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# Country Insight Snapshot

## Japan

April 2024

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Written 29 March 2024

## OVERALL COUNTRY/REGION RISK INDICATOR

### Current Risk Indicator:



- Last change: October 2021 (DB2d → DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

**SLIGHT RISK** Enough uncertainty over expected returns to warrant close monitoring of country/region risk. Customers should actively manage their risk exposure.

### WorldWatch Headline

The Bank of Japan's March rate hike should help keep a lid on inflation, though higher borrowing costs will impact corporate liquidity and investment; economic risks remain evenly balanced.

### Recent Changes

- In March, the Bank of Japan responded to inflation concerns by hiking rates for the first time in 17 years.
- A number of changes to labour and employment laws will come into effect on 1 April 2024, including making working conditions more explicit and putting limits on the amount of overtime that can be worked.
- Much of Japan saw record high temperatures in February, including in northern areas, with forecasters suggesting that the country will see its hottest year ever in 2024.

### Events to Watch

- Higher interest rates will mean increased borrowing costs for private firms and may lower the ability of the government to raise capital; however, higher rates should mean better bank profits.
- The likelihood of record temperatures in 2024 could see agricultural prices increase, especially for rice, soybeans and certain speciality products such as green beans.
- Data protection is about to be strengthened after the cabinet approved a bill in late February 2024 which means that only certain individuals will be able to access classified economic information.

### Call to Action

- Note that the spending reforms in the fiscal 2024-25 budget showed that the government was preparing for more volatility in interest rates, although our view is that a series of rate rises looks unlikely at present as wage growth is set to peak this year.
- Become familiar with the imminent changes to labour and employment laws, and the new invoicing system; however, note the system has been criticised for (among other things) increasing companies' workload and creating issues around dealing with suppliers.
- Watch out for further political jockeying in the run-up to the Liberal Democratic Party (LDP) leadership vote, which may take place in 2024; Prime Minister Fumio Kishida's faction within the party is only the fourth largest, so his position is vulnerable.

## COUNTRY INSIGHT HEADLINES

### CREDIT ENVIRONMENT

#### Current Risk Indicator:



- Last change: February 2022 (DB3d → DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

**SLIGHT RISK** Enough uncertainty over expected returns to warrant close monitoring of country/region risk. Customers should actively manage their risk exposure.

#### Risks and Opportunities

- Economic risks remains balanced: inflation appears to have peaked and higher company profits from ongoing depreciation of the yen (which remains weakened, despite the March rate rise) will help support investment activity in 2024.
- Various external downside risks include increased wage costs for Japanese firms, fragile economic activity in the Chinese Mainland, elevated geopolitical tensions, cyberattacks and the Middle East crisis (which could push up oil prices).
- Higher interest rates will mean increased borrowing costs for private firms and may lower the ability of the government to raise capital; however, higher rates should mean better bank profits.
- The hike in rates will not have any significant impact on Japan's debt stock in the foreseeable future, in part because the debt profile currently has an average maturity of around nine years.
- Although Japan is unlikely to see much short-term impact from the US's decision to suspend LNG export permits, there could be an adverse impact if the policy remains in place over the longer term, especially through a possible increase in prices.

#### Trade Terms

Description	Terms
Minimum Terms	OA
Recommended Terms	OA
Usual Terms	0-90 days

**Note:** OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance. **Source:** Dun & Bradstreet

#### Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Medium- or long- term cover only
Euler Hermes AG	Medium- or long- term cover available, limited short-term cover

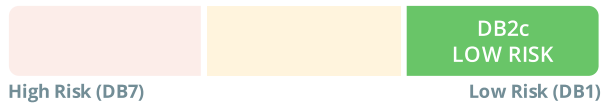
**Source:** Export Credit Agencies

#### Call to Action

- Expect a mild decline in **economy-wide payments performance** in 2024 on the back of a forecast slowdown in real GDP growth, with a small rebound projected for 2025.
- Consider revising payment terms when trading with firms operating in services – especially tourism, which continues to enjoy buoyant growth.
- Note that the spending reforms in the fiscal 2024-25 budget showed that the government was preparing for more volatility in interest rates, although our view is that a series of rate rises looks unlikely at present as wage growth is set to peak this year.
- Track any opportunities created by the government's efforts to accelerate digitisation across the economy; note that higher salaries may have to be offered in order to secure workers with appropriate IT skills.
- Note that climate change, a widening income gap and rising poverty levels are among the medium- to long-term challenges facing the Japanese government and wider society.

