

CareEdge Global has assigned a 'Stable' outlook to the credit rating of State of Japan

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge AA-' (Unsolicited)

Issuer rating

CareEdge AA-/ Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of the State of Japan while reaffirming the long-term foreign currency rating of AA- (Unsolicited).

Japan's credit profile derives strength from its strong external position which gains on the back of Yen's reserve currency status, persistent current account surplus, positive net international investment position (NIIP), and robust foreign exchange reserves. Additionally, strong assessment in terms of institutions and quality of governance support its overall credit profile. While Japan's large, diverse, and highly competitive economy are its key strengths in terms of economic structure, the country faces challenges from weak growth prospects and an ageing population. Furthermore, Japan's credit profile faces challenges from its high gross general government debt.

Rating Outlook: Stable

The stable outlook reflects the robust institutional structure, current account surplus, and strong position in external payments. Over the next five years, economic growth will remain close to its decadal average from 2015 to 2024. The effect of monetary policy normalisation since March 2024 is expected to remain orderly without creating distortions in the financial markets.

Upside Scenario

We may revise our outlook to positive if the real GDP growth prospects improve or if we observe a sustained reduction in public debt, leading to an improvement in fiscal position.

Downside Scenario

We may revise our outlook to negative if there is a sustained increase in expenditure led by an ageing society or if growth remains sluggish and enters the contractionary zone.

Key Rating Drivers

Economic Structure & Resilience

Japan's economic profile is characterized by a large, high-income, diverse, and competitive economy. However, it has a weak growth profile. Real GDP growth rebounded to 1.7% in 2023, following 1.2% growth in 2022. Growth has decelerated to 0.3% in 2024 and is projected to remain subdued, averaging at 0.7% over the next five years. Japan's growth prospects are weakened by challenges from an ageing demographic profile and a declining population.

Fiscal Strength

Japan's fiscal assessment is characterized by its historically high levels of gross general government (GG) debt. The debt surged above 250% of GDP in response to the fiscal support during the Covid-19 pandemic and the repercussions of the Russia-Ukraine war. Japan's gross government debt remains the highest among major sovereign nations at 249.7% of GDP (2023). This exceeds the pre-pandemic average of 232% of GDP recorded during 2015-2019. The gross government debt to GDP ratio is projected to remain elevated, with a slight decrease of 5% of GDP anticipated over the next five years. Furthermore, Japan's committed expenditure on salaries, pensions, net social benefits, and subsidies stands at a significant 34.4% of total expenditure (2022). Going ahead, the fiscal costs associated with an increasing ageing population will continue to pose a challenge to the government's debt burden. However, a large quantum of government debt is financed domestically, mitigating external vulnerabilities.

Despite Japan's high debt burden, its debt affordability remains healthy, with low-interest payments as a percentage of revenue. The Bank of Japan's (BoJ) ultra-accommodative monetary policy has supported the comfortable debt payment scenario. However, the impact of higher-than-expected rate hikes on debt affordability is monitorable.

External Position & Linkages

Japan's strong external position benefits from its persistent current account surplus, positive NIIP, robust foreign exchange reserves, and Yen's reserve currency status. Japan has a track record of maintaining a healthy current account surplus, averaging 3.2% of GDP in the last five years. The current account surplus is projected to remain healthy at ~3.5% of GDP over the next five years. The main driver of Japan's current account surplus is the primary income balance, which is gained from its large overseas investments. This is also reflected in Japan's strongly positive NIIP at 78.8% of GDP in 2023. Japan's foreign exchange reserves are strong enough to cover around 15 months of imports (December 2024).

Japan's external debt is high at 105.8% of GDP (2023). The current account surplus and strong foreign exchange reserves partially mitigate the risk of high external debt. Japan's external funding ratio (calculated as a ratio of current account payments and short-term external debt by residual maturity to current account receipts and FDI net inflows) is high at 3.85 (2023), but it benefits from Yen's reserve currency status.

Monetary & Financial Stability

Japan operates under a free-floating exchange rate regime, and Yen's status as a reserve currency is a key strength in its monetary assessment. A large and developed financial system, along with a lower proportion of non-performing loans to gross loans, bodes well for the assessment of this pillar.

The Central Bank, in the past, has struggled with long periods of very low inflation despite an ultra-accommodative monetary policy. However, CPI inflation has been ruling above the central bank's 2% target since April 2022. Furthermore, the higher inflationary expectations and strong wage growth have bolstered confidence that the BoJ's 2% inflation target can be sustainably achieved.

