

# Japan

## Rating report

### Rating rationale

**A wealthy, diversified and sophisticated economy:** Japan benefits from high wealth levels as well as diversified and competitive economy, supported by sophisticated high-tech industries and a strong base of highly innovative firms. These act as crucial supports for the single-A sovereign rating.

**Strong profile of sovereign debt and an independent monetary policy:** Japan benefits from very strong funding flexibility with Japanese government bonds (JGBs) as a global safe asset and interest rates remaining low relative to global peers, despite the recent rises in yields. In addition, the sovereign benefits from a large domestic investor base, significant government assets, and continued market support from the comparatively accommodative policies of the Bank of Japan (BoJ). These factors reduce the risks from comparatively weak long-run budgetary fundamentals and the very elevated gross public debt.

**A robust external position and reserve currency:** the sovereign's status as the globe's leading external creditor is supported by structural current-account surpluses, elevated domestic savings, alongside a sophisticated domestic banking system. These factors, combined with moderate gross external debt and global safe-haven and reserve-currency statuses, curtails the vulnerabilities to external shocks and risks concerning external-debt sustainability.

**Ratings challenges:** i) exceptionally elevated gross government debt leading to rising interest spending; ii) low nominal growth potential reflecting a shrinking and ageing population and years of record low inflation; and iii) rising spending pressure related to pensions, healthcare, investment needs for the green transition and national defence.

Figure 1: Japan's sovereign-rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative****	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
ESG risk	Domestic economic risk	35%	aaa	JPY [+1]	Japan [-0]	- 2/3	A
	Public finance risk	20%	bb-			- 1/3	
	External economic risk	10%	aaa			1/3	
	Financial stability risk	10%	aaa			- 1/3	
	Environmental factors	5%	bbb-			- 1/3	
	Social factors	7.5%	b-			0	
	Governance factors	12.5%	aaa			- 1/3	
	<b>Sovereign Quantitative Model***</b>	<b>aa</b>				<b>-2</b>	
<b>Additional considerations*****</b>					<b>-1</b>		

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

\*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

\*\*\* The Rating Committee approved an indicative rating of 'aa'.

\*\*\*\* The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer.

\*\*\*\*\* A one-notch negative adjustment is applied to account for Japan's high public indebtedness not fully captured by the model.

For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Foreign currency

Long-term issuer rating/Outlook

**A/Stable**

Senior unsecured debt/Outlook

**A/Stable**

Short-term issuer rating/Outlook

**S-1/Stable**

### Local currency

Long-term issuer rating/Outlook

**A/Stable**

Senior unsecured debt/Outlook

**A/Stable**

Short-term issuer rating/Outlook

**S-1/Stable**

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## Credit strengths and challenges

### Credit strengths

- A wealthy, competitive and diversified economy
- JGBs as a safe asset, strong funding flexibility, very-low rates, debt monetisation
- Robust external position and yen as a global reserve currency

### Credit challenges

- Very elevated sovereign debt stock
- Comparatively low nominal growth potential
- Rising spending pressure on pension, healthcare, investments for the green transition and national defence

## Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

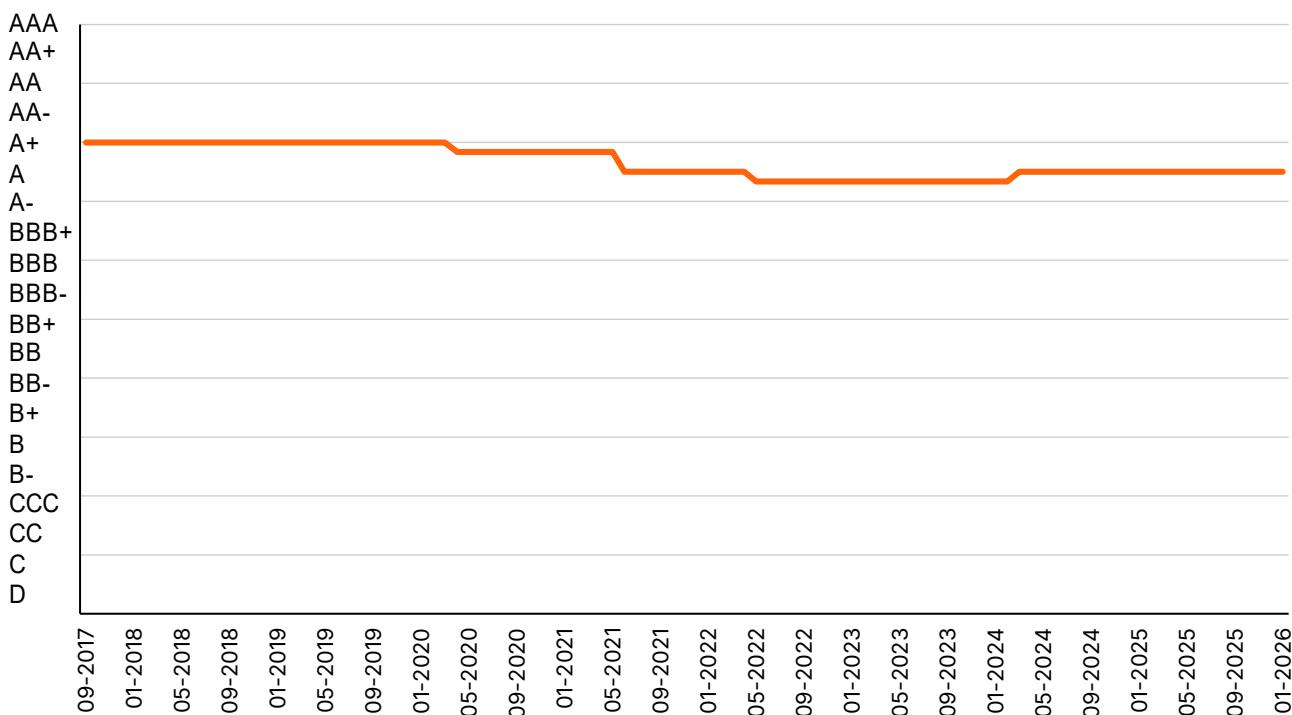
### Positive rating-change drivers

- Public debt-to-GDP declines meaningfully, supported by stronger nominal economic growth and/or budgetary consolidation steps
- The achievement of stronger sustainable nominal growth

### Negative rating-change drivers

- Debt sustainability weakens significantly, due to material rise in interest-payment burden or weakening debt structure
- The government sees significant reductions in its funding flexibility and/or the weakening of the reserve-currency status of yen

**Figure 2: Rating history**



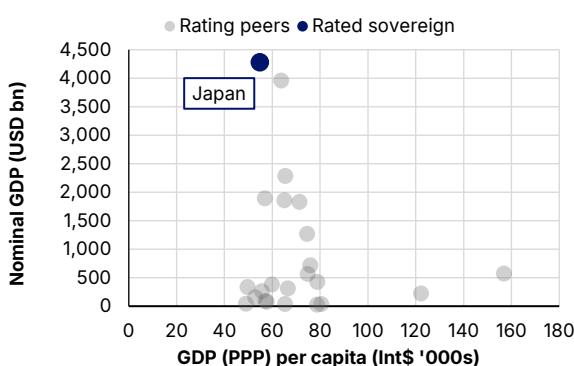
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.  
Source: Scope Ratings.

## Domestic economic risk

### Overview of Scope's assessments of Japan's Domestic Economic Risk

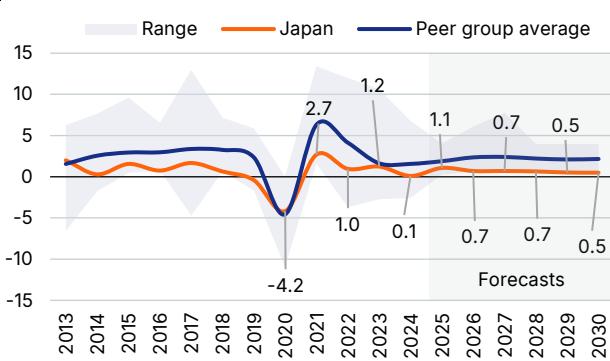
SQM <sup>1</sup> indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential and outlook	Weak	- 1/3	Comparatively low growth potential despite ongoing structural reforms; shrinking population and workforce present challenges
	Monetary policy framework	Neutral	0	The BoJ is a leading global central bank; the ultra-accommodative policy has held rates low and monetised half of the government debt; independent monetary policy
	Macroeconomic stability and sustainability	Weak	- 1/3	A large, competitive and diversified economy; but shrinking population and workforce present challenges for long-run economic growth

