

COUNTRY PROFILE:**JAPAN****DATED:****NOVEMBER 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	1A	No Restrictions

Recent Political Highlights

- ❑ The new prime minister Taro Aso is expected to delay calling an early general election until the first half of 2009. After dominating Japanese politics for over fifty years, the ruling Liberal Democratic Party (LDP) is now facing a growing opposition.
- ❑ Mr Aso passed up an opportunity for an early poll at the end of this month and is now trying to guide the national budget through by March 31, before calling for an election.

Recent Economic Highlights

- ❑ The world's second largest economy entered its first recession since 2001 during the three months to September 2008 when GDP growth shrank 0.4% after shrinking 3.7% during the previous quarter. Economists say that condition may get even worse with the slowdown deepening as the global financial crisis hurts exports, prompting companies to reduce investments. Economists from JP Morgan Chase believe that Japan may be entering its deepest recession in a decade as the global financial crisis cools demand overseas.
- ❑ Japan has the lowest interest rates among the twenty biggest economies and its public debt exceeds 180% of GDP, limiting Government's ability to stimulate growth.
- ❑ Japan's economics minister says that he does not expect the economy to return to growth until 2010, suggesting that the recession that began in the second quarter could be much longer than the central bank has forecast. The central bank expects the economy to grow 0.1% in the first fiscal year that ends in March 2009 followed by a 0.6% expansion in the next fiscal year. The OECD forecasts the economy to shrink 0.1% next year while the IMF expects it to shrink 0.2%
- ❑ Government may consider further measures to jolt the economy out of recession if the ¥5trillion (\$52bn) stimulus plan announced in August is insufficient. A supplementary budget was passed last month to pay for ¥1.8trillion in spending. A second package is being held up as Government considers how to fund it.
- ❑ The OECD says that inflation will ease next year and prices will fall in 2010. Consumer prices will rise 1.4% this year and 0.3% in 2009 before declining 0.1% in 2010.
- ❑ After successive years of massive contract price increases for raw materials, Japanese steelmakers are anticipating output reductions over the next year of between 10% - 20% and they expect iron ore prices to fall by a similar margin.
- ❑ The total net profit of Japan's six major banking groups fell 58% in the six months through September from a year earlier to ¥398bn.
- ❑ Japan's corporate bankruptcies rose to the highest level in more than five years in October as the fallout from the global credit market turmoil engulfed the economy. Business failures climbed 13.4% to 1,429 cases from the same month of 2007. Increasing bankruptcies in the property industry was making it costlier for some companies to borrow, further stifling economic growth. The bank lowered interest rates to 0.3% from 0.5% last month – its first cut in seven years.
- ❑ Japan has agreed to become a partner in the World Bank's Group fund by investing \$2bn to help recapitalise banks in smaller emerging markets. The fund aims to inject capital in smaller emerging markets which may suffer as investment flows decline in the wake of the global financial crisis.
- ❑ Toyota Motor Corp says that for now it is sticking with plans to open its new Mississippi plant in 2010. This is despite the company earlier saying that it was reviewing all future production projects and reports said that eroding North American sales had forced Toyota to consider postponing the start of production to 2011 or later. Toyota also said that its net profit for July-September plunged 69% before downgrading its full-year profit forecast to ¥550bn – a third of last year's result.
- ❑ Nissan Motor Company recently said that it would cut production for the second time in two weeks. Japan's third-largest automaker said it plans to lower domestic output by 72,000 units during the remainder of this year through to March 2009, over and above the global production reduction of 200,000 units it announced on 31st October.

Latest Trade Developments

- ❑ Major exports: transport equipment, motor vehicles, semiconductors, electrical machinery and chemicals.
- ❑ Major imports: machinery and equipment, fuels, food items, chemicals, textiles and raw materials.
- ❑ Main trading partners: China, US, Saudi Arabia, UAE, South Korea, Australia, Indonesia, Taiwan and Hong Kong.
- ❑ It is likely that Japan will approve the importation of whalemeat from Iceland and Norway after an import licence was granted. A 65-tonne consignment, which was sent to Japan in June, had been held in customs since its arrival. Whalemeat trade is banned under UN rules, but the three countries involved hold opt-outs, making it legal.
- ❑ South African exports to Japan totaled R50bn in 2007 from R41bn in 2006 and R11.4bn in the year to March 2008, making it SA's third largest export market.