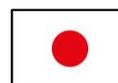


## Consolidating growth

### General Information



<b>GDP</b>	USD 4383bn (World ranking 3, World Bank 2015)
<b>Population</b>	127mn (World ranking 11, World Bank 2015)
<b>Form of state</b>	Parliamentary government with a Constitutional Monarchy
<b>Head of government</b>	Shinzo ABE
<b>Next elections</b>	December 2018, general elections



### Strengths

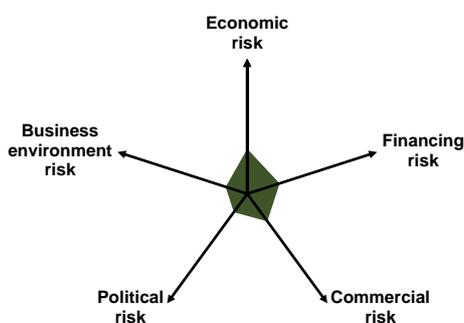
- Current account surplus
- Low public external debt
- Good geographical location
- Innovative industries and high quality products
- Large financial surplus of nonfinancial corporations

### Weaknesses

- Vulnerable to natural disaster
- Ageing population
- Huge public debt and large public deficit
- Highly dependent on energy imports

### Country Rating

**A1**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports	Rank
United States	20%	1	26%
China	17%	2	11%
Korea, Republic of	7%	3	6%
Taiwan	6%	4	4%
Hong Kong	6%	5	4%

By product (% of total)

Exports	Rank	Imports	Rank
Road vehicles	21%	1	10%
Electrical machinery, apparatus	12%	2	9%
Specialized machinery	6%	3	8%
Other industrial machinery and parts	6%	4	5%
Iron and steel	5%	5	5%

Source: UNCTAD

## Economic Overview

### Growth above potential, still low inflation

Economic activity became more stable in 2016, as private consumption showed some signs of improvement after two years of contraction and exports gained momentum in the second half.

Supported by a temporary fiscal stimulus, improved global demand conditions, accommodative financial conditions and high corporate profit margins, economic growth is expected to accelerate to 1.3% this year. Thus, it will remain above the potential growth rate (0.7%, Bank of Japan estimate).

The tight labor market - the unemployment rate has fallen to its lowest level since 1994 - should eventually exert upward pressure on wages and bring about higher inflation. To date, however, the wage trend remains soft and consumer price inflation has been hovering around the zero line in the early months of 2017. The momentum towards achieving the price stability goal of 2% is not yet firm. Thus, we do not expect the BoJ to forgo its accommodative monetary policy for the time being.

### External position remains robust

The goods and services trade balance returned to surplus last year, following deficits in the preceding five years. The reduction in the energy import bill was a key factor. Given rising commodity prices after last year's lows and increasing import volumes, the current account surplus is expected to stabilize around 3.5% GDP. Japan will maintain a solid net foreign creditor position. On the currency front, downward pressure will prevail due to a diverging monetary policy with US central bank.

### Improving the fiscal situation remains a core requirement for economic policy

Japan stands out for the high level of government debt. Gross debt amounted to 238% of GDP in 2015 and looks set to increase further in the near term, as the fiscal policy stance will remain expansionary amid the supplementary budgets approved over the past year. For the time being, the impact of high debt is mitigated by low-interest rates, helped by large-scale government bond purchases by the BoJ and a home bias of Japanese investors.

As a result, the share of government debt held by foreign investors is still relatively low. Besides limiting government spending and a steady increase in revenues, finding a solution to Japan's government debt problem requires higher nominal output growth. Efforts by the Abe administration to increase the female labor force participation – to counter the aging population problem – have yielded positive results. Other reforms have yet to translate into stronger domestic growth.

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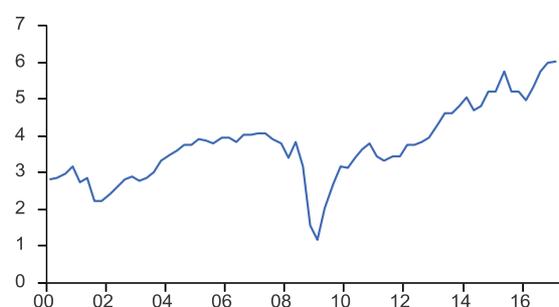
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### Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	1.1	1.0	1.3	0.9
Inflation (% , year average)	0.8	-0.1	0.5	0.9
Fiscal balance (% of GDP)	-3.5	-4.2	-4.0	-3.6
Public debt (% of GDP)	237.8	239.2	240.0	240.2
Current account (% of GDP)	3.1	3.7	3.6	3.5
External debt (% of GDP)	67.2	69.2	73.2	77.0

Sources: IMF, IHS, Euler Hermes

### Nonfinancial corporations: Current profits as % of sales



Sources: national statistics, Euler Hermes