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 indicated 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

(March 11) Great East Japan Earthquake
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