

Japan

Rating report

Rating rationale

Wealthy, diversified and sophisticated economy: Japan benefits from its high wealth levels as well as diversified and competitive economy, supported by sophisticated high-technology industries and the presence of highly-innovative firms. These act as crucial supports for the single-A sovereign rating.

Strong structure of sovereign debt and an independent monetary policy: Japan benefits from its very-strong funding flexibility with Japanese government bonds (JGBs) as a global safe asset and still exceptionally-low rates by comparison against those of global sovereigns (despite the recent rises in yields), a significant domestic investor base, government assets, and continued market interventions from the comparatively accommodative policies of the Bank of Japan (BoJ) under an independent monetary policy. These significantly reduce the risks from comparatively weak long-run budgetary fundamentals and an exceptionally-elevated stock of public debt.

A robust external position and reserve currency: the sovereign’s status as the globe’s leading external creditor is driven by structural current-account surpluses, elevated domestic savings, alongside a sophisticated domestic banking system. This, combined with moderate gross external debt and global safe-haven and reserve-currency statuses, curtails the vulnerabilities to external crises and risks concerning external-debt sustainability.

Ratings challenges: i) elevated gross government debt – standing at the highest share to GDP of the agency’s rated sovereign universe – nevertheless representing a risk mainly only over the very long run; ii) comparatively low nominal growth potential – linking to a rapidly-shrinking and ageing population alongside an historical record of low inflation (although the economy has recently displayed signs of exiting deflation); and iii) rising pension and healthcare-related costs.

Figure 1: Japan’s sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating	
	Weight	Indicative rating	Notches	Notches	Notches		
Domestic economic risk	35%	aaa	JPY	Japan	- 2/3	A	
Public finance risk	20%	b-			- 1/3		
External economic risk	10%	aaa			1/3		
Financial stability risk	10%	aa-			- 1/3		
ESG risk	Environmental factors	5%			bbb		- 1/3
	Social factors	7.5%			b-		0
	Governance factors	12.5%			aaa		- 1/3
Sovereign Quantitative Model	aa-			-2			
Additional considerations				0			

*The reserve-currency quantitative adjustment applies to currencies in the IMF’s Special Drawing Rights (SDR) basket.

**The political-risk quantitative adjustment is based on the World Bank’s Political Stability & Absence of Violence/Terrorism index.

***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope’s [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

Local currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

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Credit strengths and challenges

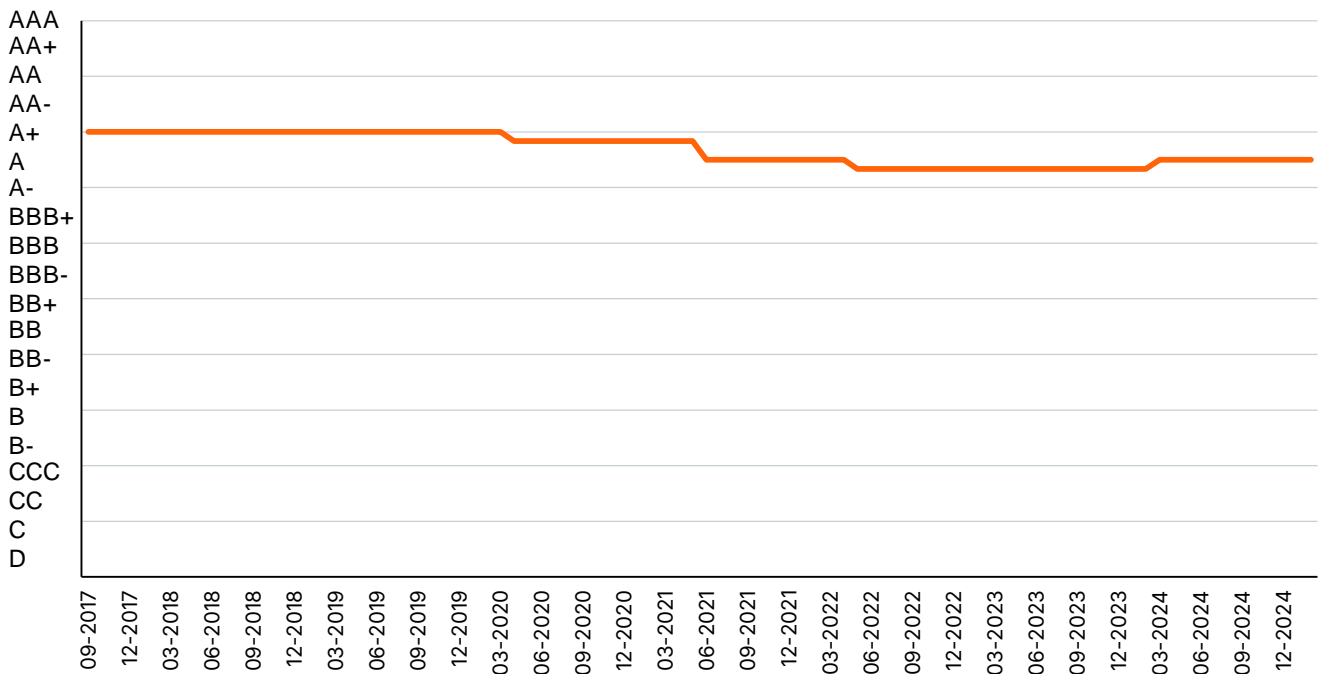
Credit strengths	Credit challenges
<ul style="list-style-type: none"> A wealthy, competitive and diversified economy JGBs as a safe asset, strong funding flexibility, comparatively-low rates, the monetisation of debt A robust external position and yen as a global reserve currency 	<ul style="list-style-type: none"> Very elevated sovereign debt stock Comparatively low nominal growth potential Rising pension and healthcare-related costs

