Japan's Sovereign Rating

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Agenda

1. Review of Japan’s Fiscal Position and Sovereign Rating

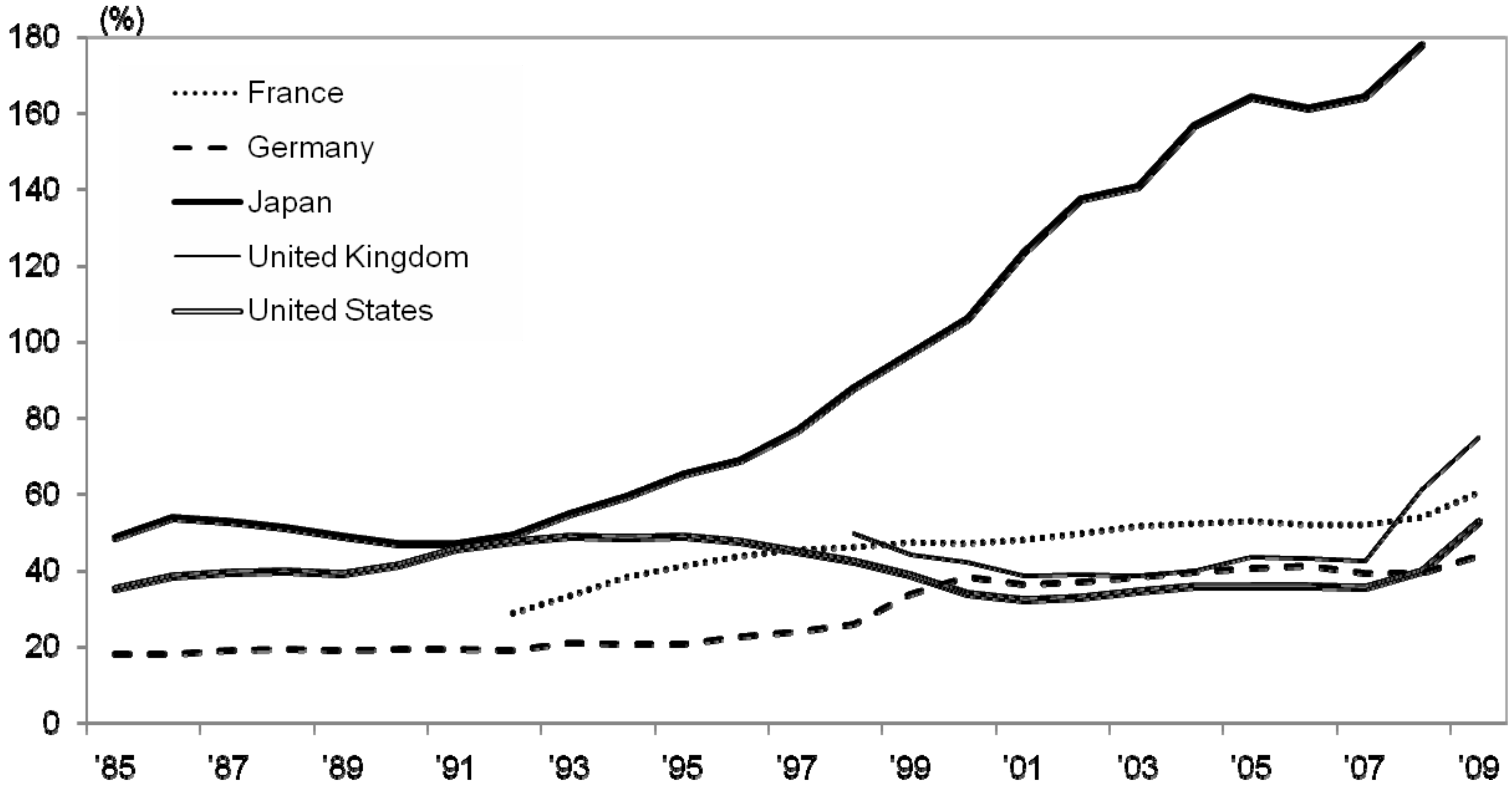
2. Impact of the Earthquake

3. Implications

1. Review of Japan’s Fiscal Position and Sovereign Rating

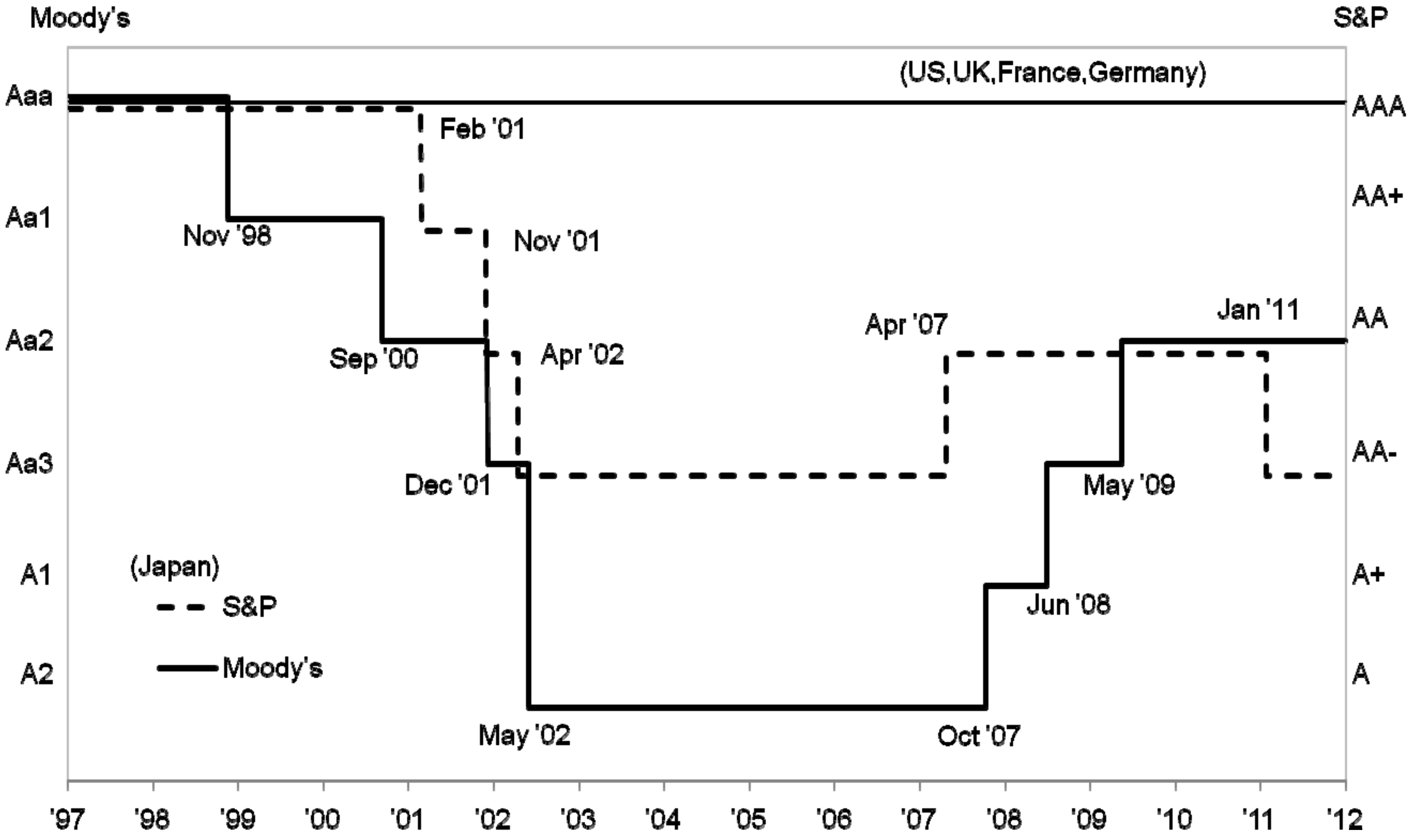
Size of Sovereign Debt

Ratio of Central Government Debt to GDP



Source: OECD

Sovereign Rating



Source: Moody's, S&P

Why Downgraded?

1. Increase in the Government Debt

2. Economic Weakness and Deflation

3. Demographic Pressure (Aging) and Pension Burdens

4. Difficulty in Political Consensus

Source: Press Releases of Credit Rating Agencies

Why Upgraded?

1. Expectation for Continuity of Fiscal Consolidation

2. Likelihood of Sustained Improvement in Macroeconomic Performance

3. Relative Resilience of the Economy and Banking Sector Observed after 2008

Source: Press Releases of Credit Rating Agencies

Long-term JGB Interest Rate

Interest Rate for 10-Year Japanese Government Bond

Note: Upgrades/Downgrades are indecated by vertical lines.

2. Impact of the Earthquake

Estimated Damages

- The government temporarily estimates the damages to "capital stock" amount to 16 – 25 trillion yen.

