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ECONOMIC AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW

Japan, the world's third-largest economy, is highly exposed to external impacts due to its heavy reliance on exports. This vulnerability has manifested itself in recent years, as its economy has experienced periods of recession alongside the global economic slowdown. Following a robust first half of 2023, economic activity in Japan tapered off during the latter part of the year, influenced by sustained high inflation and subdued global demand. The International Monetary Fund projected a growth rate of 2% for 2023, reflecting a slowdown in domestic demand and a rebound in imports. Real GDP growth is expected to decelerate to 1% in 2024 and further to 0.7% in 2025 (IMF), as the cyclical downturn compounds structural challenges, including a swiftly ageing society, diminishing labour supply, and limited innovative capacity within the economy, all of which curtail Japan's potential growth trajectory.

Japan has the highest debt-to-GDP ratio in the world: estimated at 260.1% in 2022, it declined to 255.2% last year. The government's financing capacity benefits from low bond yields, which are sustained by the central bank's monetary strategy and the broad domestic investor base. The IMF sees the debt ratio declining to 250.6% of GDP by 2025. In 2023, the fiscal deficit stood at approximately 5.7% of GDP, driven by a substantial array of measures introduced to offset the escalating cost of living. These measures included subsidies for electricity, gas, and oil, as well as cash assistance to families with children. In October 2023, a new round of fiscal stimulus was unveiled, extending energy subsidies until the close of 2023 and offering support to small and medium-sized enterprises. Additionally, the government plans to augment military spending over the next five years to achieve a target of 2% of GDP by 2027. However, fiscal support is anticipated to gradually diminish within the projected timeframe, with the fiscal deficit expected to decrease steadily to 2.6% of GDP by 2025. Following its peak at 4.3% in January 2023, headline inflation moderated to 3% by September 2023, attributed to decreased energy prices and special policy-related factors such as subsidies for gas and electricity. For the year as a whole, the IMF estimated inflation at 3.2%. Annual average inflation is expected to decline gradually to 2.9% in 2024 and further to 1.9% in 2025 (IMF), as softening domestic demand is partly offset by increasing wage pressures and the discontinuation of energy subsidies. Monetary policy is likely to remain accommodative throughout the forecast horizon. However, the increasing disparity between headline interest rates in Japan and globally may lead to additional yen depreciation and upward pressure on government bond yields.

The demographic troubles faced by Japan are getting more serious. An ageing society causes a big challenge for the country, as the government's expected spending on pensions and health care is set to keep on rising. Additionally, a declining birth rate leads to a significant decrease in the population, and as a result a decrease in the number of taxpayers. Japan's working-age population has been declining for a few decades, but that has been offset by rising participation, helping in employment growth and maintaining a low unemployment rate (at 2.5% in 2023, with a marginal decline to 2.3% expected over the forecast horizon as per the IMF).

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
GDP (billions USD)	4,237.53	4,230.86	4,286.19	4,524.63	4,710.14
GDP (Constant Prices, Annual % Change)	1.0	2.0	1.0	0.7	0.5

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
GDP per Capita (USD)	33,854	33,950	34,555	36,657	38,358
General Government Balance (in % of GDP)	-6.8	-5.7	-3.8	-2.6	-2.7
General Government Gross Debt (in % of GDP)	260.1	255.2	251.9	250.6	251.1
Inflation Rate (%)	n/a	3.2	2.9	1.9	1.6
Unemployment Rate (% of the Labour Force)	2.6	2.5	2.3	2.3	2.3
Current Account (billions USD)	90.62	141.18	157.01	164.55	165.01
Current Account (in % of GDP)	2.1	3.3	3.7	3.6	3.5

Source: IMF – World Economic Outlook Database , October 2021

Country Risk

See the country [risk analysis](#) provided by [La Coface](#).