On the monetary policy front, the Bank of Japan (BoJ) hiked the short-term policy rate for the first time since February 2007, ending its eight-year-long negative interest rate policy at the March 2024 monetary policy meeting. The BoJ opted for third rate hike of 25 bps in Jan 2025, taking the short-term interest rate to 0.5% from the earlier 0.25% set in July 2024 and a range of 0 to 0.1% set in March 2024. It also undertook other steps to normalise monetary policy, such as abolishing the yield curve control framework.

Going ahead, the attainment of the 2% inflation target in a sustainable manner while effectively managing the monetary policy divergence between BoJ and other Central Banks remains the key challenge for monetary policy.

Institutions & Quality of Governance

Japan's assessment of this pillar is based on strong performance in government effectiveness, rule of law and regulatory quality in the Worldwide Governance Indicators. However, geopolitical risks in the form of regional tensions with China & North Korea pose a challenge for Japan.

Japan has witnessed a change in political leadership, with Prime Minister Shigeru Ishiba heading the minority government as a result of a snap election in Oct 2024, following the stepping down of Prime Minister Fumio Kishida. Despite the weakened dominance of the Liberal Democratic Party (LDP) in recent elections, policy continuity has remained intact. However, the election scheduled for the Upper House in July 2025 is monitorable from a policy continuity perspective.

Japan – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	5,040	5,118	5,054	5,039	4,271	4,219	4,070	4,389
GDP Per Capita (Constant-PPP)	USD	45,199	45,115	43,362	44,663	45,335	46,311	46,692	47,455
Real GDP Growth	%	0.6	-0.4	-4.2	2.7	1.2	1.7	0.3	1.1
GFCF/GDP	%	25.3	25.5	25.5	25.5	26.0	26.1	-	-
Gross Domestic Savings/GDP	%	25.7	25.5	25.0	25.2	22.8	-	-	-
Exports (G&S)/GDP	%	18.4	17.7	15.7	18.3	21.7	21.9	-	-
Working-Age (15-64) Population (% Share in Total)	%	58.9	58.6	58.5	58.4	58.5	58.5	58.4	58.4
Old-Age (65+) Population (% Share in Total)	%	28.9	29.3	29.6	29.8	29.9	30.1	30.2	30.4
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-2.5	-3.0	-9.1	-6.1	-4.4	-5.8	-6.5	-3.2
Revenue/GDP	%	34.3	34.2	35.5	36.4	37.6	36.5	35.8	36.5
Expenditure/GDP	%	36.7	37.3	44.5	42.5	41.9	42.2	42.3	39.7
GG Gross Debt/GDP	%	232.4	236.4	258.4	253.7	256.3	249.7	251.2	248.7
GG External Debt (by Creditor)/GG Gross Debt	%	13.1	13.7	14.0	15.4	15.2	14.1	-	-
Interest/Revenue	%	4.9	4.7	4.5	4.1	3.9	4.1	-	-
External Indicators									
Current Account Balance/GDP	%	3.5	3.4	3.0	3.9	2.1	3.6	3.8	3.6
FDI, Net Inflows/GDP	%	0.5	0.8	1.2	0.7	1.1	0.5	-	-
Outstanding FII Liabilities/GDP	%	62.9	71.0	81.3	82.0	81.1	84.6	-	-
NIIP/GDP	%	61.1	63.9	68.6	72.7	74.4	78.8	-	-
Foreign Exchange Reserves	USD Billion	1265.3	1323.1	1387.9	1415.7	1222.6	1290.4	-	-
Import Cover	Months	16.4	17.4	20.8	18.0	13.6	15.6	-	-
External Debt/GDP	%	79.6	82.9	95.4	92.1	103.1	105.8	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.0	0.5	0.0	-0.2	2.5	3.3	2.2	2.0
Exchange Rate (Average)	LC per USD	110.5	109.0	106.7	109.9	131.6	140.6	-	-
Non-Performing Loans/Total Gross Loans	%	1.1	1.1	1.1	1.2	1.2	1.2	-	-
Private debt, loans and debt securities/GDP	%	159.5	164.5	183.5	184.4	186.1	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Solicitation Status

The rating is unsolicited.

Rating History

Instrument	Type	Rating	Date
Issuer Rating (Long Term Foreign Currency)	Unsolicited	CareEdge AA-/ Stable	February 5, 2025
Issuer Rating (Long Term Foreign Currency)	Unsolicited	CareEdge AA-	October 3, 2024

Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

Analytical Contacts

Anurag Chandra

anurag.chandra@careedgeglobal.com

Kiran Kavala

kiran.kavala@careedgeglobal.com

Media Contact

Mradul Mishra

mradul.mishra@careedge.in

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(A subsidiary of CARE Ratings Ltd.)
Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
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