



Japan Country Report

August 2020

After the severe disruption of economic activity, only a modest rebound is expected

Japan industries performance forecast

August 2020



Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.



Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.



Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.



Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.

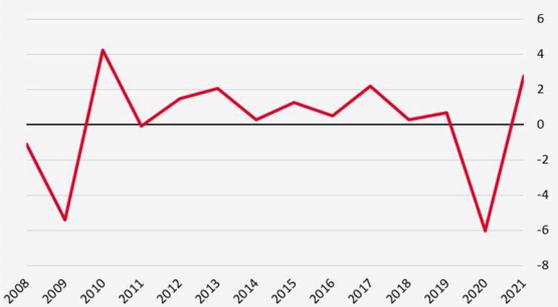


Bleak:
The credit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
Metals	Paper	Services	Steel	Textiles

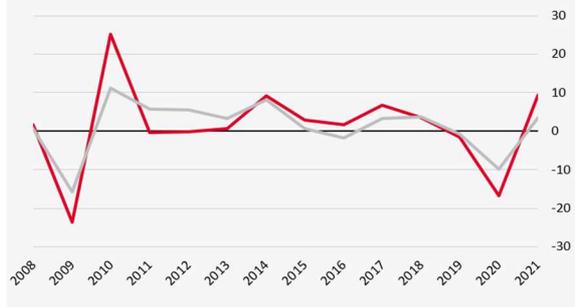
Economic Situation

GDP, year-on-year % change



Source: Oxford Economics, Atradius

Exports and imports, year-on-year % change



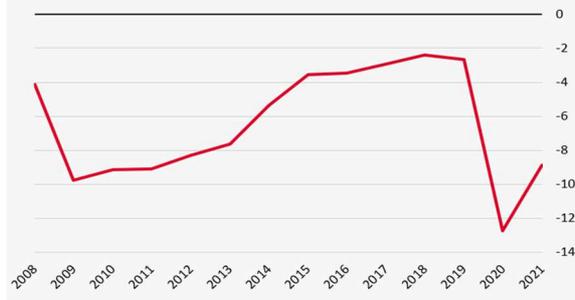
Source: Oxford Economics, Atradius

Private consumption, year-on-year % change



Source: Oxford Economics, Atradius

Budget balance, % of GDP



Source: Oxford Economics, Atradius

A severe disruption of economic activity due to the coronavirus pandemic

In 2020, GDP is expected to contract 6%, as government measures to contain the spread of the coronavirus severely impact domestic spending, while manufacturers and exporters suffer from the global recession and supply chain disruptions.

The repercussions of the coronavirus outbreak have hit the economy at a time it was already showing signs of weakness. Export growth slowed down in 2019 due to lower global trade and manufacturing expansion, less demand from China and the increased risk of protectionism. Amid slowdowns in China and other regional economies last year the yen has continued strengthening, weighing on the competitiveness of Japanese exports.

At the same time, an increase in the consumption tax rate from 8% to 10% in October 2019 immediately pushed up prices and lowered consumer spending. All this led to a sharp contraction of the economy in Q4 of 2019, by 6.3% compared to the previous quarter.

Household consumption is expected to contract by almost 6% in 2020 due to measures to curb the coronavirus spread, wage freezes and rising unemployment. Retail sales are forecast to decrease more than 7% as sales of non-essential items have deteriorated.

Industrial production is forecast to contract more than 11%, as the pandemic has strained the recovery of the ICT sector, automotive manufacturers partially suspended production in early 2020, and domestic as well as foreign machinery demand is deteriorating. Exports are forecast to contract by more than 16% year-on-year in 2020, as demand from main trading partners in Asia (especially China) and the US is sharply declining.

The government has proposed a fiscal stimulus package of JPY 117 trillion (about 20% of GDP). The key measures comprise cash handouts to every individual and affected companies,

deferral of tax payments and social security contributions, and concessional loans from public and private financial institutions.

The Bank of Japan has so far refrained from lowering the key interest rate, which has been at -0.1% since early 2016. To counter the negative shock from the pandemic, the Bank of Japan (BoJ) introduced a set of measures to provide liquidity and support credit flows. It is also increasing its asset purchases. Japan already holds a record JPY 512 trillion of central bank assets (93% of GDP), by far the largest of major advanced economies. Given the new asset purchase programme, the balance sheet will expand further in 2020.

Insolvencies expected to increase sharply

Despite the comprehensive fiscal and monetary measures to support the economy, business insolvencies are forecast to increase 13% in 2020. Mainly affected are retail, transport and hospitality sectors, while export-oriented businesses will be strained by lower demand (especially from China), especially for ICT-related products.

Only a modest rebound in 2021

In 2021 a modest rebound in GDP growth of 2.8% is forecast, as policy space is limited and uncertainty about economic prospects has increased markedly. Currently it is expected that domestic demand will start to recover in H2 of 2020 and exports will grow by more than 9% in 2021. Public consumption and investments are likely to be prompted by the sizeable stimulus measures.

However, several downside risks remain. A larger and longer-lasting coronavirus pandemic could lead to persistently low consumer sentiment, more financial market volatility and an even deeper contraction of global growth. The effects of a further escalation of the Sino-US trade dispute and rising protectionism on the Asian supply chain would hit Japan hard.

Disclaimer

This report is provided for information purposes only and is not intended as investment advice, legal advice or as a recommendation as to particular transactions, investments or strategies to any reader. Readers must make their own independent decisions, commercial or otherwise, regarding the information provided. While we have made every attempt to ensure that the information contained in this report has been obtained from reliable sources, Atradius is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this report is provided 'as is', with no guarantee of completeness, accuracy, timeliness or of the results obtained from its use, and without warranty of any kind, express or implied. In no event will Atradius, its related partnerships or corporations, or the partners, agents or employees thereof, be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any consequential, special or similar damages, even if advised of the possibility of such damages.

Copyright Atradius N.V. 2020