggard for most of 2026. By our estimates, the TWD NEER fell to as much as 3.5% below its 3Y moving average, a multi-year low, in early August amidst a pullback in AI sentiment. Since then, the TWD has shown more signs of a turnaround with the TWD NEER discount to its moving average improving to 1.6%. Foreign investors net bought USD9.5bn of Taiwan equities in August, making it one of the few equity-related markets to see inflows.

A decline in life insurer hedging has been seen as another reason for reduced TWD demand following local regulation changes. Since then, life insurers have reportedly reduced their hedging ratios to multi-year lows. However, we think the scope for further reductions could be more limited with more signs of a return of some hedging activity. The risk here will remain the state of the AI sentiment in equity markets. While we maintain our belief in AI demand underpinning Taiwan exports ahead, the story still remains uncertain for equity sentiment and hence foreign flows ahead.

Considering the above, we now forecast USD/TWD to fall to 31.6 by end-2026 relative to our previous forecast of 31.8. We think the gains in the TWD will remain quite gradual and measured as policymakers act to prevent excessive volatility.

Our new USD/TWD forecast profiles

	Current	Q326	Q426	Q127	Q227	Q327	Q427
USD/TWD	31.7	**31.7** *(32.1)*	**31.6** *(31.8)*	**31.5** *(31.8)*	**31.5** *(31.6)*	**31.4** *(31.6)*	**31.2** *(31.5)*

Note: Our previous forecasts are in brackets, Source: Crédit Agricole CIB

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Source: RMA by Crédit Agricole CIB

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