

Short term improvement, longer term concerns

General Information



GDP	USD4919.6 bn (World ranking 3, World Bank 2013)
Population	127.3 mn (World ranking 10, World Bank 2013)
Form of state	Parliamentary government with a Constitutional Monarchy
Head of government	Shinzo ABE
Next elections	2018, legislative (House of Councillors)



Strengths

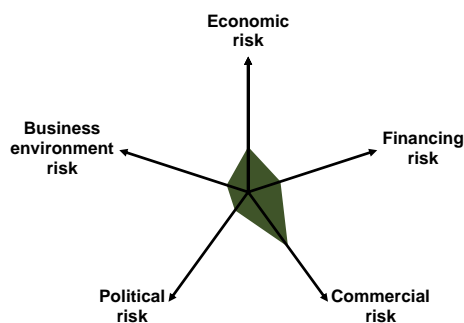
- Current account surplus
- Small public external debt
- Good geographical location
- Innovative industries and high quality products
- High savings rate

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 Country (% of total)

Exports	Rank	Imports
United States	19% 1	22% China
China	18% 2	9% United States
South Korea	8% 3	6% Australia
Taipei	6% 4	6% Saudi Arabia
Hong Kong	6% 5	5% United Arab Emirates

By product (% of total)

Exports	Rank	Imports
Vehicles	21% 1	32% Mineral Fuels
Machinery	19% 2	12% Electrical Equipment
Electrical Equipment	15% 3	8% Machinery
Optical, medical apparatus	6% 4	4% Ores
Iron and Steel	5% 5	3% Optical, medical apparatus

Source: ITC, (2014)



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Insolvency risk to be limited, economic growth to gather pace

Insolvency risk will likely remain contained in 2015 as bankruptcies continue to decrease (-2% in 2015 after -10% in 2014). Financing conditions are supportive with ultra-loose monetary policy. Demand is set to improve after a weak economic performance in 2014 (-0.1%) due to the disruptive sales tax rise in Q1 2014. GDP growth should recover in 2015 (+1%) and 2016 (+1.5%). This will be supported by a new round of fiscal stimulus (YEN3.1 tn extra-budget package), very loose monetary policy and lower oil prices in 2015 (-35% y/y compared to 2014). The latter will boost GDP growth by +0.2 pps. Private consumption is set to pick up gradually supported by rising real incomes and improving confidence following the postponement of the planned consumption tax hike (from October 2015 to April 2017). Companies are set to increase their investment, benefitting from a rise in new orders domestically and externally. The external situation will strengthen with current account expected at 0.8% GDP 2015 (up slightly from 0.5% in 2014) reflecting improving global demand and lower oil prices.

The launch of Abenomics' third arrow (structural reform) will be vital to strengthen growth potential

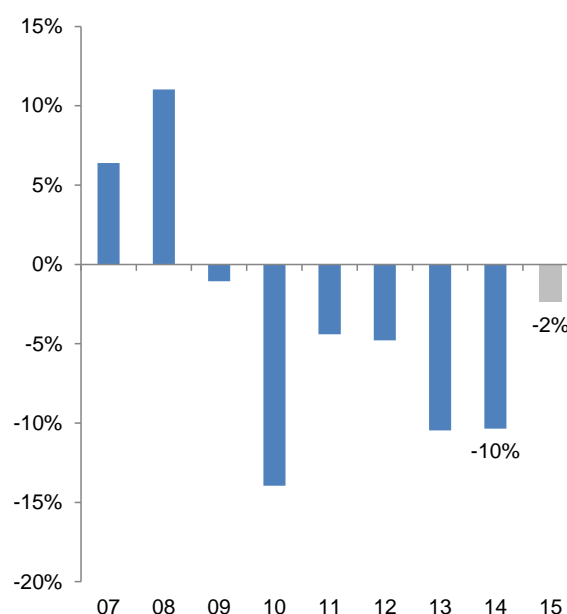
Japanese government decided to slow the pace of "fiscal consolidation" postponing the sales tax rise and adding further stimulus in the economy. Accordingly, public debt is set to tick up to 246% in 2015 (from 245% in 2014). Although the size is critical (the highest among advanced economies), the debt ownership structure (foreign holding of JGBs is about 7 percent) insulates the Japanese economy from a financial shock in the short-run. However a clear plan of consolidation will be needed to ensure the medium-term outlook. Monetary policy is extremely loose aiming to break long standing deflationary pressures and support GDP growth. With the current measures, we expect inflation to increase in 2015 (0.8%) and 2016 (+1.2%) but remain below the government target (2%) especially due to weak commodity prices. Against this background, it is likely that the government will ease further its monetary policy (by H2 2015) increasing further the reliance of the Japanese economy to monetary stimulus. Decreasing dependence on stimulus will be crucial to put growth on a sustainable pace. This will probably go through structural reforms (Abenomics' third arrow) which will probably start by H2 2015. These include measures to ease corporate tax, allow further flexibility for the labor markets and develop more efficient energy policy.

Key economic forecasts

Japan	share	2014	2015	2016
GDP	100%	-0.1	1.0	1.5
Consumer Spending	59%	-1.2	0.2	0.9
Public Spending	23%	0.9	1.6	0.6
Investment	16%	2.2	0.6	2.9
Stocks	* 0%	-0.2	-0.4	-0.1
Exports	16%	8.2	6.9	7.6
Imports	14%	7.2	2.6	6.0
Net exports	* 2%	0.3	0.8	0.4
Current account	**	3	4	5
<i>Current account (% of GDP)</i>		0.5	0.8	1.0
General government balance	**	-35	-36	-31
<i>General government balance (% of GDP)</i>		-7.1	-7.3	-6.1
Public debt (% of GDP)		245.1	245.8	246.2
Nominal GDP	**	488	498	512

Sources: National sources, IHS, Euler Hermes

Insolvencies growth



Sources: National sources, IHS, Euler Hermes

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