Outlook and rating triggers

The Stable Outlook underscores the view that risks for the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Public debt-to-GDP declines, supported by stronger nominal economic growth and/or budgetary-consolidation steps The achievement of stronger sustainable nominal growth 	<ul style="list-style-type: none"> Debt sustainability weakens significantly, due to material rises in general government debt-to-GDP and/or of the interest-payment burden The government sees significant reductions in its funding flexibility and/or there is weakening of the reserve-currency status of yen

Figure 2: Rating history



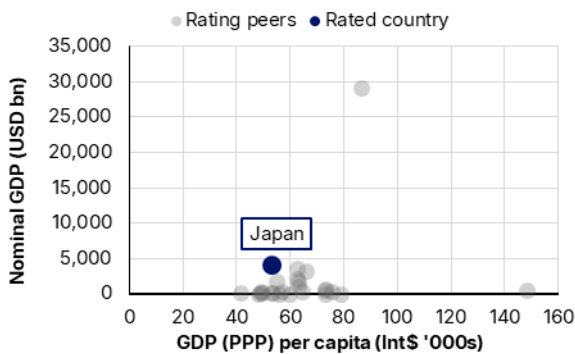
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Japan's Domestic Economic Risk

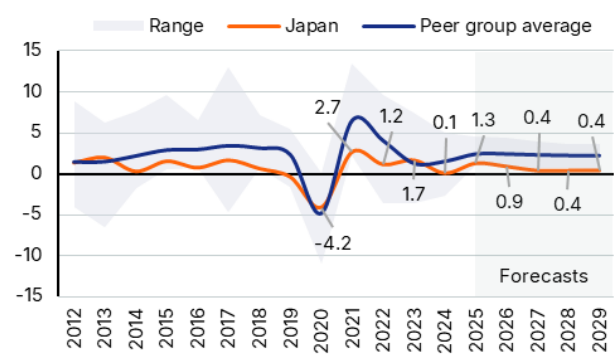
SQM ¹ indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential and outlook	Weak	-1/3	Comparatively low growth potential despite ongoing structural reforms; shrinking population and workforce present challenges
	Monetary policy framework	Neutral	0	The BoJ is a leading global central bank; the ultra-accommodative policy has held rates low and monetised half of the government debt; an independent monetary policy; historically too-low inflation although inflation has recently risen above target
	Macroeconomic stability and sustainability	Weak	-1/3	A large, competitive and diversified economy; but shrinking population and workforce present considerable challenges for long-run economic growth

Figure 3: Nominal GDP and GDP per capita (2024E)



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



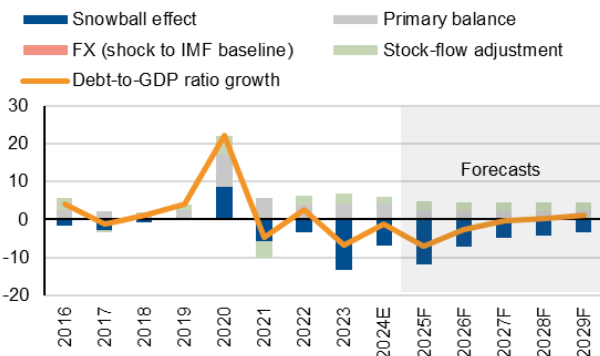
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Japan's Public Finance Risk