## SUPPLY ENVIRONMENT

### Current Risk Indicator:



- Last change: April 2022 (DB2d → DB2c)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

**LOW RISK** Low degree of uncertainty associated with expected returns. However, country/region-wide factors may result in higher volatility of returns at a future date.

### Risks and Opportunities

- The likelihood of record temperatures in 2024 could see agricultural prices increase, especially for rice, soybeans and certain speciality products such as green beans.
- In December 2023, Japan lifted its operational ban on the Kashiwazaki-Kariwa nuclear plant, the largest in the world; this will increase nuclear power output and cut Japan's dependency on imported LNG. (which accounts for 90% of its LNG needs).
- Ports and other infrastructure are becoming increasingly vulnerable to cyberattacks, given their critical role in the day-to-day functioning of Japan's economy; IT giant Fujitsu was hacked in mid-March 2024.
- The government is introducing a security clearance system, which will give only a limited number of individuals access to classified official data, a move designed to stop the leakage of such information overseas.

### Call to Action

- Factor in the possible reopening of additional nuclear power plants by Japan if importing LNG becomes more difficult, especially given the January 2024 suspension of LNG export permits by the US.
- Have contingency plans and backup facilities in place for catastrophic events, especially natural disasters, including flooding, earthquakes and extremely hot weather.
- Consider revising payment terms on any Japanese counterparts operating in the agricultural sector, given the likelihood of crops being damaged this year by extreme temperatures.
- Become familiar with the imminent changes to labour and employment laws, and the new invoicing system; however, note that the system has been criticised for (among other things) increasing companies' workload and creating issues around dealing with suppliers.
- Ensure that you regularly assess the digital capabilities of potential business partners in Japan, especially their defences against cyberattacks.

## MARKET ENVIRONMENT

### Current Risk Indicator:



- Last change: August 2023 (DB3c → DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

**SLIGHT RISK** Enough uncertainty over expected returns to warrant close monitoring of country/region risk. Customers should actively manage their risk exposure.

### Risks and Opportunities

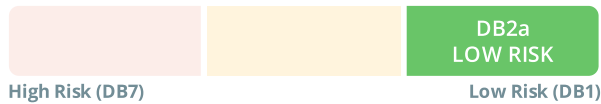
- Sectors that will benefit from the EU-Japan data deal are financial services, transport, machinery and e-commerce, while an agreement between Japan and Mercosur would boost Japanese exports of cars, machinery and electrical equipment.
- Data protection is about to be strengthened after the cabinet approved a bill in late February 2024 which means that only certain individuals will be able to access classified economic information.
- Japan has an ongoing significant exposure to the Chinese Mainland in the semiconductor space, especially in electric vehicles (EVs); at the same time, Chinese firms continue to buy assets or set up subsidiaries in Japan's domestic semiconductor supply chain.
- Japan is highly dependent on importation of food, oil and gas, and raw materials for industrial production; imports grew 0.5% y/y in February 2024, the first monthly increase since March 2023.
- A weaker yen is boosting exporters' corporate profits, a situation likely to continue through 2024 and into 2025 as the central bank holds off on any further rate rises.

### Call to Action

- Track the passage of proposed legislation on access to classified economic information; in order to be granted access, individuals will have to go through a rigorous screening process, including an assessment of their personal history.
- Closely monitor developments in Japan's semiconductor industry, as the sector continues to be the focus of attention because of the commercial sensitivity around its technology.
- Note that a dispute over water discharge from the damaged Fukushima nuclear power plant could drag on for a long time; the release of water from the plant could take up to 30 years to complete.
- Factor into your commercial calculations the likelihood that Japanese interest rates are unlikely to increase any further for the foreseeable future.
- Continue to carefully check the often-changing framework of [Japan's sanctions](#) applied against Russia to make sure that you are compliant.