Figure 3: Nominal GDP and GDP per capita (2025F)



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



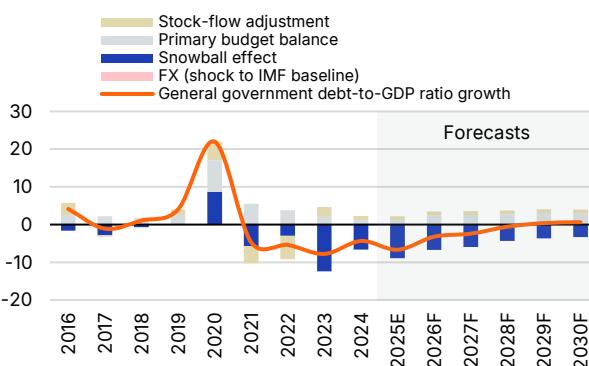
Source: IMF WEO, Scope Ratings forecasts

## Public finance risk

### Overview of Scope's assessments of Japan's Public Finance Risk

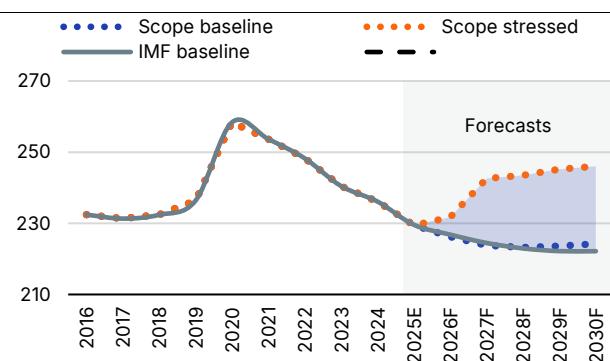
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Fiscal policy framework	Weak	- 1/3	Persistent budget deficits exacerbated by an ageing population and associated shrinking tax base; near term spending pressures
	Long-term debt trajectory	Weak	- 1/3	A very-elevated public debt ratio poses sustainability challenges
	Debt profile and market access	Strong	1/3	Excellent market access and still low rates, smooth redemption profile but elevated financing requirements, a large domestic investor base, debt denominated entirely in yen, significant monetisation of the debt, world's largest single creditor nation

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

<sup>1</sup> Sovereign Quantitative Model

## External economic risk

### Overview of Scope's assessments of Japan's *External Economic Risk*

SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Strong	1/3	A record of current-account surpluses supported by a diversified export base and significant external-creditor position
	External debt structure	Weak	- 1/3	A moderate external-debt stock; but a significant share of external liabilities has a short-term maturity
	Resilience to short-term external shocks	Strong	1/3	The reserve-currency status of yen, large forex reserves (especially for an advanced economy) and strong net external creditor position

