



Decide with Confidence

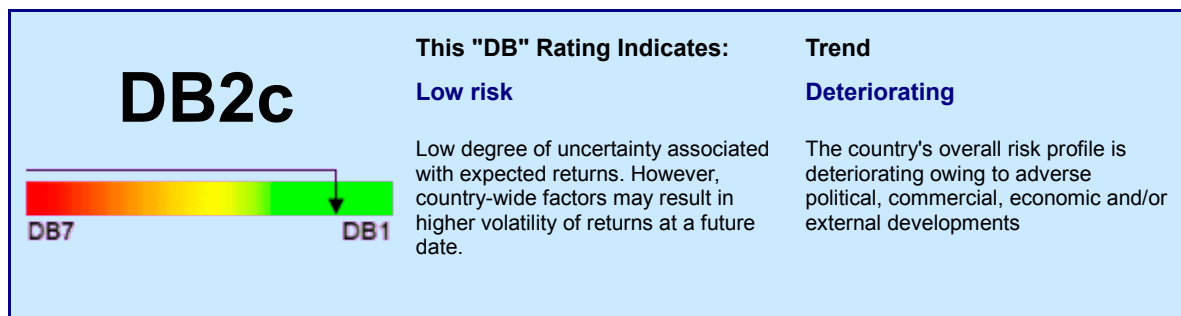
D&B Country RiskLine Report

JAPAN

Region : Asia Pacific

Edition : February 2011

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	126.6m
Surface area (sq km):	377,910
Capital:	Tokyo
Timezone:	GMT +09:00
Official language:	Japanese
Head of state:	Emperor AKIHITO
GDP (USD):	5.5trn
GDP per capita (USD):	43,385
Life expectancy (years):	82
Literacy (% of adult pop.):	99.9

Country 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 the second-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.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	SD
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	SD
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D&B'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
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-1 month
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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
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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.

Trade & Commercial Environment

Among companies with liabilities above JPY10m, the number of bankruptcies fell in 2010 for a second year running, to 13,321. We estimate that the probability of a firm going bankrupt in 2010 was at most 0.5%. But the total liabilities of bankrupt firms rose 3.3% from 2009, and in any case, the number has been artificially suppressed by officially-facilitated credit guarantees since the shock of 2009 saw thousands of small manufacturing suppliers starved of contracts and funds for working capital. One positive factor is that we no longer expect the yen to average below (stronger than) JPY80:USD in 2011, which would have created extremely difficult conditions for exporters. However, with supermarket sales already at a 22-year low in 2010, prospects for domestic demand are poor.

Export Credit Agencies

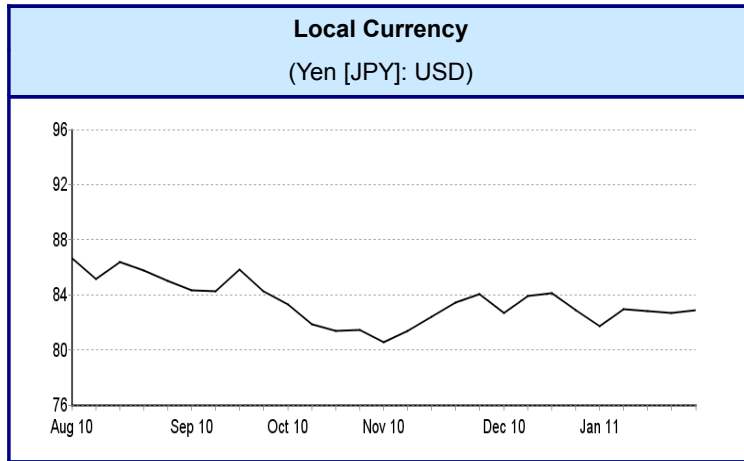
US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2008	2009	2010e	2011f	2012f
Real GDP growth, %	-1.1	-5.6	2.7	0.6	1.0
Inflation, annual ave, %	1.4	-1.4	-0.9	-0.5	-0.6
Govt balance, % GDP	-3.2	-10.3	-10.0	-9.8	-10.0
Unemployment, %	4.0	5.1	5.2	5.1	5.1
C/A balance, % GDP	3.2	2.8	3.5	4.0	3.6