## POLITICAL ENVIRONMENT

### Current Risk Indicator:



- Last change: N/A → DB2a
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

**LOW RISK** Low degree of uncertainty associated with expected returns. However, country/region-wide factors may result in higher volatility of returns at a future date.

### Risks and Opportunities

- Changes to the defence framework will give Japan more room to act in the military sphere, especially given growing concerns over North Korea's nuclear programme and the Chinese Mainland's approach to Taiwan Region.
- A Japan-NATO cooperation agreement signed in mid-2023 will be a cause for concern in Moscow and Beijing, in particular its recognition that security in Europe and Asia Pacific are closely linked.
- The dismissal of four government ministers in December and ongoing fallout from the fundraising scandal will serve to further undermine confidence in a government whose opinion poll ratings are plunging.
- Political intervention in the judicial process is not an issue; contractual rights are respected, but slow procedures usually lead to out-of-court settlements.
- Current barriers to entry in Japan include regulations around foreign ownership of companies related to national security and public safety.

### Call to Action

- Factor in continued poor relations between Japan and Russia; in this context, Moscow has accused Tokyo of getting too close to Washington.
- Expect a consolidation of Japan's support for Taiwan Region and the US's **security alliance** system in Asia Pacific as Japan looks to spend more on military modernisation.
- Watch out for further political jockeying in the run-up to the LDP's leadership vote, which may take place in 2024; Prime Minister Kishida's faction within the party is only the fourth largest, so his position is vulnerable.
- Be sure to use local legal and consultancy services if investing in Japan; expect any legal action to last longer than in most OECD countries.
- Track new investor protections arising from bilateral and multilateral agreements; note that Japan prioritises security for its large overseas investment base.

## STATISTICAL REFERENCE

### KEY INDICATORS AND FORECASTS

#### Historical Data/Forecasts

Metric	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f	2028f
Real GDP growth (%)	-0.4	-4.1	2.6	1	1.9	1.2	1.3	1.4	1.5	1.6
Nominal GDP in USDbn	5,117	5,056	5,034	4,348	4,280	4,401	4,492	4,792	5,051	5,336
Nominal GDP in local currency	557.9tn	539.8tn	552.6tn	571.7tn	601.3tn	620.6tn	642.3tn	666.1tn	692.0tn	720.4tn
GDP per Capita in USD	40,679	40,369	40,396	35,082	34,716	35,890	36,829	39,510	41,885	44,503
Population (year-end, m)	125.8	125.2	124.6	124	123.3	122.6	122	121.3	120.6	119.9
Exchange rate (yr avge, USD-LCU)	109	106.8	109.8	131.5	140.5	141	143	139	137	135
Current Account in USDbn	176.3	149.9	196.4	84.5	144.8	165	185	200	220	240
Current Account (% of GDP)	3.4	3	3.9	1.9	3.4	3.7	4.1	4.2	4.4	4.5
FX reserves (year-end, USDbn)	1,285	1,344.3	1,356.2	1,178.3	1,238.5	1,260	1,290	1,305	1,326.1	1,335
Import Cover (months)	16.9	20.1	17.3	13	14.8	15.5	15.9	16	16	16.4
Inflation (annual avge, %)	0.5	0	-0.2	2.5	3.3	2	2.2	2.3	2.4	2.5
Govt Balance (% GDP)	-3	-9.1	-6.2	-6.9	-5.6	-4	-2	-0.5	0.5	1

Source: Haver Analytics/Dun & Bradstreet

#### Comparative Market Indicators

Indicator	Japan	Mainland China	S. Korea	Germany	US
Income per Capita (USD)	35,890	13,547	33,228	56,254	83,673
Country Population (m)	122.6	1,425.2	51.7	83.3	341.8
Internet users (% of population)	90.2	70.1	96.5	89.8	90.9

Source: Various sources/Dun & Bradstreet

#### Transfer Situation

Type	Delay
Potential FX/Bank Delays	0-1 week
Potential Local Delays	0-1 week

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

#### Trade Payment Restrictions

Trade Payment Restriction	Japan	Asia Pacific	World
Restrictions on non-Residents' Accounts	0	0.18	0.22
Restrictions on Payments for Imports	0	1.18	0.73
Restrictions on Payments for Invisible and other Current Transfers	3	1.55	1.08

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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