

BEST'S COUNTRY RISK REPORT

Japan CRT-2

August 22, 2018

Region: Asia

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- As a CRT-2 country, Japan has low levels of economic, political, and financial system risk. Growth is projected to decelerate slightly to 1.2% in 2018, from 1.7% in 2017. A further slowdown is expected in the medium term, with projected growth of 0%-1% through 2023. Issues hindering growth are mostly chronic and structural, including an aging population and low inflation, that remain a challenge for the government to overcome.
- Inflation remains low, but is expected to remain positive over the short term.
- The countries pictured in the map hold a great deal of the world's economic potential.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Eastern Asia

- Eastern Asia is home to some of the world's largest and most advanced economies. China (the second-largest economy in the world), Japan (third-largest), and South Korea (twelfth-largest) dominate much of Eastern Asia's economy as measured by gross domestic product (GDP) by the International Monetary Fund at year-end 2017.
- Tailwinds to the region include robust global growth and the resulting increase in demand for exports, growing domestic consumption, low interest rates, favorable labor market conditions, and government investment in infrastructure.
- Eastern Asia is particularly vulnerable to the rise in global trade protectionist policies and the resulting disruption in regional production networks. Additional risks for the region include an increase in geopolitical tensions, tighter global financial market conditions, potential capital outflows, exchange rate and financial market volatility, aging demographics and the resulting associated costs, government intervention in the private sector, and rising government debt levels.

Vital Statistics 2017

| | | |
|-----------------|--------|---------|
| Nominal GDP | USD bn | 4872.14 |
| Population | mil | 126.7 |
| GDP Per Capita | USD | 38,440 |
| Real GDP Growth | % | 1.7 |
| Inflation Rate | % | 0.5 |

United Nations Estimates

| | | |
|------------------|-------|------|
| Literacy Rate | % | n.a. |
| Urbanization | % | 94.3 |
| Dependency Ratio | % | 64.0 |
| Life Expectancy | Years | 85.3 |
| Median Age | Years | 47.3 |

Insurance Statistics

| | | |
|-------------------------------|---------------------------|---------|
| Insurance Regulator | Financial Services Agency | |
| Premiums Written (Life) | USD mil | 307,232 |
| Premiums Written (Non-Life) | USD mil | 114,818 |
| Premiums Growth (2016 - 2017) | % | -4.5 |

Regional Comparison

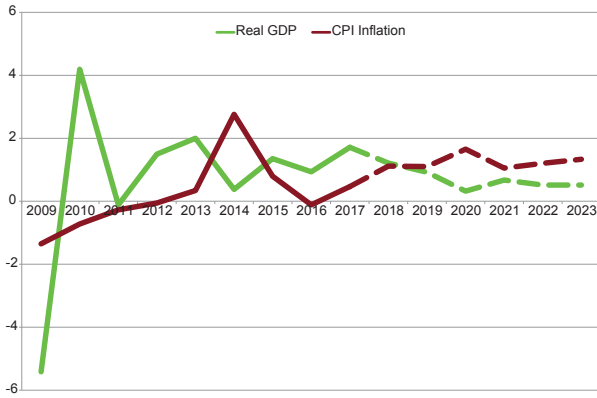
| | Country Risk Tier |
|-------------|-------------------|
| Japan | CRT-2 |
| China | CRT-3 |
| Hong Kong | CRT-2 |
| Macau | CRT-2 |
| South Korea | CRT-2 |
| Taiwan | CRT-2 |

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

Economic Risk: Low

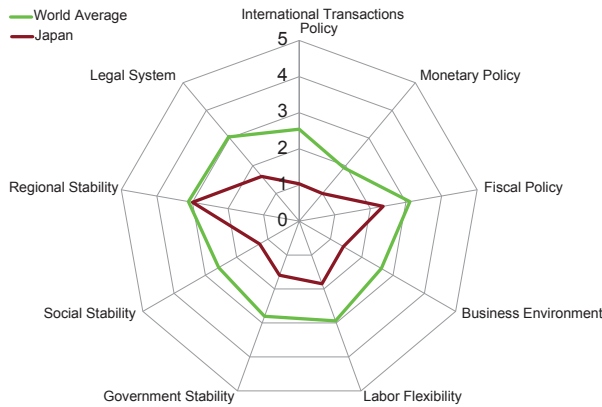
- The Japanese economy is dominated by its automotive industry, industrial machinery, and construction sectors, which have been enlivened by the upcoming 2020 Olympic games, stimulus policies, and reconstruction efforts following the 2011 natural disasters.
- Geographic location makes Japan vulnerable to earthquakes and tsunamis. The scarcity of critical natural resources was further impacted by the 2011 meltdown at the Fukushima Nuclear Power Plant. More than 95% of the country's energy is imported, exposing Japan to external shocks.
- Japan's population is aging rapidly, constraining the size of its workforce, which brings a long-term challenge. The labor market's inflexibility also calls for improvements.

Political Risk: Low

- The Japanese government is democratic and relatively stable. Prime Minister Shinzo Abe has been successful in addressing the country's persistently low inflation, while attempting to implement structural reforms.
- Abe's involvement in a political scandal raises the risk of social unrest and has dampened the public's confidence in the government. Protests in Japan are peaceful and driven mostly by environmental concerns and the government's planned expansion of the Japanese Self-Defense Forces.
- Business operations are costly due to heavy government regulation. The business environment is somewhat closed; cooperation between the government and some industries makes it difficult for start-up companies to enter the market.
- The judiciary in Japan is highly independent and advanced. Law enforcement is consistent, but judicial processes can be inefficient and certain regulations lack transparency.
- Regional tensions with Japan's neighbors—including China, Russia, and North Korea—persist, but direct military confrontation is unlikely.

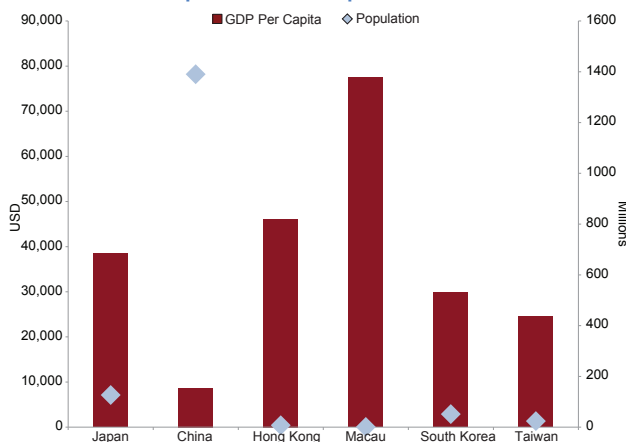
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Low

- The Financial Services Agency (FSA) regulates the banking and insurance industries.
- Japan's tax system is transparent and well-developed, but tax rates are high by regional standards, which reduces the country's competitiveness. The tax base is relatively narrow, and incentives are inadequate to encourage start-up companies.
- The financial system is stable, but profitability is low. As a result of the aging population, the banks' role in the economy is likely to decrease in importance.
- Growth has been persistently weak and the country faces stagnation. The Bank of Japan introduced negative interest rates designed to encourage banks to lend to businesses and enhance investment levels.