

'CareEdge AA/Stable' rating assigned to Taiwan, the Republic of China

Issuer rating (Long-Term Foreign Currency)

CareEdge AA/Stable (Unsolicited)

CareEdge Global has assigned Long-Term Foreign Currency issuer rating of '**CareEdge AA/Stable**' (Unsolicited) to **Taiwan, the Republic of China (Taiwan)**.

Rationale

The rating reflects Taiwan's strong credit fundamentals, supported by its sound macroeconomic profile, very strong external position, robust fiscal metrics, and high-quality institutional framework. These structural strengths are partially offset by the geopolitical and concentration (the semiconductor sector contributes 35% to GDP) risks, which could weigh on medium-term growth prospects.

Taiwan's macroeconomic profile features a large and competitive economy with strong growth prospects. The economy is expected to grow at 2.3% over the next 5 years (2026-30), after recording growth of ~8.6% in 2025, supported by the expansion of semiconductor exports and artificial intelligence (AI)-related demand. Future growth prospects are expected to be moderate, as the AI demand normalizes. Growth outlook also factors potential economic implications of escalation in cross-strait tensions. Adverse demographic trends (super-aged population) and uneven sectoral growth are additional constraints.

Taiwan's external position is supported by a large and persistent current account surplus and a substantial positive net international investment position (~194.2% of GDP in 2024). These strengths provide a significant buffer against external shocks, including fluctuations arising from the global technology cycle. Additionally, low externally held debt (~27.4% of GDP) reduces refinancing risks.

The country's fiscal profile is a key credit strength, anchored by very low government debt, strong affordability, and a limited share of externally held government debt. The government is expected to maintain a fiscal surplus over the medium term, supported by robust tax collections along with strong economic growth, and sustained corporate profitability. Over time, however, unfavourable demographics and rising defence costs could put pressure on the fiscal balance, while contingent liabilities associated with state-owned enterprises (SOEs) remain a potential risk.

Taiwan's monetary framework is credible, supported by well-anchored inflation expectations that generally remain within the central bank's target range. Ample liquidity and a stable banking sector ensure sound financial indicators. However, concentration of credit in the real estate sector is a monitorable, particularly given the rising price-to-income ratio, which could

threaten financial stability if market imbalances intensify.

A well-established institutional framework and strong policy effectiveness support macroeconomic stability. Nevertheless, geopolitical tensions with China remain a critical structural risk that could impair Taiwan's credit profile should tensions escalate. Further, a more fragmented parliament may heighten policy uncertainty, potentially hindering decision-making. These developments warrant close monitoring.

Outlook: Stable

The stable outlook reflects Taiwan's ability to maintain strong external buffers and sound fiscal metrics, supporting overall credit resilience. Medium-term growth prospects are favourable, supported by strong global demand for AI and the country's deep integration in the global semiconductor value chain. We expect geopolitical risks related to cross-strait relations with China to be insignificant and not to impact the credit metrics.

Upside scenario

We may revise the outlook to positive if cross-strait geopolitical risks subside, leading to a sustained reduction in geopolitical uncertainty and improving growth prospects.

Downside scenario

We may revise the outlook to negative if a significant escalation in cross-strait tensions heighten geopolitical risks, adversely impacting Taiwan's economic performance, fiscal position, and external stability. Additionally, the credit profile could weaken if growth prospects weaken materially compared with our current expectations due to a global semiconductor slowdown, or increased policy unpredictability.

Key rating drivers

Economic structure & resilience

Taiwan's economic profile is characterised by its large scale, high competitiveness, and strong medium-term growth prospects, supported by an advanced, technology-driven industrial base. With a nominal GDP of ~USD 884 billion in 2025, the economy is projected to approach the USD 1 trillion mark by 2027. Income levels have risen substantially, with GDP per capita ~USD 73,007 on a purchasing power parity basis in 2025, placing Taiwan on par with several advanced economies.

Taiwan's growth model is predominantly export-oriented, with electronics (particularly semiconductors) serving as the cornerstone of the economy. Its critical position in the global semiconductor supply chain bolsters both competitiveness and external performance. A central pillar of the industrial base is Taiwan Semiconductor Manufacturing Company, accounting for ~8.9% of GDP in 2024. Such concentration reflects the economy's structural reliance on the semiconductor sector, with growth dynamics remain largely aligned to the global technology cycle.