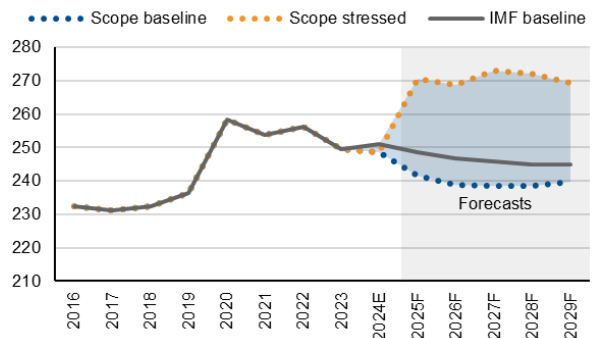
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b-	Fiscal policy framework	Weak	-1/3	Persistent budget deficits exacerbated by an ageing population and associated shrinking tax base; but ongoing efforts at fiscal consolidation
	Long-term debt trajectory	Weak	-1/3	A very-elevated public debt ratio poses sustainability challenges especially over the very long run
	Debt profile and market access	Strong	+1/3	Excellent market access and still low rates, a smooth redemption profile but elevated financing requirements, a large domestic investor base, debt denominated entirely in yen, the monetisation of the debt by a globally-leading central bank, world's largest single creditor nation

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

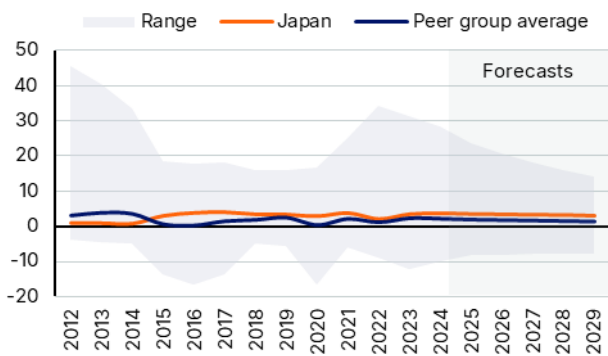
¹ Sovereign Quantitative Model

External economic risk

Overview of Scope's assessments of Japan's External Economic Risk

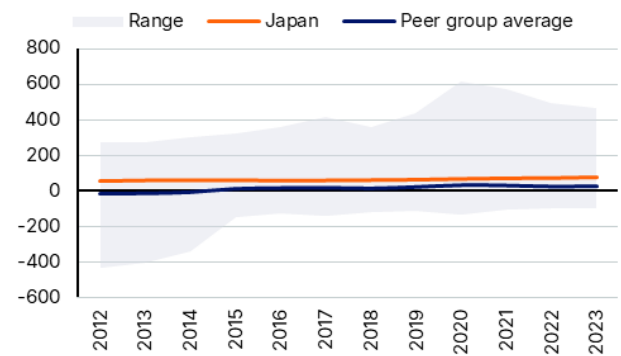
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Strong	+1/3	A record of current-account surpluses supported by a diversified export base and significant external-creditor position; recent increases of the current-account surplus
	External debt structure	Weak	-1/3	A moderate external-debt stock; but a significant share of external liabilities has a short-term maturity
	Resilience to short-term external shocks	Strong	+1/3	The reserve-currency status of yen, large forex reserves (especially for an advanced economy) and strong net external creditor position

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



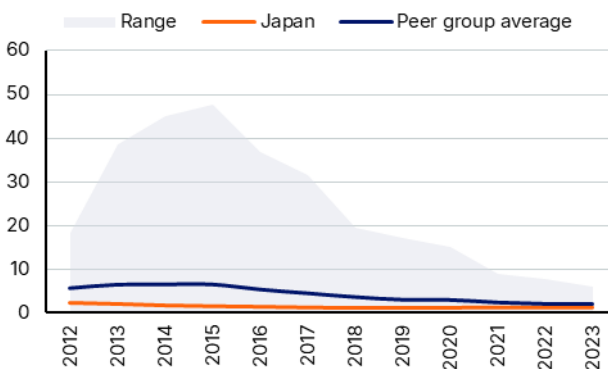
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Japan's Financial Stability Risk

