

Japan

This annex refers to the release of monitoring note of 18 June 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 local currency ratings	
20%	Growth potential of the economy	Weak
	Monetary policy framework	Neutral
	Macro-economic stability and sustainability	Neutral
20%	Fiscal policy framework	Weak
	Debt sustainability	Weak
	Debt profile and market access	Neutral
20%	Current account resilience	Strong
	External debt structure	Neutral
	Resilience to short-term shocks	Neutral
20%	Banking sector performance	Weak
	Banking sector oversight	Neutral
	Financial imbalances	Weak
20%	Environmental risks	Weak
	Social risks	Neutral
	Institutional and political risks	Neutral
QS adjustment (notches)		-2
Additional considerations (notches)		0
Final rating		A STA

Annex II: Selected indicators

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

	2016	2017	2018	2019	2020E	2021F	2022F
GDP per capita (USD)	39,411	38,903	39,819	40,802	40,146	42,928	45,311
Real GDP (SA), % change	0.8	1.7	0.6	0.3	-4.8	3.0	2.1
Unemployment rate, %	3.1	2.8	2.4	2.4	3.1	2.7	2.5
CPI, % change	-0.1	0.5	1.0	0.5	0.0	0.1	0.7
Policy rate, %, EOP*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Fiscal balance, % of GDP	-3.8	-3.3	-2.7	-3.1	-12.6	-9.2	-4.5
Government debt, % of GDP, EOP	232.5	231.4	232.5	234.9	256.2	257.4	256.7
Current account balance, % of GDP	4.0	4.1	3.5	3.7	3.3	3.6	3.2

Annex III: Economic development and default indicators

IMF Development Classification ²	AE
5y USD CDS spread (bps) as of 15 June 2021	17

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	June 2021	Assessment	Analytical rationale	
Peers*	Belgium, France, United Kingdom, United States			
	Domestic economic risk	Growth potential	Weak	Low and declining growth potential
		Monetary policy framework	Neutral	BoJ is a sophisticated central bank; persistent accommodative policies are appropriate but have failed to reflate the economy; price stability and financial stability objectives are increasingly conflicting
Macro-economic stability & sustainability		Neutral	Large, competitive and diversified economy with robust labour markets; shrinking workforce presents sustainability challenges	
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	Neutral	Strong market access, smooth redemption profile and large domestic investor base, in line with peers	
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; large share of short-term liabilities	
	Resilience to short-term shocks	Neutral	Reserve currency status, 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 pose long-term financial stability risks	
ESG risks	Environmental risks	Weak	High exposure to natural disaster, transition, and resource risks; insufficient policy response in the past though mitigation efforts are accelerating	
	Social risks	Neutral	Low inequality, strong healthcare and educational systems; adverse demographics likely to put pressure on social care systems; persistent gender inequalities	
	Institutional and political risks	Neutral	High quality democratic institutions and stable political environment; declining popularity of ruling LDP party	

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