Taiwan recorded strong growth of ~8.6% in 2025, supported by sustained global demand for advanced chips in AI-related applications, leading to resilient export performance. Additionally, investment momentum is strong, with gross fixed capital formation rising to ~26% of GDP (2025), largely concentrated in semiconductor manufacturing. The economy is expected to grow by 2.3% in the medium term (2026-30), factoring in uncertainties regarding global AI demand and the potential economic implications of escalating cross-strait tensions.

The strength of the semiconductor sector continues to support favourable labour market conditions, characterised by low unemployment, high labour force participation, and strong demand for skilled technical labour. However, wage inequality across sectors remains pronounced, reflecting persistent productivity differentials. Additionally, exposure to climate-related risks requires ongoing monitoring.

Fiscal strength

Taiwan's well-positioned fiscal profile is characterised by low and declining debt levels, strong affordability, and limited reliance on external borrowing. Over the past two decades, the fiscal position has improved materially following gains from its technology-driven growth model. Strong corporate profitability, particularly in the semiconductor sector, has translated into higher corporate tax revenues and robust export-related receipts. On the expenditure side, prudent fiscal management has contained spending, with relatively moderate social welfare outlays compared with many advanced economies.

Taiwan recorded a deficit of -0.3% in 2025 and is expected to maintain moderate fiscal surplus over the medium term (averaging 0.2% over 2026-30), supported by continued economic expansion and disciplined expenditure management. Public debt is projected to decline from ~23.4% of GDP in 2025 to ~9.8% by 2030, supported by strong debt sustainability metrics and a favourable growth-interest rate differential.

Despite strong fiscal performance, rising defence spending amid elevated geopolitical tensions, and rising demographic burden could exert pressure on the fiscal balance and will remain important factors to monitor. Additionally, Taiwan faces contingent fiscal risks from few underperforming public sector enterprises, notably Taiwan Power Company, CPC Corporation, and Taiwan Railway Corporation.

External position & linkages

Taiwan's external profile remains a key credit anchor, supported by a large and persistent savings–investment surplus. This position is driven by elevated corporate savings, particularly within the technology sector, and a highly competitive export model. Led by semiconductors, electronics exports continue to generate sizable and sustained trade surplus (~30% of GDP in 2025).

Taiwan also benefits from stable primary income inflows, reflecting returns on its substantial overseas asset holdings. This has led to current account surplus $\sim 14.2\%$ of GDP during 2021–25, with the net international investment position stood at 194.2% of GDP in 2025, positioning Taiwan among the largest net external creditor economies.

External liquidity metrics are robust. Foreign exchange reserves provide coverage of around 11 months of imports, offering a substantial buffer against external shocks. Additionally, external debt remains relatively low at $\sim 27.4\%$ of GDP over 2020–25, supporting external sustainability.

Taiwan's trade linkages with Mainland China are significant, given deep integration in regional supply chains. While this exposes the external sector to geopolitical and cross-strait risks, it is partly mitigated by Taiwan's diversified export base and its critical role in the global technology ecosystem.

Monetary & financial stability

Taiwan's monetary profile is underpinned by a credible policy framework and a well-developed financial system. The economy operates under a managed floating exchange rate regime, with the New Taiwan dollar benefiting from reserve currency status.

Inflation is well anchored, with the 2025 average of 1.7% aligning with the central bank's implicit 2% target. However, Taiwan's heavy reliance on imported energy exposes the economy to global energy price volatility and potential supply disruptions. This vulnerability could be intensified by the energy-intensive nature of semiconductor manufacturing, which requires stable and reliable power supply.

Taiwan's financial system is stable and well-capitalised, characterised by a low non-performing loan ratio of 0.2% in 2025 and strong bank balance sheets. However, private debt is high, particularly in the household sector. Furthermore, loan concentration in the real estate sector is elevated; sustained house price appreciation has led to a high house price-to-income ratio, which requires monitoring. Domestic capital markets are deep and well-capitalised, contributing to financial stability. Additionally, authorities utilise the Taiwan National Stabilization Fund to mitigate market volatility.

