

Country Insight Snapshot

Japan

July 2017



Written 14 July 2017

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OVERVIEW

OVERALL COUNTRY RISK RATING: DB2d

Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

G

Rating Outlook: Stable

CORE OUTLOOK

- + The production of nuclear energy has resumed.
- + Japan ranks first in the world in terms of local supplier quantity.
- There are no signs that the demographic problem is improving.
- Japan still lags behind most developed countries in terms of female labour participation.

KEY DEVELOPMENT

Japan signs a major free-trade agreement with the EU, which will primarily boost trade in cars and agricultural goods.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

G

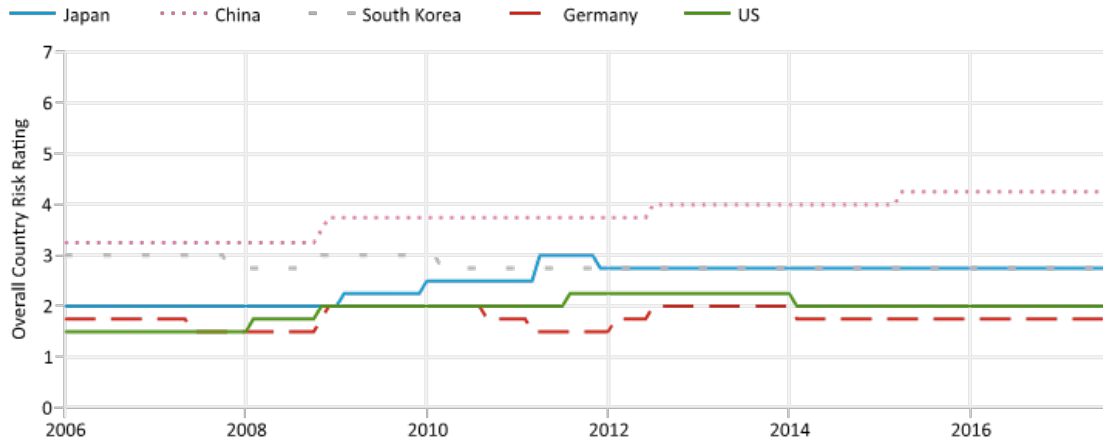
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

