

Highlights of the Sovereign Rating on Japan

Updated Rating

Long-term Local Currency: AA_i -

Long-term Foreign Currency: AA_i -

Outlook: Negative

Previous Rating

Long-term Local Currency: AA_i -

Long-term Foreign Currency: AA_i -

Outlook: Stable

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Analysts: WANG Qing, HU Qianfang

Email: wangq@unitedratings.com.cn

Tel: 010-85172818-8611

Fax: 010-85171273

Add: 12F, PICC Building, No. 2 Jianguomen
Outer Street, Beijing

<http://www.unitedratings.com.cn>

Rating Opinions

United Ratings has decided to maintain Japan's long-term local and foreign currency ratings at AA_i -, with outlook adjusted to Negative.

Despite Japan being likely to proceed with fiscal consolidation, its fiscal budget will keep narrowing slightly in the near term. However, the exorbitant government debt will struggle to tip downwards in the short term and may even rise slightly. The government again postponed the increase of consumption tax by 30 months, which does not help improving fiscal balance but instead resulted in doubts over the certainty of government policies. But the country's ruling alliance has won the senate election, and yet it remains less likely for Japan to get a move on the controversial constitution amendment agenda in the near term, indicating no significant change to policy continuity. The country's macro-economy will maintain slow and unstable growth, and long-term trends will depend on the results of structural reform. The relatively high current account surplus will maintain the current level. To conclude, the local and foreign currency debt servicing abilities of Japan's central government will generally stabilize, with Negative outlook.

Reasons for Maintaining Ratings

- The ruling alliance has won over two thirds of the senate seats, but the probability of Japan commencing the amendment to its constitution remains low. Going forward, "Abeonomics" will remain the focus of government policy.
- In the short term, the economy will maintain slow and unstable growth, with long-term economic growth potential featuring slow growth momentum.
- Fiscal deficit narrows, but the relatively high government debt will struggle to decrease in the near term
- Loose monetary policy will maintain its current course, and negative interest rates will put a strain on the profitability of the banking sector.
- The high level of current account surplus will remain stable current account surplus is of a large scale and will narrow in the short term.

Outlook

To conclude, Japan's political stability and policy directions are unlikely to experience major changes in the short term, but structural reform will struggle to yield significant breakthrough. Economic growth will continue to show uncertainty and a lack of momentum. Japan will keep rolling out fiscal consolidation efforts but fiscal deficit will keep narrowing slightly in the short term. However, the government will struggle to decrease its exorbitant debt level,

which might even edge higher. The government again postponed the increase of consumption tax by 30 months, which is not conducive to improving fiscal balance and also triggered doubt over the certainty of government policies. As such, United Ratings has decided to adjust the outlook on Japan's local and foreign currency ratings to Negative for the coming 1-2 years.

Key Indicators of the Sovereign Rating on Japan

	2011	2012	2013	2014	2015	2016 ^f
Nominal GDP (billion USD)	5,919.4	5,958.8	4,913.3	4,598.4	4,125.6	4,709.0
GDP per capita (USD)	46,517.1	46,867.6	38,692.0	36,266.0	32,593.8	37,280.0
Real GDP growth (%)	-0.4	1.7	1.4	-0.1	0.8	0.8
Inflation rate (%)	-0.3	0.0	0.3	2.7	0.8	0.3
Total lending/GDP (%)	245.8	255.1	272.2	278.7	277.0	274.6
Domestic credit growth (%)	0.6	3.5	4.7	4.0	2.0	2.1
M2 growth (%)	2.7	2.5	3.6	3.4	3.7	3.6
Budget balance of governments/GDP (%)	-9.8	-8.8	-8.5	-7.7	-6.7	-5.0
Primary balance of governments/GDP (%)	-8.0	-7.8	-7.8	-5.6	-4.8	-4.7
Public debt/GDP (%)	209.4	215.4	221.5	227.7	230.0	234.6
Current-account balance/GDP (%)	2.2	1.0	0.9	0.8	3.3	3.4

Source: Sovereign Rating Database of United Ratings.

Note: The fiscal data are of a fiscal year ending up by March 31st, "f" stands for forecasts.