MAIN SECTORS OF INDUSTRY

Even though Japan has some deposits of gold, magnesium, coal and silver, the country has very limited natural resources overall and, as a result, is highly dependent on imports to meet its raw material and energy needs. On the other hand, thanks to its large maritime area, the country is one of the world's largest producers of fishing products. However, given that only 11% of Japan's surface is suitable for cultivation, the agricultural sector is small, contributing marginally to GDP (1%) and employing only 3% of the workforce (World Bank, latest data available). Tea and rice are the country's two largest crops, though the sector as a whole is highly subsidised and protected. Other major crops are corn, wheat, soybeans, barley, peanuts, rapeseed, and oats. The 5-year average harvested area for various crops is as follows: rice covers 1.5 million hectares (MHA), wheat 214,000 hectares (ha), soybeans 146,000 ha, barley 62,000 ha, peanuts 8,000 ha, and corn 1,200 ha. In terms of production volume, rice leads with an average of 10.4 million metric tons (mmt), followed by wheat at 991,000 metric tons (mt), soybeans at 224,000 mt, barley at 218,000 mt, peanuts at 20,000 mt, corn at 5,400 mt, rapeseed 4,000 mt, and oats 1,000 mt (data USDA).

Japan's industrial sector represents 28.8% of GDP and employs 24% of the workforce (World Bank). The Japanese industrial sector is a multifaceted landscape characterized by a blend of traditional and innovative industries. Historically, Japan has been renowned for its manufacturing prowess, particularly in the automotive, electronics, and machinery sectors. Companies like Toyota, Sony, and Panasonic have shaped the global industrial landscape. Additionally, Japan leads in advanced manufacturing technologies, robotics, and precision engineering, fostering a competitive edge in industries such as robotics, semiconductors, and high-tech materials. With a focus on innovation, Japan continues to explore emerging sectors such as renewable energy, biotechnology, and artificial intelligence, leveraging its strong research and development capabilities and skilled workforce to maintain its position as a global industrial leader. The country was the world's third-largest producer of cars and of ships in 2022.

The service sector accounts for around 69.9% of GDP and employs over 73% of the workforce. Dominating this sector are finance, insurance, and real estate, reflecting Japan's status as a global financial hub. Retail and wholesale trade also play significant roles, with iconic Japanese brands like Uniqlo contributing to both domestic and international commerce. Moreover, Japan's hospitality and tourism industry attracts millions of visitors annually (25 million tourists in 2023, reaching 79% of pre-COVID level, data JNTO). Emerging sectors in Japan's tertiary landscape include healthcare and eldercare services, driven by the country's ageing population, as well as information technology and digital services.

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector <i>(in % of Total Employment)</i>	3.2	23.7	73.1
Value Added <i>(in % of GDP)</i>	1.0	28.8	69.9
Value Added <i>(Annual % Change)</i>	3.3	4.9	2.3

Source: World Bank - Latest available data.

Monetary Indicators	2016	2017	2018	2019	2020
Japanese Yen (JPY) - Average Annual Exchange Rate For 1 USD	108.79	112.17	110.42	109.00	106.77

Source: World Bank - Latest available data.

FOREIGN TRADE

Foreign trade is an essential element of the Japanese economy, but the country is not fully open and imposes extensive non-tariff barriers, especially in the agricultural sector. Japan is the world's 5th-largest exporter and importer of goods (WTO), and foreign trade accounts for 47% of its GDP (World Bank, latest data available). The country mainly exports motor vehicles (11.6% of all exports) being the third exporter of cars worldwide, electronic integrated circuits (4.5%), semiconductors and related items (4.1%), parts and accessories for motor vehicles (3.9%), and petroleum oils (2%). The country's main imports include petroleum oils (11.2%) and gases (8%), coal (6.6%), electronic integrated circuits (3.6%), and telephones (3.2% - data Comtrade for 2022).

Japan's main export partners in 2022 were China (19.4%), the United States (18.7%), South Korea (7.2%), Hong Kong (4.4%), and Thailand (4.3%); whereas imports came chiefly from China (21%), the U.S. (10.1%), Australia (9.8%), the UAE (5.1%) and Saudi Arabia (4.7%). Japan is the EU's second-biggest trading partner in Asia after China, and together they both account for about a quarter of the world's GDP. The two parties signed an Economic Partnership Agreement, which entered into force in 2019. Moreover, Japan signed the Regional Comprehensive Economic Partnership (RCEP), arguably the largest free trade agreement in history (its signatories include China, Australia, South Korea, etc., cumulating about 30% of global GDP). The RCEP agreement entered into force on 1 January 2022.

