

Japan: Brief Profile

2025

Domestic Economy

- ❖ Japan registered a growth rate of an estimated 0.1% in 2024 vis-à-vis 1.5% in the preceding year.
- ❖ In absolute terms, GDP of Japan stood at an estimated US\$ 4 trillion in 2024, with per capita GDP at US\$ 32,498.3 in 2024 (est.).
- ❖ The average consumer price inflation decreased to an estimated 2.7% in 2024 from 3.3% recorded in 2023.
- ❖ Services sector dominated the economy, accounting for 70.4% of Japan's Gross Value Added (GVA) in 2023, followed by industry sector (28.6% of GVA) and agriculture sector (1%).
- ❖ Some of the major industries of Japan include semiconductors and electronics assembly, business process outsourcing, food and beverage manufacturing, construction, electric/gas/water supply, chemical products, radio/television/communications equipment and apparatus, petroleum and fuel, textile and garments, non-metallic minerals, basic metal industries, and transport equipment.

BASIC FACTS

Land area: 364,485 sq km

Population: 123.9 mn (2024, est.)

Language: Japanese

Currency: Yen

GDP: US\$ 4 trillion (2024, est.)

Exports: US\$ 707 bn (2024, est.)

Imports: US\$ 742.6 bn (2024, est.)

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

Trade and External Sector

- ❖ Japan's exports decreased to an estimated US\$ 707 billion in 2024, as compared to US\$ 717.3 billion recorded in the preceding year.
- ❖ Japan's imports also decreased to an estimated US\$ 742.6 billion in 2024, as compared to US\$ 787.2 billion recorded in 2023.
- ❖ Accordingly, Japan's trade deficit narrowed to an estimated US\$ 35.6 billion in 2024, as compared to US\$ 69.9 billion recorded a year ago.

- ❖ Vehicle other than railways was the major item exported by Japan in 2024, accounting for 21.3% of the total exports. Other principal items exported by Japan in 2024 included machinery and mechanical appliances (17.7% of total exports), electrical machinery and equipment (14.3%), optical, photographic and medical apparatus (5.1%), and iron and steel (3.9%), among others.
- ❖ Mineral fuels, oils and products of distillation were the principal import items of Japan, accounting for 22.7% of the total imports in 2024. Other major items imported by Japan in 2024 include electrical machinery and equipment (14.3% of total imports), machinery and mechanical appliances (9.6%), pharmaceutical products (4.1%), and ore, slag and ash (3.7%), among others.
- ❖ USA was the leading export destination for Japan, accounting for 20% of total exports in 2024. Other major destinations of exports in the same year include China (17.6% of total exports), South Korea (6.6%), Taiwan (6.4%), Hong Kong (5.1%), and Thailand (3.8%).
- ❖ China was the major source of Japan's imports, accounting for 22.5% of the total imports in 2024. Other important origins of imports in the same year included USA (11.4% of total imports), Australia (7.1%), UAE (5%) and South Korea (4.2%).
- ❖ Japan's current account surplus widened to an estimated US\$ 193 billion (4.8% of GDP) in 2024, from deficit of US\$ 158.5 billion (3.8% of GDP) in 2023.

Foreign Direct Investment, Foreign Exchange Reserves, and Exchange Rate

- ❖ According to UNCTAD World Investment Report 2024, FDI inflows into Japan decreased to US\$ 21.4 billion in 2023, down from US\$ 34.1 billion in 2022.
- ❖ FDI outflows from Japan increased to US\$ 184.0 billion in 2023, up from US\$ 162.1 billion in 2022.

- ❖ Japan's foreign exchange reserves decreased to an estimated US\$ 1,230.7 billion in 2024 from US\$ 1,294.6 billion recorded in 2023. Reserves reflected an import cover of over 15.3 months.
- ❖ The Japanese Yen (¥) depreciated in 2024 to ¥151.5: US\$ 1 from ¥140.5: US\$ 1 in 2023.

Country Rating

- ❖ Standard & Poor's Sovereign Ratings dated March 27, 2025, rated Japan as A+ (the country has a strong capacity to meet its financial obligations but is somewhat more susceptible to adverse economic conditions) with a 'stable' outlook.
- ❖ *Dun and Bradstreet's (DB) Country Risk Indicator*¹, February 2025, rates Japan as DB3b (slight risk, enough uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses). The trend of D&B's ratings for Japan falls under the 'stable' category.
- ❖ *Moody's Investor services*² as of March 14, 2025, rated Japan as A1 (low level of credit risk: obligations are judged to be of upper-medium-grade and are subject to low credit risk) 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.

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, Baa, Ba, B, Caa, Ca 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).

Macroeconomic Outlook

- ❖ The economy is projected to grow by 0.6% in 2025, following a near recession in 2024. Growth in private consumption is likely to be supported by fiscal support, easing inflation, and rising wages, but constrained by Japan's ageing population and labour shortages. Medium-term growth is expected to be steady supported by stable employment and government policies.
- ❖ Inflation pressure may dissipate mildly to 2.4% in 2025, after averaging 2.7% in 2024, owing to sticky inflation in the services sector and elevated food prices. A decrease in import costs, partially through moderating energy prices, and a stronger yen compared to the previous year may keep prices in check. A return to deflation is unlikely to take place.
- ❖ The yen is expected to strengthen moderately against the US dollar in 2025-26, driven by a narrowing interest-rate differential. The exchange rate is predicted to reach ¥147.2:US\$1 in 2025, up from ¥151.5:US\$1, with gradual appreciation influenced by domestic inflation and labour market conditions in both countries.
- ❖ Japan's current-account surplus is expected to narrow to the equivalent of 3.4% of GDP in 2025, from 4.8% of GDP in 2024 as the merchandise trade deficit widens, owing to the impact of the global trade war. Nevertheless, the current-account surplus may be sustained in 2026-29, owing to strong profit repatriation from overseas investments and a moderate goods trade deficit.

Japan: Economic Structure

Economic Indicators	2020	2021	2022	2023	2024 ^e	2025 ^f	2026 ^f
Nominal GDP (US\$ bn)	5054.1	5039.1	4262.1	4213.2	4026.2	4186.4	4373.1
Real GDP growth (%)	-4.2	2.7	0.9	1.5	0.1	0.6	0.6
Consumer price inflation (av; %)	0.0	-0.2	2.5	3.3	2.7	2.4	1.7
Population (mn)	125.8	125.5	125.1	124.5	123.9	123.3	122.7
Exports of goods fob (US\$ bn)	641.3	756	746.8	717.3	707.0	751.0	819.1
Imports of goods fob (US\$ bn)	637.1	771.8	899.9	787.2	742.6	795.8	870.8
Current-account balance (US\$ bn)	149.9	196.2	89.9	158.5	193.0	141.9	144.7
Total international reserves (US\$ bn)	1390.8	1405.7	1227.6	1294.6	1230.7	-	-
Average Exchange Rate (¥: US\$). Local Currency is Yen (¥)	106.8	109.8	131.5	140.5	151.5	147.2	140.5

Note: * Sourced from EIU, ^{a-} Actual ^{e-} Estimate; ^{f-} Forecast

Source: WEO, IMF (April 2025) & EIU Country Report.