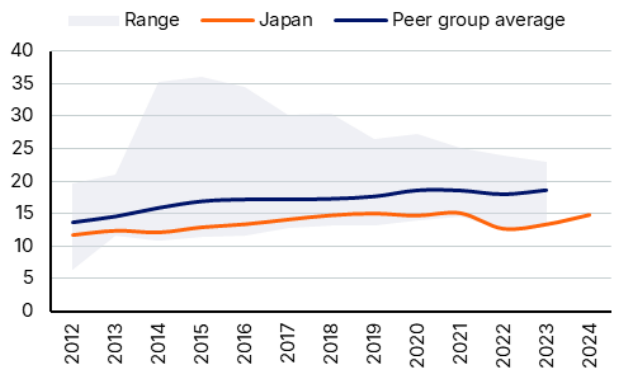
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Banking sector performance	Weak	-1/3	Banking-system profitability challenges but the era of negative rates has ended; low NPLs; comparatively moderate tier-1 ratio; significant banking-system liquidity
	Financial sector oversight and governance	Neutral	0	Strong oversight frameworks under the BoJ and the Financial Services Agency
	Financial imbalances	Neutral	0	Moderate levels of private-sector debt; modest private-sector credit growth

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



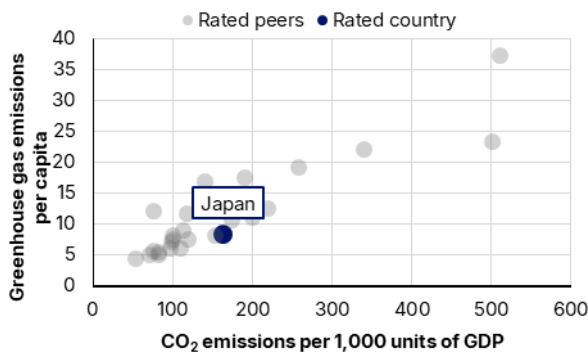
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Japan's ESG Risk

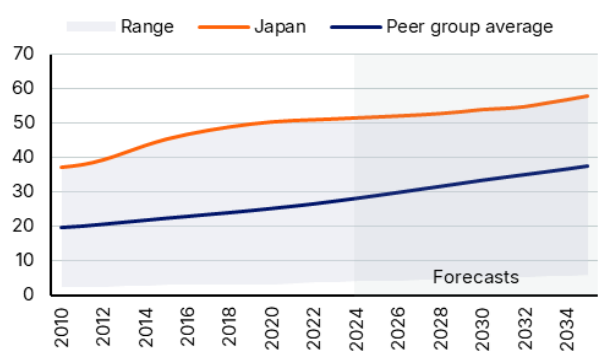
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Environmental factors	Weak	-1/3	A high exposure to natural-disaster risks; limited natural-resource endowments
	Social factors	Neutral	0	Low inequality, strong social-insurance system; adverse demographics pressure social-care systems; very-strong health metrics; deteriorating social conditions for the elderly
	Governance factors	Weak	-1/3	High-quality democratic institutions although historical government instability and recent early parliamentary elections

Figure 11: CO₂ emissions per GDP/per capita, mtCO₂e (2023)



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

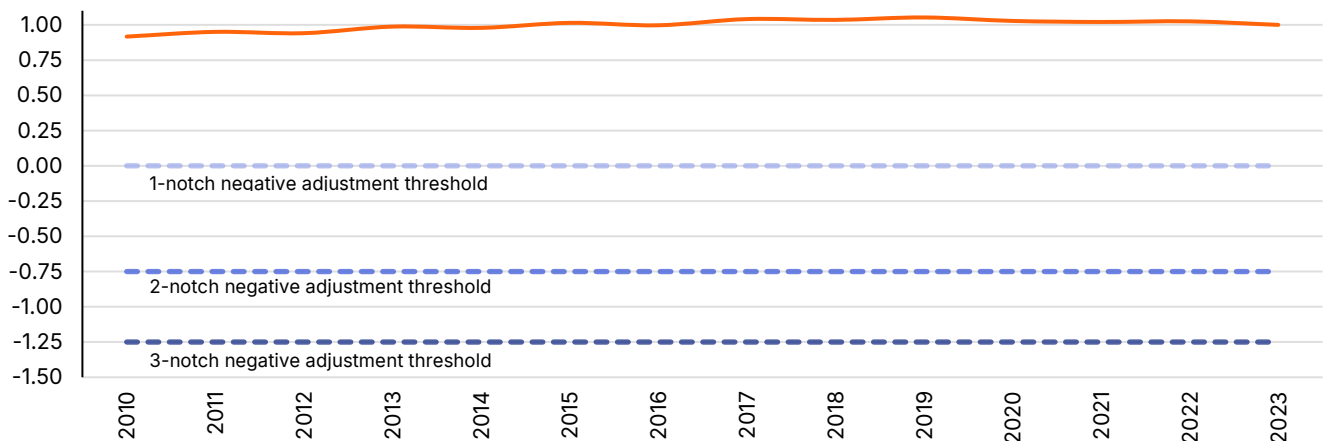
IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Japan, three-year moving average