The country traditionally has a large trade surplus; however, in recent years the balance turned null and it was negative by 3.8% of GDP in 2022 (World Bank). According to WTO data, Japan's exports of goods reached USD 746.9 billion (-1.2% year-on-year) in 2022, while imports amounted to USD 897.2 billion (+16.6 y-o-y). Concerning the service sector, exports decreased 1.9% year-on-year to USD 166.7 billion, whereas imports were stable at USD 209.5 billion. According to the Ministry of Trade, exports totalled JPY 100.8 billion in 2023 (+2.8%), whereas imports reached JPY 110.1 billion, marking a 7% decrease year-on-year.

Foreign Trade Values	2018	2019	2020	2021	2022
Imports of Goods <i>(million USD)</i>	748,488	720,957	635,460	768,976	897,242
Exports of Goods <i>(million USD)</i>	738,143	705,564	641,319	756,032	746,920
Imports of Services <i>(million USD)</i>	203,379	219,427	198,186	208,511	209,555
Exports of Services <i>(million USD)</i>	194,130	209,501	163,954	169,955	166,695

Source: World Trade Organisation (WTO) ; Latest available data

Foreign Trade Indicators	2018	2019	2020	2021	2022
Foreign Trade <i>(in % of GDP)</i>	36.6	35.2	31.4	36.9	n/a
Trade Balance <i>(million USD)</i>	10,587	1,361	26,647	16,706	-117,435

Foreign Trade Indicators	2018	2019	2020	2021	2022
Trade Balance (Including Service) <i>(million USD)</i>	1,405	-8,615	-7,598	-21,811	-158,671
Imports of Goods and Services <i>(Annual % Change)</i>	3.8	1.0	-6.8	5.1	n/a
Exports of Goods and Services <i>(Annual % Change)</i>	3.8	-1.5	-11.6	11.7	n/a
Imports of Goods and Services <i>(in % of GDP)</i>	18.3	17.8	15.8	18.7	n/a
Exports of Goods and Services <i>(in % of GDP)</i>	18.3	17.5	15.5	18.2	n/a

Source: World Bank ; Latest available data

Foreign Trade Forecasts	2023	2024 (e)	2025 (e)	2026 (e)	2027 (e)
Volume of exports of goods and services (Annual % change)	1.0	2.4	2.4	2.0	1.7
Volume of imports of goods and services (Annual % change)	-2.3	2.4	3.1	2.4	2.4

Source: IMF, World Economic Outlook ; Latest available data

Note: (e) Estimated Data

International Economic Cooperation

Japan is a member of the following international economic organisations: Asia-Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations (dialogue partner of ASEAN Plus Three), G-5, G-7, G-8, G-10, G-20, IMF, OECD, among others. For the full list of economic and other international organisations in which participates Japan click [here](#). International organisation membership of Japan is also outlined [here](#).

Free Trade Agreements

Japan is a member of Regional Comprehensive Economic Partnership ([RCEP](#)) signed on 15 November 2020. The complete and up-to-date list of Free Trade Agreements signed by Japan can be consulted [here](#).

Main Partner Countries

Main Customers <i>(% of Exports)</i>	2022
China	19.4%
United States	18.7%
South Korea	7.2%
Hong Kong SAR, China	4.4%
Thailand	4.3%
See More Countries	45.9%

Main Suppliers (% of Imports)	2022
China	21.0%
United States	10.1%
Australia	9.8%
United Arab Emirates	5.1%
Saudi Arabia	4.7%
See More Countries	49.2%

Source: Comtrade, Latest Available Data

POLITICAL OUTLINE

Current Political Leaders

Emperor: Naruhito (since 1 May 2019); succeeded his father who abdicated on 30 April 2019
Prime Minister: Fumio Kishida (since 4 October 2021)

Next Election Dates

House of Representatives: October 2025
House of Councillors: July 2025

Current Political Context

The ruling coalition, comprised of the Liberal Democratic Party and Komeito, commands a majority in the House of Representatives, holding 63% of the seats, and in the House of Councillors, with 58% representation, following their victory in the upper house election shortly after the assassination of former leader Shinzo Abe. However, support for Fumio Kishida's government has sharply declined to below 30% amidst revelations regarding the enduring connections between the LDP and the controversial Unification Church, as well as a succession of forced ministerial departures due to scandal.

