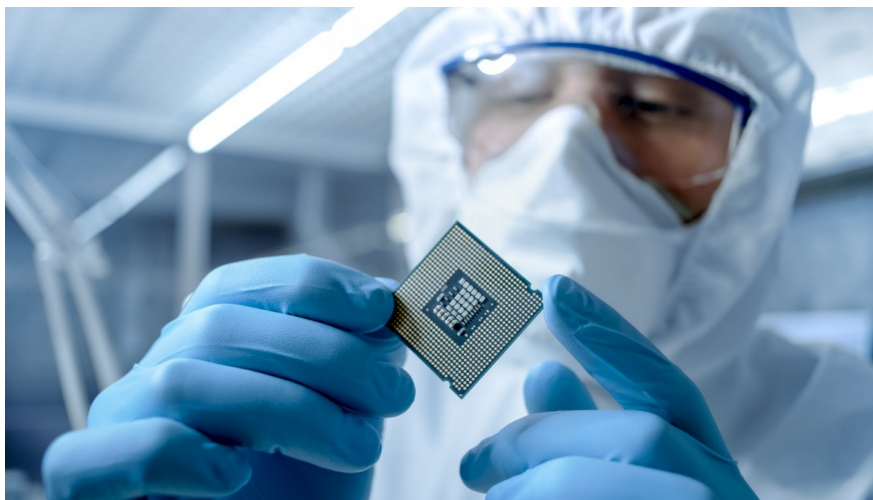


Revising Taiwan's GDP forecast due to export growth and strong global demand for semiconductors

Exports are the main strength of Taiwan, and among all export items, integrated circuits have been the sole growth engine. This should continue as the global demand for semiconductors remains strong in 2022. Together with exceptionally strong imports, we are revising our GDP forecast upward



The global demand for semiconductors should continue to be high in 2022

Taiwan trade surplus narrowed

Both export and import activities have driven many manufacturing and services activities for Taiwan. In January, exports grew 16.7% year-on-year and imports grew 24.9% year-on-year. Many imports are for manufacturing in Taiwan and therefore go to exports eventually.

Strong imports in January imply strong growth in exports following the Chinese New Year. The seemingly weaker exports should be the result of the Chinese New Year holiday.

We continue to expect Taiwan exports to be the main driver of the economy for 2022.

Semiconductor chips are the top export item

Exports of integrated circuits, which include semiconductor chips, grew 20.9% year-on-year, and this item contributed 36.1% of total exports. Global demand for semiconductors is high, and Taiwan is one of the biggest suppliers. We believe that this trend will not change until demand eases, which is unlikely to be in 2022 as chips for automobiles are still in shortage.

Some of these exports went to Mainland China and Hong Kong as Taiwanese semiconductor producers have factories in Mainland China. Exports to these places were 39.3% of total exports in January. This highlights the economic relationship between Mainland China and Taiwan, which will not be easily changed until one-day production costs in Mainland China are bigger than that in Taiwan or other locations that Taiwanese semiconductor manufacturers have factories. ASEAN (the Association of Southeast Asian Nations) is an option and is growing fast in terms of Taiwan's export destination, but should take some years to get to a point where it can replace Mainland China.

Forecast revision

Though net exports shrank in January, this should be a seasonal factor from the Chinese New Year. Strong imports point to stronger exports in the coming months, and therefore stronger GDP growth. In the meantime, we expect no change in the trend of consumption due to Covid. Investments should continue to rise due to the expansion of semiconductor factories.

We therefore revise the GDP growth from 3.7% in 2022 to 4.4%.