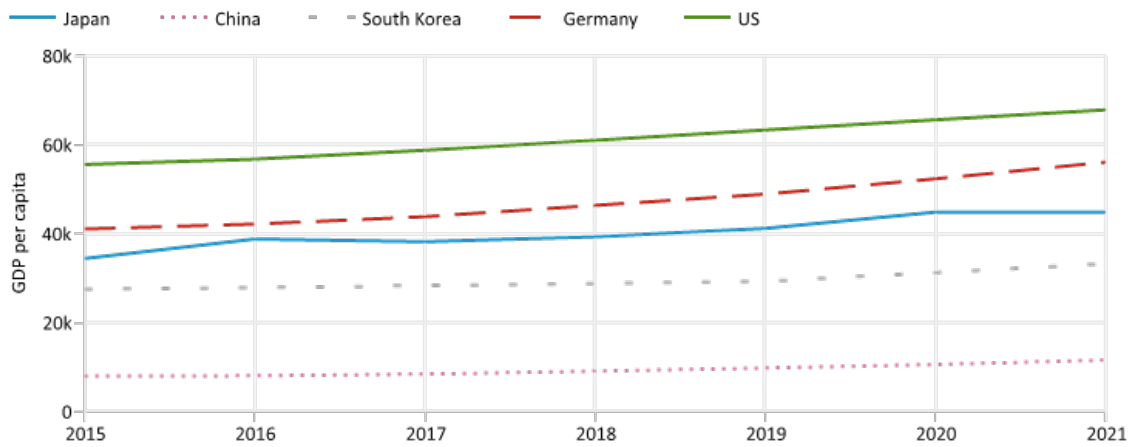
Rating History and Comparison



Source : Dun & Bradstreet

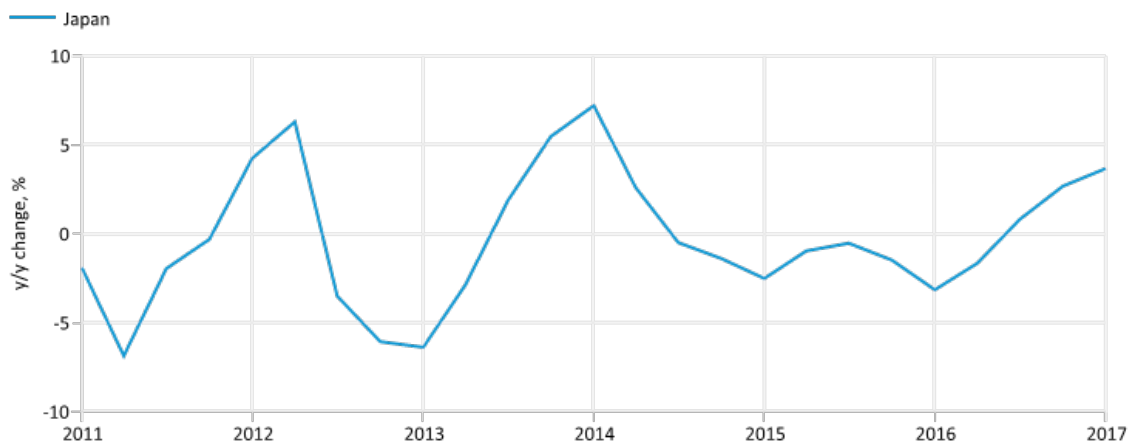
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	0.8	3.1	3.8	3.7	3.8	3.3	3.2	3.4
Govt balance, % GDP	-5.4	-3.5	-4.2	-4.0	-3.3	-2.8	-2.2	-2.0
Inflation, annual avge %	2.8	0.8	-0.1	0.6	1.0	1.5	1.5	1.7
Real GDP Growth, %	0.3	1.1	1.0	1.3	1.3	1.2	1.0	1.0
Unemployment, %	3.6	3.4	3.1	3.3	3.3	3.5	3.6	3.6

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

According to the latest data from Tokyo Shoko Research, there were 7.5% fewer company failures in June relative to a year ago, while over the first half of the year, bankruptcies declined only marginally. The liabilities left by failed companies increased sharply, but mainly due to the bankruptcy of airbag maker Takata. Company failures remain at the lowest level since 1990, but this masks a sharp increase in so-called zombie companies that stay alive by deferring loan, interest and tax payments, and tapping personal savings to prevent closure. Companies are currently grappling with acute manpower shortages and the need to increase wages, which is likely to push up the failure rate.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: SD

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

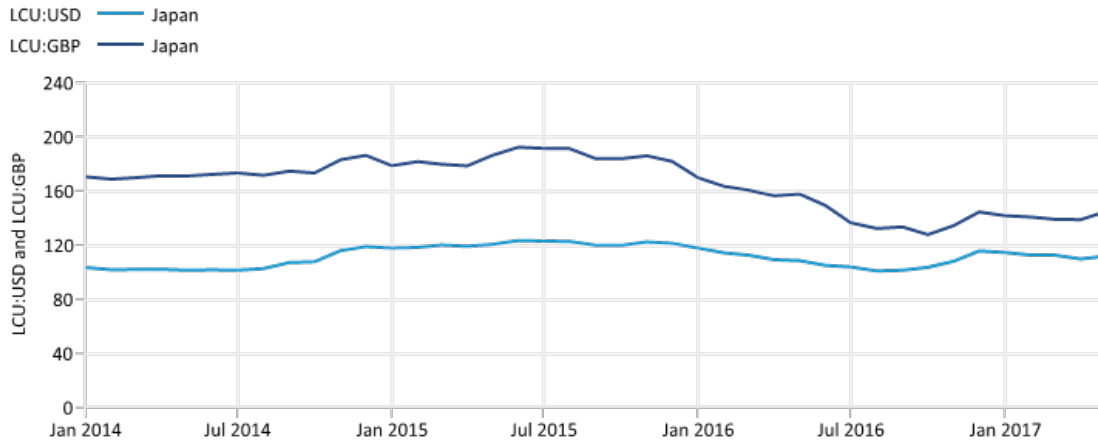
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



