

Japan

This annex refers to the release of the monitoring note of 5 February 2021

Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard¹

Implied rating of core variable scorecard (CVS)		a
Reserve currency adjustment		1
Weight	Qualitative scorecard (QS) for long-term issuer ratings	
20%	Growth potential of the economy	Weak
	Monetary policy framework	Neutral
	Macro-economic stability and sustainability	Strong
20%	Fiscal policy framework	Weak
	Debt sustainability	Weak
	Debt profile and market access	Strong
20%	Current account resilience	Strong
	External debt structure	Neutral
	Resilience to short-term shocks	Strong
20%	Banking sector performance	Weak
	Banking sector oversight	Neutral
	Financial imbalances	Weak
20%	Environmental risks	Weak
	Social risks	Neutral
	Institutional and political risks	Strong
QS adjustment (notches)		0
Additional considerations (notches)		0
Final rating		A+ NEG

Annex II: Selected indicators

Source: Macrobond, IMF, Bank of Japan, Scope Ratings GmbH

	2017	2018	2019	2020E	2021F	2022F
GDP per capita (USD, '000s)	38.4	39.2	40.3	39.0	40.7	42.8
Real GDP, % change	2.2	0.3	0.7	-5.0	3.0	1.5
CPI, % change	0.5	1.0	0.5	-0.1	0.3	0.7
General government balance, % of GDP	-3.1	-2.5	-3.3	-14.2	-6.4	-3.2
General government debt, % of GDP	234.5	236.6	238.0	262.2	258.1	258.5
Current account balance, % of GDP	4.2	3.6	3.6	2.9	3.2	3.0
Gross external debt, % of GDP	70.1	77.0	79.8	-	-	-

Annex III: Economic development and default indicators

IMF Development Classification ²	AE
5y USD CDS spread (bps) as of 3 February 2021	18

¹ The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scooperatings.com

² AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

Japan	February 2021	Assessment	Analytical rationale
Peers*	Belgium, Bulgaria, France, Latvia, Malta, Poland, Russia, Slovakia, Slovenia, United Kingdom		
Domestic economic risk	Growth potential	Weak	Low growth potential
	Monetary policy framework	Neutral	Bank of Japan is a credible and sophisticated central bank with an independent monetary policy; deflationary pressures remain despite forceful policy interventions
	Macro-economic stability & sustainability	Strong	Large, competitive and diversified economy with robust labour markets
Public finance risk	Fiscal policy framework	Weak	Persistent fiscal deficits exacerbated by ageing population; lack of credible medium-term consolidation plan
	Debt sustainability	Weak	Very high and rising debt levels pose sustainability challenges
	Debt profile & market access	Strong	Excellent market access, long average public debt maturity, smooth redemption profile, large domestic investor base and significant central bank public debt holdings
External economic risk	Current account resilience	Strong	Robust track record of current-account surpluses supported by diversified export base and large external creditor position
	External debt structure	Neutral	Moderate external debt levels; high share of short-term external liabilities
	Resilience to short-term shocks	Strong	Large FX reserves and robust external-creditor position
Financial stability risk	Banking sector performance	Weak	Profitability pressures lead to increased risk-taking without commensurate returns
	Banking sector oversight	Neutral	Strong oversight frameworks under the Bank of Japan and Financial Services Agency
	Financial imbalances	Weak	High household debt; prolonged accommodative monetary policies raise financial-stability risks
ESG risks	Environmental risks	Weak	High exposure to natural disaster, transition and resource risks; newly-announced climate goals are positive, but more forceful policy actions needed
	Social risks	Neutral	Low inequality, strong healthcare and educational systems, and high degree of social cohesion; demographic decline presents long-term challenge
	Institutional and political risks	Strong	Robust democratic institutions; stable, reformed-oriented political landscape

*Peers related to selected sovereigns with a similar indicative rating per Scope's Core Variable Scorecard.