Institutions & quality of governance

Overall, WGI parameters are well placed, though risks posed by a fragmented legislature and on-going tensions with China remain a credit risk.

The political landscape became more fragmented after the 2024 elections. While the presidency remains with the Democratic Progressive Party, the legislature is divided, with no single party holding a majority. A fragmented legislature and opposition from the Kuomintang have already slowed down policy coordination and delayed legislative processes, including the

budget. Increased political fragmentation could weigh on structural reforms related to housing affordability and wage growth.

Also, perceptions of corruption are higher than in advanced peers, representing a modest constraint within an otherwise robust institutional framework.

Geopolitical tensions with China remain Taiwan's primary credit risk. Any military escalation across the Taiwan Strait would carry severe economic implications, both domestically and globally. Given Taiwan's dominance in global semiconductor supply chains and the Strait being a critical shipping corridor, any cross-strait escalation would disrupt global trade, supply chains, and shipping costs. That said, the likelihood of such an extreme scenario remains low, given the significant economic costs involved and the strategic interests of key global stakeholders, including the US. Nonetheless, geopolitical developments remain a key monitorable.

Taiwan - Select indicators										
	Unit	2019	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic indicators										
Nominal GDP	USD billion	614	677	777	766	757	797	884	971	1,018
GDP per capita (constant-PPP)	USD	58,057	60,149	64,702	66,754	67,054	70,358	73,007	74,613	76,560
Real GDP growth	%	3.1	3.4	6.7	2.7	1.1	4.8	8.6	2.1	2.5
GFCF/GDP	%	23.8	24.1	26.2	28.1	25.7	25.8	25.8	-	-
Gross national savings/GDP	%	35.6	40.2	43.7	42.9	40.2	43.0	39.0	-	-
Exports (G&S)/GDP	%	62.4	50.9	58.8	63.4	57.8	59.5	73.1	-	-
Working age (15-64) population (% share in total)	%	72.0	71.4	70.8	70.3	69.6	68.8	68.1	67.4	67.0
Old age (65+) population (% share in total)	%	15.3	16.1	16.9	17.6	18.4	19.2	20.0	20.9	21.7
Fiscal indicators – general government										
Fiscal balance/GDP	%	-1.8	-2.9	-2.1	-1.7	-2.5	-1.5	-0.3	-0.2	0.0
Revenue/GDP	%	15.5	15.2	15.3	16.2	16.5	16.4	16.7	17.0	17.3
Expenditure/GDP	%	17.2	18.1	17.3	17.9	19.0	17.8	17.0	17.1	17.3
GG gross debt/GDP	%	32.6	32.0	30.1	29.5	29.0	26.3	23.4	20.9	18.2
Interest/revenue	%	3.6	3.3	2.8	2.4	2.4	2.9	2.8	2.7	2.7
External indicators										
Current account balance/GDP	%	10.7	14.4	15.0	13.3	14.0	14.1	13.8	13.1	13.8
FDI, net inflows/GDP	%	1.3	0.9	0.7	1.5	0.9	1.4	1.2	-	-
Outstanding FII liabilities/GDP	%	81.1	100.4	107.5	69.6	93.9	123.0	-	-	-
NIIP/GDP	%	224.3	207.0	182.8	218.1	225.7	194.2	-	-	-
Foreign exchange reserves	USD billion	478.1	529.9	548.4	554.9	570.6	576.7	602.6	-	-
Import cover	Months	15.0	18.5	14.4	13.7	15.6	14.6	11.2	-	-
External debt/GDP	%	30.1	28.1	27.5	26.4	27.3	27.4	-	-	-
Monetary and financial indicators										
CPI inflation	%	0.6	-0.2	2.0	2.9	2.5	2.2	1.7	1.6	1.5
Exchange rate (average)	LC per USD	30.9	29.4	27.9	29.8	31.1	32.1	31.2	-	-
Non-performing loans/total gross loans	%	0.2	0.2	0.2	0.2	0.1	0.2	0.2	-	-
Private debt, loans and debt securities/GDP	%	155.9	157.4	158.9	161.9	164.3	164.9	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, Haver Analytics, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. The latest available data for 2025

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA/Stable	March 25, 2026

Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

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