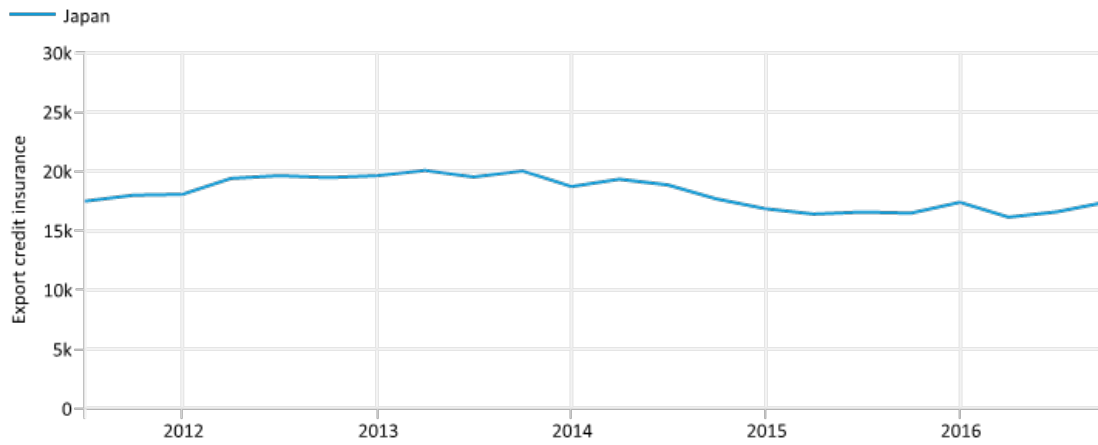
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Japanese yen

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Business Regulatory Environment

Japan signs major free-trade agreement

Japan and the European Union have signed a Free-Trade Agreement (FTA) that creates the world's largest free-trade area (representing nearly 30% of world GDP). The deal was concluded after four years of negotiations, and the two sides are reportedly aiming for the deal to be in force in 2019. The FTA covers - among other aspects - tariff cuts, cooperation on standards and regulations, and access to public procurement contracts. The main aspects of the deal are, for Japanese exporters, improved and cheaper access for Japanese car makers and car-parts makers to the world's largest market for cars (the EU); and for Japanese importers, improved and cheaper access to EU wine, meat and dairy products, which are currently subject to very high tariffs. In many cases the tariff changes will not be applied immediately but rather over the course of several years (there is a phasing-out period of up to fifteen years). In the case of duties on Japanese passenger cars (currently at 10%), these will be phased out within eight years. Japanese exports of wine, sake, whiskey and beef will be tariff-free immediately.

Not only is the deal expected to boost trade volumes between the two economic giants (about 10% of Japan's exports go to the EU) via the tariff cuts, but agreeing on compatible product standards will open up entirely new markets. In some cases, the FTA stipulates safeguards against a sudden very steep rise in imports (meaning that the zero tariff will only apply up to a certain volume of imports). In the case of European cheeses, the low-tariff import quota will gradually increase to 31,000 tons, while duties on EU wine will be cut immediately. One aspect yet to be covered in the FTA is the issue of conflict settlement: the EU has rejected the investor-state-dispute settlement mechanism as it fears it will lead to the deal being rejected by some member states. In addition to the immediate concrete benefits for companies in the EU and Japan, the agreement also represents a rebuttal on the world stage of the protectionist policies championed by the new US administration. We regard the deal as a major positive development for the Japanese economy, particularly since it helps open up the country's protected agricultural sector.

Political/Insecurity Risk

The prime minister's popularity plummets

The approval ratings of the Japanese prime minister, Shinzo Abe, have slipped to the lowest since he took office in 2012, casting doubts on whether the administration has sufficient political capital to continue implementing the policies known as Abenomics. A series of corruption and cronyism scandals, and the implementation of some unpopular laws, are considered to be the main reasons behind the slide in popularity. Nevertheless, we believe that given the lack of a convincing alternative to Abe, the current administration will remain in power in the near term at least.