Currency Information

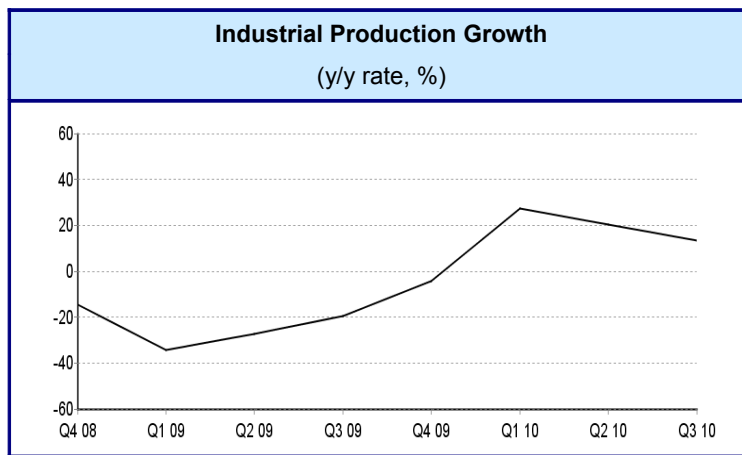
Exchange Rates	
(London, 24 Jan 11)	
EUR	112.289
GBP	132.182
USD	82.66



Local Currency
(Yen [JPY]: USD)

	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11
Week 1	86.660	84.345	83.285	80.550	82.655	81.695
Week 2	85.140	84.250	81.850	81.350	83.930	82.975
Week 3	86.350	85.855	81.350	82.370	84.135	82.820
Week 4	85.740	84.220	81.420	83.460	82.905	82.660
Week 5	84.980			84.040		82.900

Industrial Production Growth



Data Table

Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
-34.5	-27.42	-19.42	-4.28	27.44	20.23

Risk Factor

We are maintaining our 'deteriorating' outlook for Japan. In fiscal 2011/12 (April-March), the budget outlay is projected to reach JPY220.27trn (USD2.69trn, assuming an average JPY82:USD exchange rate). The financing gap will be more than half of this, with the Ministry of Financing anticipating JPY144.49trn in bond sales. The revenue base in 2011/12 will have been less than half of government spending for the third year running. Meanwhile, the revenue base is shrinking and spending obligations rising. In 2011/12, public pensions payments will exceed JPY50trn (over 10% of GDP) for the first time, as pensions, nursing and medical care obligations rise JPY1trn to JPY75trn. Baby-boomer retirement is due to accelerate in 2012. Market observers are thus concerned that Japan's public finances will hit a point in the 2010s in which bond yields and debt servicing costs rise and trigger massive fiscal retrenchment. The OECD projects that public debt will reach over 200% in 2011. However, Japanese institutions are the majority buyers of government debt by far, in part as Japanese buyers face no FX risks. In the short term, the incentives are to keep buying the bonds: Japan's banks had JPY151trn in excess deposits at end-November. Japan's medium-term public finances are still in an alarming state.

Prime Minister Naoto Kan reacted to the difficulty of passing the 2011/12 budget without a majority in the Upper House by undertaking a cabinet reshuffle in January: this put the finance minister of the former Liberal Democrat Party-led ruling coalition, Kaoru Yosano, in the position of economy and financial services minister. The inclusion of Yosano in Kan's Democratic Party of Japan-led government is a pragmatic step designed to build cross-party support for a rise in the consumption tax from 5%. Yosano, the author of a book published in January 2010 entitled *How the Democratic Party of Japan will Destroy the Economy*, is known as a fiscal 'hawk', in favour of rebalancing finances with a series of consumption tax rises to put Japan closer to other OECD economies with their much higher consumption taxes. However, Yosano's former party and other opposition parties are unlikely to co-operate, as doing so would deprive them of an opportunity to bring down Kan's government. The government can still force through legislation with its majority in the Lower House of the Diet, but Yosano's appointment will not in itself put Japan on the path towards achieving consolidation of its public finances.

We are bearish on the outlook in 2011. Labour market news remains positive, with the unemployment rate static at 5.1% in November, but the job market is a lagging indicator. The outlook for seven of Japan's nine regions fell in January, in the Bank of Japan's quarterly survey, for the first time since 2009; machinery orders in November fell 3% from October, and consumer confidence fell for a sixth month running.

Glossary & Definitions

DEFINITIONS

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Recommended Terms:

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Usual Terms:

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

Local Delays:

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F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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