Figure 7: Current-account balance, % of GDP

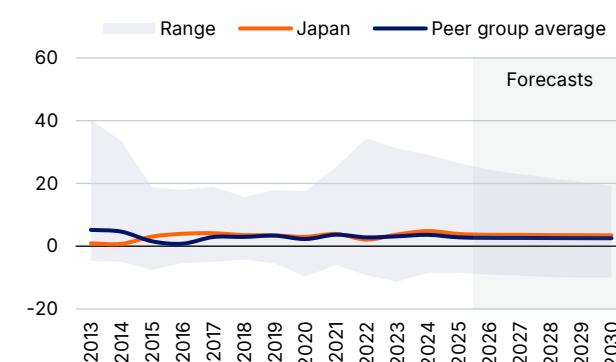
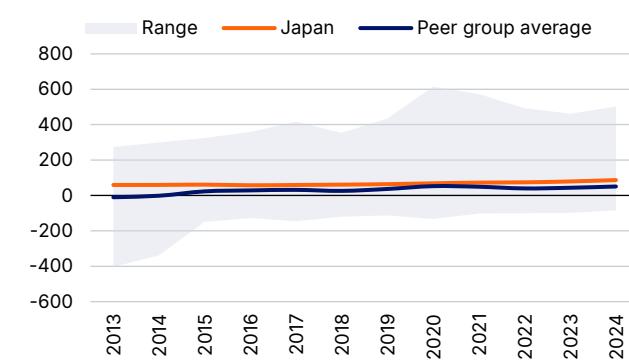


Figure 8: Net international investment position (NIIP), % GDP



## Financial stability risk

### Overview of Scope's assessments of Japan's *Financial Stability Risk*

SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Weak	- 1/3	Banking-system profitability challenges but gradual improvement as the era of negative rates has ended; low NPLs; comparatively moderate tier-1 ratio; significant banking-system liquidity
	Financial sector oversight and governance	Neutral	0	Strong oversight frameworks under the BoJ and the Financial Services Agency
	Financial imbalances	Neutral	0	Moderate levels of private-sector debt; modest private-sector credit growth

Figure 9: Non-performing loans (NPLs), % of total loans

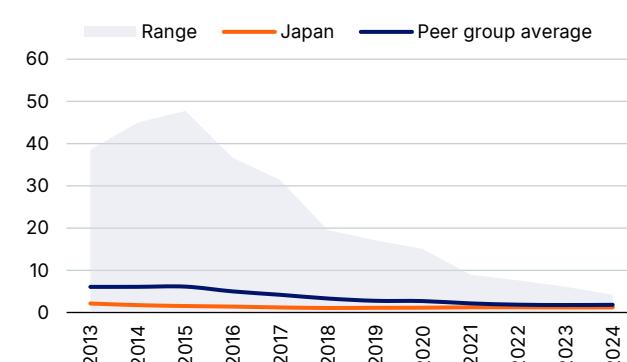
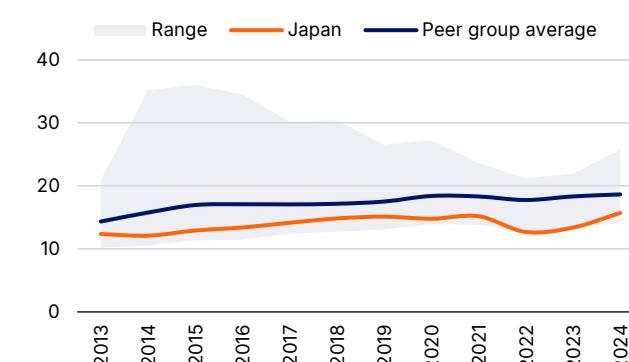