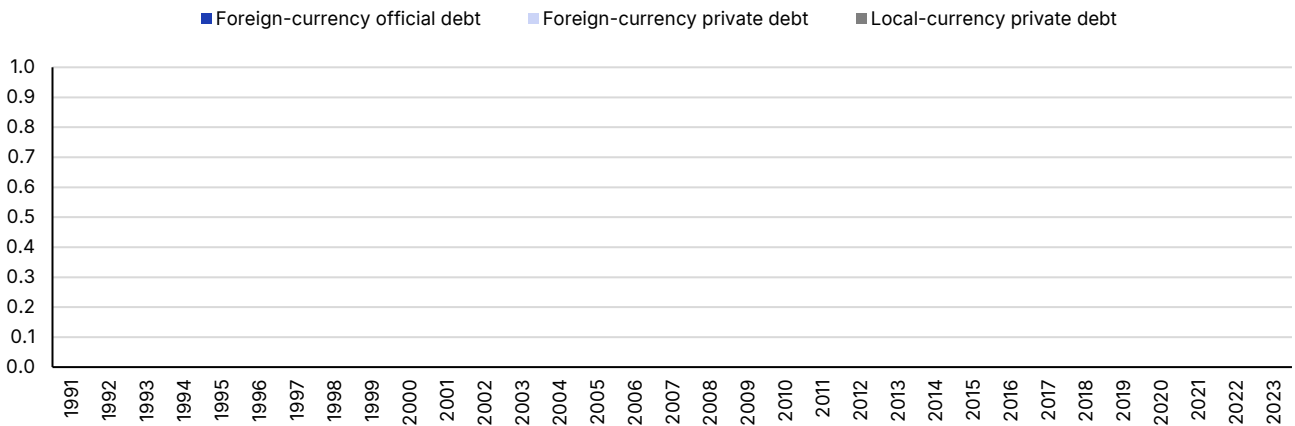
Source: WB, Scope Ratings

Additional considerations

No adjustment has been applied to the credit rating from additional considerations.

Appendix 1. Sovereign default history

Sovereign default history, USD bn



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix 2. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*	
Austria	Lithuania
Belgium	Malta
Croatia	Portugal
Cyprus	Slovenia
Czech Republic	Spain
Estonia	United Kingdom
Finland	United States
France	

*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix 3. Economic development and default indicators

IMF Development Classification	Advanced economy
5-year USD CDS spread (bps) as of 26 February 2025	16.6

Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2019	2020	2021	2022	2023	2024E
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	42.8	42.6	44.7	48.6	51.4	53.1
	Nominal GDP, USD bn	IMF	5,118	5,054	5,040	4,272	4,220	4,070
	Real growth, %	IMF	-0.4	-4.2	2.7	1.2	1.7	0.3
	CPI inflation, %	IMF	0.5	0.0	-0.2	2.5	3.3	2.2
	Unemployment rate, %	WB	2.4	2.8	2.8	2.6	2.6	-
Public Finance	Public debt, % of GDP	IMF	236.4	258.4	253.7	256.3	249.7	251.2
	Net interest payment, % of government revenue	IMF	2.0	1.8	1.6	1.1	0.3	0.3
	Primary balance, % of GDP	IMF	-2.4	-8.4	-5.5	-4.0	-4.1	-6.0
External Economic	Current-account balance, % of GDP	IMF	3.4	3.0	3.9	2.1	3.6	3.8
	Total reserves, months of imports	WB	15.4	18.5	16.1	12.3	13.6	-
	NIIP, % of GDP	IMF	63.9	68.7	72.6	74.1	78.7	-
Financial Stability	NPL ratio, % of total loans	IMF	1.1	1.1	1.2	1.2	1.2	-
	Tier 1 ratio, % of risk-weighted assets	IMF	15.1	14.3	14.6	13.8	13.4	14.9
	Credit to the private sector, % of GDP	WB	177.4	195.5	195.8	196.8	195.7	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	200.1	196.4	193.8	178.7	164.0	-
	Income share of bottom 50%, %	WID	18.2	18.2	18.2	18.2	18.2	-
	Labour-force participation rate, %	WB	79.8	79.8	80.3	80.9	81.5	-
	Old-age dependency ratio, %	UN	-	-	-	-	-	-
	Composite governance indicators*	WB	1.3	1.4	1.4	1.4	1.4	-
	Political stability, index	WB	1.0	1.1	1.0	1.0	1.0	1.0

*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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Applied methodologies

[Sovereign Rating Methodology](#), January 2025

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