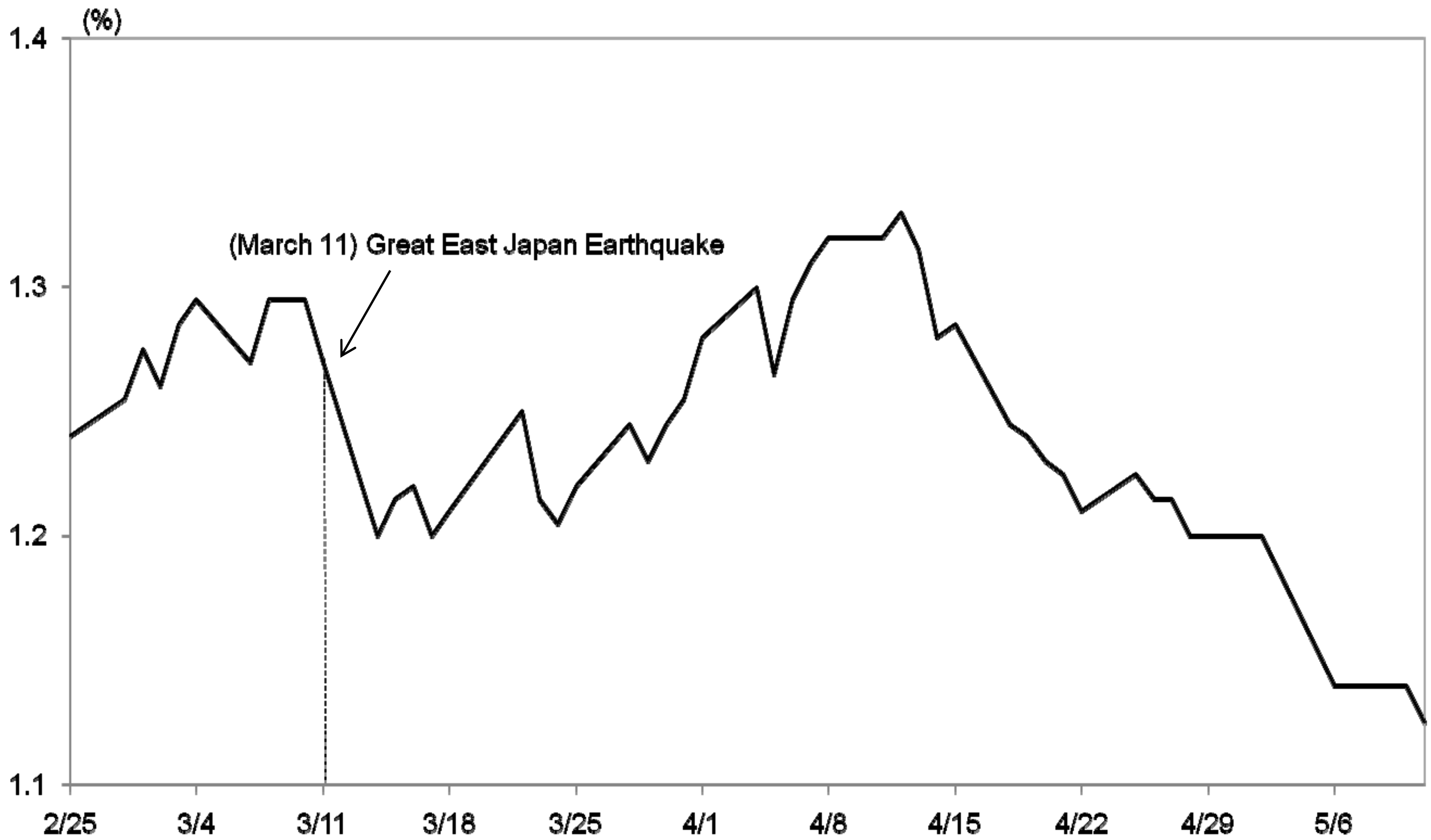
- The estimate includes damages to:
  - Residential and commercial buildings
  - Electricity, gas, water supply facilities
  - Roads, ports and airports
  - Public park and other capital stocks

First Extra Budget

- 4 trillion yen spending includes:
  - Public works (1.2 trillion)
  - Temporary home building (0.4 trillion)
  - Rubble clearance (0.4 trillion)
- No additional government debt this time.
- Additional extra budget(s) expected.
- S&P's outlook became "negative", although credit rating is unchanged.

JGB Interest Rate after the Quake

Interest Rate for 10-Year JGB



3. Implications

Implications

- Difficulty in evaluating risk of sovereign debt

- Political/Journalistic reactions as well as impacts on the market

- Difference in detailed situations among countries