The Japanese government is concerned about the intensification of regional security imbalances, especially regarding China's growing assertiveness: Japan identified the situation around Taiwan as a national security threat, with some representatives of the LDP party explicitly mentioning that a "major incident" over Taiwan would trigger the deployment of the Self-Defense Forces (SDF). Against the backdrop of escalated geopolitical tensions, Japan's government has redirected its focus towards enhancing supply-chain resilience and fortifying energy security. Meanwhile, diplomatic relations with South Korea have been improving, with Korean President Yoon proclaiming that South Korea and Japan "share universal values" and pursued common interests.

Main Political Parties

The main political parties in Japan include:

- **The Liberal Democratic Party** (LDP): centre-right, conservative, nationalist, liberal, populist
- **The Democratic Party of Japan** (CDP): centre to centre-right, liberal
- **Komeito** (NK): centre-right, conservative, pacifist, in coalition with the LDP
- **Social Democratic Party** (SDP): centre-left to left-wing, social-democratic
- **Japanese Communist Party** (JPC): left-wing to far-left, socialist; more than doubled its representation in the last election
- **Japan Innovation Party** (Ishin): conservative, right-wing, populist
- **Free Education For All** (FEFA): centrist, advocates for free education, raising the minimum wage, welfare

policies and pacifism

- [Okinawa Social Mass Party](#): local party represented in the parliament, social-democratic
- [Democratic Party for the People \(DPP\)](#): centre to centre-right
- [Reiwa Shinsengumi](#): left-wing, populist and progressive
- [NHK Party](#): populist
- [Constitutional Democratic Party](#): centre-left to left-wing, liberal, pacifist; opposition party
- Japan Restoration Party (JRP): right-wing to far-right, nationalist, populist; third largest force, but is slowly losing representation.

Executive Power

The head of State is the Emperor and the role is largely ceremonial. The leader of the majority party or leader of the majority coalition in the parliament (House of Representatives) is designated as the japan.kantei.go.jp/ for a four-year term. The Prime Minister is the Head of the Government and enjoys executive powers, which include implementation of the law and running of day-to-day affairs. The [Cabinet](#) is appointed by the Prime Minister.

Legislative Power

The legislature in Japan is bicameral. The parliament, called the National Diet, consists of the [House of Councillors](#) (the upper house) and the [House of Representatives](#) (the lower house). The House of Councillors contains 248 members, elected through a popular vote for six-year terms, with half of the membership being renewed every three years. The House of Representatives contains 465 members, elected through a popular vote for four-year terms. The Constitution of Japan states that the nation's 'highest organ of state power' is the National Diet. The executive branch of government is directly or indirectly dependent on the support of the National Diet, which is often expressed through a vote of confidence.

COVID-19 COUNTRY RESPONSE

Travel restrictions

Regularly updated travel information for all countries with regards to Covid-19 related entry regulations, flight bans, test and vaccines requirements is available on [TravelDoc Infopage](#).

To find information about the current travel regulations, including health requirements, it is also advised to consult Travel Regulations Map provided and updated on a daily basis by [IATA](#).

Import & export restrictions

A general overview of trade restrictions which were adopted by different countries during the COVID-19 pandemic is available on the [International Trade Centre's COVID-19 Temporary Trade Measures](#) webpage.

Economic recovery plan

For the general overview of the key economic policy responses to the COVID-19 pandemic (fiscal, monetary and macroeconomic) undertaken by the government of Japan, please consult the country's dedicated section in the [IMF's Policy Tracker platform](#).

Support plan for businesses

For an evaluation of impact of the Covid pandemic on SMEs and an inventory of country responses to foster SME resilience, refer to the OECD's [SME Covid-19 Policy Responses](#) document.

You can also consult the World Bank's [Map of SME-Support Measures in Response to COVID-19](#).