Figure 10: Tier 1 capital, % of risk-weighted assets

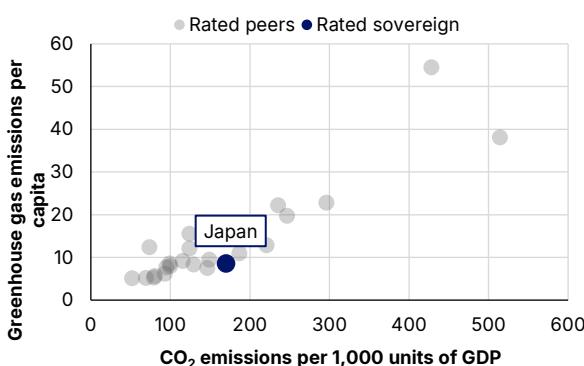


## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Japan's ESG Risk

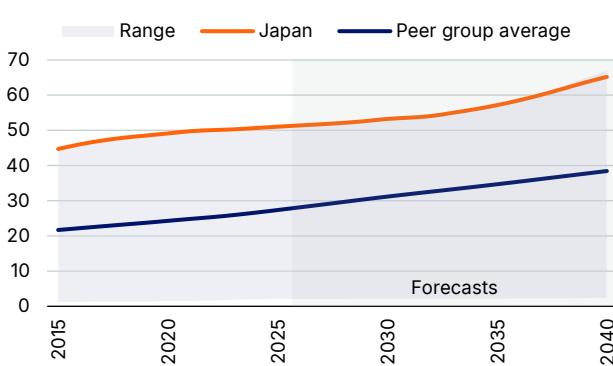
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
<b>A+</b>	Environmental factors	Weak	- 1/3	A high exposure to natural-disaster risks; limited natural-resource endowments
	Social factors	Neutral	0	Low inequality, strong social-insurance system; adverse demographics pressure social-care systems; strong health metrics; deteriorating social conditions for the elderly
	Governance factors	Weak	- 1/3	High-quality democratic institutions although historical government instability and recent early parliamentary elections

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e (2024)



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

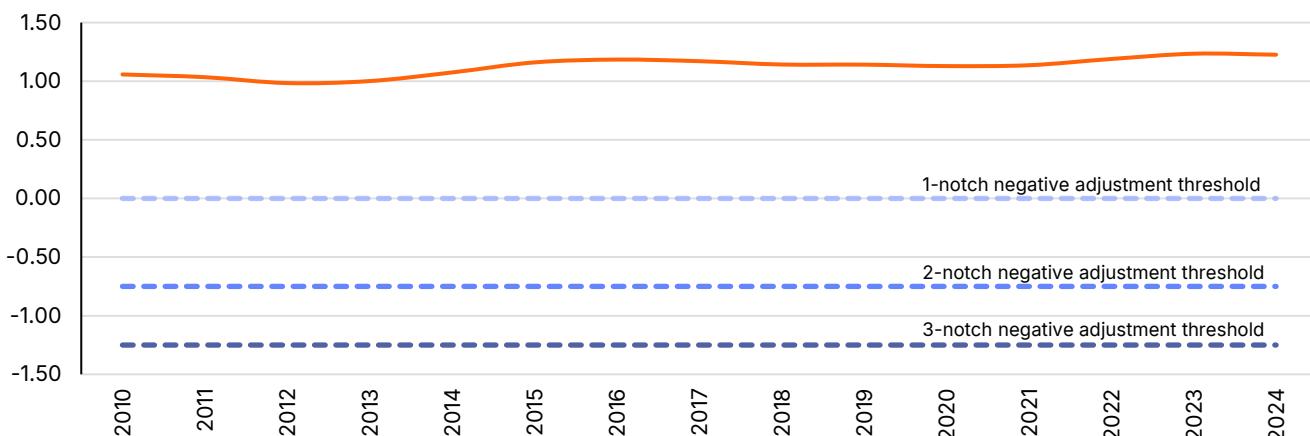
### IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Japan, 3-year moving average