COUNTRY PROFILE AND STATISTICS

Overview

Japan consists of four main islands (Hokkaido, Honshu, Shikoku and Kyushu) and a large number of smaller islands, and lies southeast of the Korean Peninsula. Much of the country is mountainous, with a small (but significant) forested element; usable land is intensively settled and developed. The climate varies from tropical in the south to cool temperate in the north.

Japan's GDP is still the third-largest in the world. Privileged by its security relationship with the US and Cold War importance, Japan grew rapidly after 1945. However, in the aftermath of the 1980s 'bubble economy', land and real estate prices slumped by 80%, unemployment rose, and there were deep recessions in 1998 and 2002.

Japan will be an involuntary pioneer in gauging the effects of an ageing society. Meanwhile, the even income distribution and universal sense of middle-class identity for which Japan was famous are disappearing, owing to reduced government redistribution of income between regions.

Key Facts

Key Fact	Detail
Head of state	Emperor AKIHITO
Capital	Tokyo
Timezone	GMT +09-00
Official language	Japanese
Population (millions)	127.0
GDP (USD billions)	4,935.9
GDP per capita (USD)	38,878
Life expectancy (years)	83.5
Literacy (% of adult pop.)	99.9
Surface area (sq km)	377,910

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016
Real GDP growth (%)	1.5	2.0	0.3	1.1	1.0
Nominal GDP in USDbn	6,202	5,158	4,853	4,379	4,936
Nominal GDP in local currency (bn)	494,957	503,176	513,698	529,954	536,820
GDP per Capita in USD	48,620	40,504	38,175	34,487	38,878
Population (year-end, m)	127.6	127.3	127.1	127.0	127.0
Exchange rate (yr avge, USD-LCU)	79.8	97.6	105.9	121.0	108.8
Current Account in USDbn	60.1	46.4	36.4	134.1	187.3
Current Account (% of GDP)	1.0	0.9	0.8	3.1	3.8
FX reserves (year-end, USDbn)	1,227.2	1,237.2	1,231.0	1,207.0	1,188.3
Import Cover (months)	15.0	15.8	16.1	16.6	16.4
Inflation (annual avge, %)	-0.1	0.3	2.8	0.8	-0.1
Govt Balance (% GDP)	-8.3	-7.6	-5.4	-3.5	-4.2

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	1.3	1.3	1.2	1.0	1.0
Nominal GDP in USDbn	4,823	4,943	5,159	5,594	5,594
Nominal GDP in local currency (bn)	540,148	553,652	567,493	587,355	587,355
GDP per Capita in USD	38,276	39,389	41,272	44,931	44,931
Population (year-end, m)	126.0	125.5	125.0	124.5	124.5
Exchange rate (yr avge, USD-LCU)	112.0	112.0	110.0	105.0	105.0
Current Account in USDbn	180.0	190.0	170.0	180.0	190.0
Current Account (% of GDP)	3.7	3.8	3.3	3.2	3.4
FX reserves (year-end, USDbn)	1,200.2	1,212.2	1,224.3	1,236.6	1,248.9
Import Cover (months)	16.9	17.3	17.9	18.1	18.3
Inflation (annual avge, %)	0.6	1.0	1.5	1.5	1.7
Govt Balance (% GDP)	-4.0	-3.3	-2.8	-2.2	-2.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Japan	China	S. Korea	Germany	US
Income per Capita (USD)	34,487	8,041	27,553	41,146	55,645
Country Population (m)	127.0	1,376.0	50.3	81.7	319.9
Internet users (% of population)	93.3	50.3	89.9	87.6	74.6
Real GDP Growth (% p.a., 2017 - 2026)	-0.5 - 1.2	3.5 - 6.5	1.5 - 3.0	1.8 - 3.0	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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Email: countryinsight@dnb.com

Telephone

UK: +44 (0)1628 492700

US: +1 800 234 3867

Rest of World

contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

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