

Japan: Brief Profile

September 2022

Domestic Economy

- ❖ Real GDP of Japan grew by 1.7% in 2021 from contraction of (-) 4.5% in the previous year, reflecting a bounce-back from much weaker economic conditions in 2020.
- ❖ In absolute terms, GDP was US\$ 4.9 trn in 2021, with a per capita GDP (at PPP) of US\$ 43,312.
- ❖ Japan experienced a deflation on average of (-) 0.2% in 2021 from 0.0% in 2020, as price pressures remain weak.

- ❖ Services sector dominated the economy, accounting for 70% of the nation's GDP in 2020. It was followed by industry (28.9%). The share of agriculture was marginal at 1.1% of GDP.
- ❖ Japan is among world's largest and most technologically advanced producers of motor vehicles, electronic equipment, machine tools, steel and nonferrous metals, ships, chemicals, textiles and processed foods.

BASIC FACTS

Land area: 364,485 sq km

Population: 124.46 mn (2021; EIU)

Language: Japanese

Currency: Yen

GDP: US\$ 4.9 trn (2021; EIU)

Exports: US\$ 749.2 bn (2021; EIU)

Imports: US\$ 733.2 bn (2021; EIU)

Sovereign Rating: A+ (S&P's)

Trade and External Sector

- ❖ Japan's exports increased to US\$ 749.2 bn in 2021 from US\$ 630.5 bn in the previous year.
- ❖ In 2021, major exports of Japan include machinery and mechanical appliances (19.5% of total exports of Japan), vehicles other than railway and tramway (18.2%), electrical and electronic equipment (15.7%), optical, photo and technical apparatus (5.7%), iron and steel (4.6%) and plastics and articles (4%),
- ❖ China was the major destination for Japan's exports, accounting for 21.6% of total exports in 2021, followed by USA (18%), Taiwan (7.2%), South Korea (6.9%), Hong Kong (4.7%) and Thailand (4.4%).

- ❖ Japan's imports also increased to US\$ 733.2 bn in 2021 from US\$ 603.9 bn in 2020.
- ❖ The principal imports of Japan include mineral fuels and oils (20% of total imports) during 2021, electrical and electronic equipment (14.7%), machinery and instruments (9.2%), pharmaceutical products (4.8%), ores, slag and ash (4.5%) and optical, photo and technical apparatus (3.7%).
- ❖ China was the primary source of Japan's imports, accounting for 24% of Japan's total imports in 2021, followed by USA (10.7%), Australia (6.8%), Taiwan (4.3%), South Korea (4.2%), Saudi Arabia (3.6%), and UAE (3.5%).
- ❖ As a result, Japan's trade surplus of US\$ 26.6 bn in 2020 decreased to US\$ 15.9 bn in 2021.
- ❖ The current account surplus decreased to US\$ 142.6 bn (2.9%) in 2021 from US\$ 147.0 bn (3%) in 2020.

Foreign Direct Investment, Foreign Exchange Reserve and Exchange Rate

- ❖ According to UNCTAD *World Investment Report 2022*, FDI inflows into Japan increased to US\$ 24.7 bn in 2021, up from US\$ 10.7 bn in the previous year.
- ❖ According to the same source, FDI outflows from Japan also increased to US\$ 146.8 bn in 2021, up from US\$ 95.7 bn in 2020.
- ❖ Foreign reserves increased from US\$ 1391 billion in 2020 to US\$ 1406 billion in 2021. Reserves reflected an import cover of 23 months.
- ❖ The local currency is Yen. Average exchange rate in 2021 depreciated to ¥ 109.8: US\$ 1 from ¥ 106.7: US\$ 1 in 2020.

Country Ratings

- ❖ *Standard & Poor's Sovereign Ratings* has rated Japan as A+ (strong capacity to meet financial commitments) with a 'stable' outlook.
- ❖ *Dun and Bradstreet's (DB) Country Risk Indicator*¹, August 2022 rates Japan as DB3b (Slight risk: Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures) with a 'stable outlook'.
- ❖ *Moody's Investor Service*², as on July 29, 2022, has rated Japan as A1 with a stable outlook. India was rated as Baa3 with a stable outlook.
- ❖ According to *Organization for Economic Co-operation and Development (OECD)*³ country risk classification, Japan being a high-income OECD country is not reviewed or classified.

Macroeconomic Outlook

- ❖ The real GDP is expected to expand by 2% in 2022. The major economic impact from the war in Ukraine is likely to be felt via higher inflation, dampening domestic demand recovery. Growth is expected to be driven by a rebound in both private consumption and investment, as a result of normalization in consumer-facing service industries, sustained fiscal stimulus and recovering employment, which is likely to help withstand an anticipated drop in purchasing power as a result of rising consumer

¹ The DB risk indicator is divided into seven bands (DB1 to DB7, in the increasing order of risk). Each band is further divided into quartiles (a-d, ranging low to high), except the DB7 band.

² Moody's Investor services ranks countries in nine categories Aaa, Aa, A, Bbb, Bb, B, Ccc, Cc and C, according to increasing order of risk. Numerical modifiers 1, 2, and 3 are appended to each generic rating classification. The modifiers 1, 2 and 3, respectively indicate that the obligation ranks in the higher end, mid-range, and lower end of its generic rating category.

³ The OECD Country Risk Classification measures country credit risk, i.e. the likelihood that a country will service its external debt, on a scale of 0 -7 (where 0 is the lowest risk category and 7 is the highest).

prices. Overall, the real GDP is projected to return close to its pre-pandemic level in the second half of 2023.

- ❖ Consumer price inflation is expected to accelerate in 2022, averaging 2.2%, owing to elevated global energy and commodity prices, economic normalization and a rebound in consumer demand. During 2023-26, consumer prices is projected to increase by an average of 0.7% per year, far below the 2% price stability target set by the central bank.
- ❖ The widening real interest-rate differentials between Japan and the US is likely to prompt substantial depreciation of the yen against the US dollar in 2022-24. The Fed embarked on a tightening cycle in March 2022, in contrast to the BOJ's (central bank) retention of an ultra-loose monetary policy stance for the foreseeable future. The yen is expected to reach ¥130.4:US\$1 in 2022.
- ❖ Japan is expected to continue to post current-account surpluses in 2022-26, owing largely to strong profit flows from overseas investments. A weaker yen in 2022-24 is likely to support goods exports, although growth in trade volumes is expected to be modest, owing to increased international competition and waning external demand.

Japan: Economic Structure

Economic Indicators	2017	2018	2019	2020	2021	2022 ^f	2023 ^f
GDP (US\$ trn)	4.9	5.0	5.1	5.0	4.9	4.3	4.4
Nominal GDP (¥ trn)	553	556	558	538	542	564	576
Real GDP growth (%)	1.7	0.6	-0.2	-4.5	1.7	2.0	1.0
Consumer price inflation (avg, %)	0.5	1.0	0.4	0.0	-0.2	2.2	0.9
Population (mn)	126.7	126.3	125.8	125.2	124.6	124.0	123.3
Merchandise Exports fob (US\$ bn)	688.9	735.5	695.2	630.5	749.2	715.4	709.9
Merchandise Imports fob (US\$ bn)	644.8	725.1	693.7	603.9	733.2	859.3	712.0
Current-account balance (US\$ bn)	203.1	177.3	176.5	147.0	142.6	64.0	126.5
Total international reserves (US\$ bn)	1,264	1270	1,322	1,391	1,406	-	-
Exchange rate (avg; ¥: US\$)	112.1	110.5	109.0	106.7	109.8	130.4	131.6

Note: - Not available; ^f- Projections.

Source: EIU