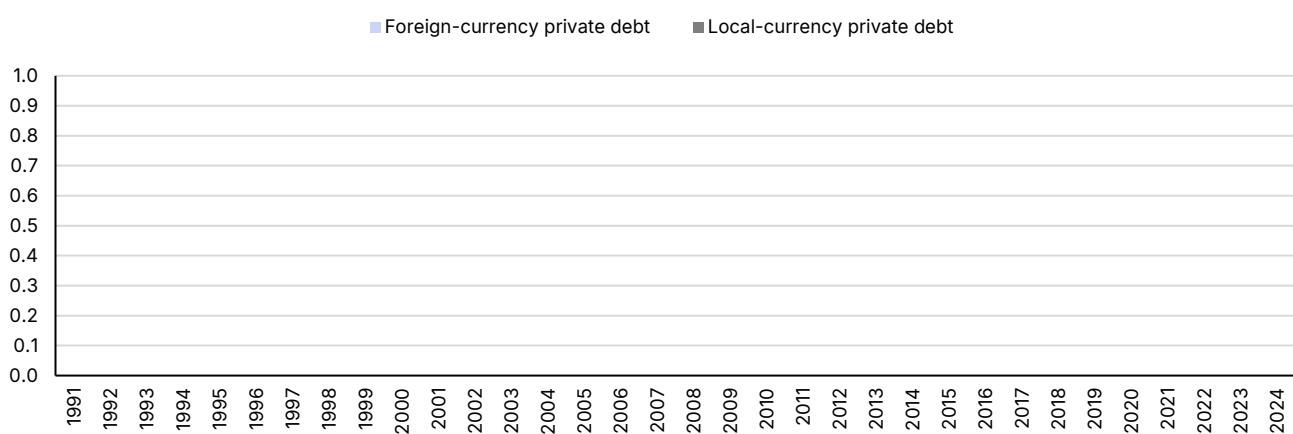
Source: WB, Scope Ratings

## Additional considerations

Japan is a clear outlier for some variables in Scope's Sovereign Quantitative Model (SQM) used to measure public finance risk. This includes general government gross debt to revenue and general government gross debt to GDP. As the SQM is unable to fully capture the implications for public finance risks, one additional downwards notch is applied.

## Appendix 1. Sovereign default history

### Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).

Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

## Appendix 2. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Austria
Belgium
Czech Republic
Finland
Portugal
Spain
United Kingdom

\*Select publicly rated sovereigns only; the full sample of sovereign-rating peers may be larger.

## Appendix 3. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 30 January 2026	25.64

#### Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other international statistical series and may not immediately reflect latest national updates.

Pillar	Core variable	Source	2020	2021	2022	2023	2024E	2025E
Domestic Economic	<b>GDP per capita (PPP)</b> , Int\$ '000s	IMF	42.6	44.7	48.5	51.1	52.7	54.8
	<b>Nominal GDP</b> , USD bn	IMF	5,054	5,039	4,263	4,205	4,019	4,280
	<b>Real growth</b> , %	IMF	-4.2	2.7	1.0	1.2	0.1	1.1
	<b>CPI inflation</b> , %	IMF	0.0	-0.2	2.5	3.3	2.7	3.3
	<b>Unemployment rate</b> , %	WB	2.8	2.8	2.6	2.6	2.5	-
Public Finance	<b>Public debt</b> , % of GDP	IMF	258.4	253.7	248.2	240.5	236.1	229.6
	<b>Net interest payment</b> , % of government revenue	IMF	1.8	1.6	1.1	0.6	1.0	1.1
	<b>Primary balance</b> , % of GDP	IMF	-8.4	-5.5	-3.8	-2.0	-1.1	-0.9
External Economic	<b>Current-account balance</b> , % of GDP	IMF	3.0	3.9	2.1	3.7	4.8	3.9
	<b>Total reserves</b> , months of imports	WB	18.5	16.1	12.3	13.5	13.0	-
	<b>NIIP</b> , % of GDP	IMF	68.7	72.6	74.3	79.0	86.9	-
Financial Stability	<b>NPL ratio</b> , % of total loans	IMF	1.1	1.2	1.2	1.2	1.2	-
	<b>Tier 1 ratio</b> , % of risk-weighted assets	IMF	14.3	14.6	13.8	13.4	14.9	15.2
	<b>Credit to the private sector</b> , % of GDP	WB	195.5	195.6	196.6	195.2	196.8	-
ESG	<b>CO<sub>2</sub> per EUR 1,000 of GDP</b> , mtCO <sub>2</sub> e	EC	195.3	193.8	186.7	175.6	170.1	-
	<b>Income share of bottom 50%</b> , %	WID	18.6	18.6	18.6	18.6	18.6	-
	<b>Labour-force participation rate</b> , %	WB	79.8	80.3	80.9	81.5	81.9	-
	<b>Old-age dependency ratio</b> , %	UN	49.1	49.7	50.1	50.3	50.7	51.0
	<b>Composite governance indicators*</b>	WB	1.4	1.4	1.5	1.5	1.5	-
	<b>Political stability</b> , index	WB	1.1	1.1	1.2	1.2	1.2	-

\*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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**Applied methodology**

[Sovereign Rating Methodology](#), January 2025

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