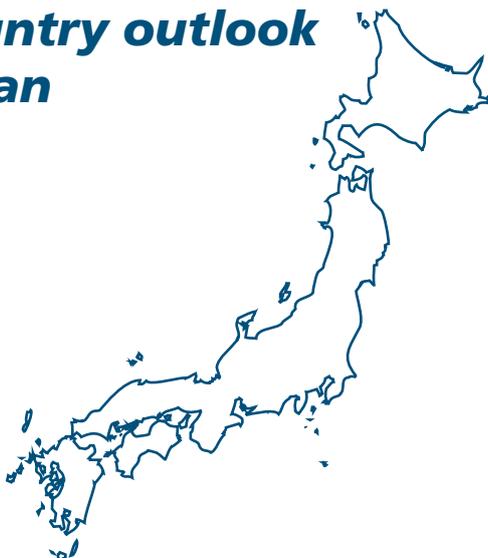




Country outlook
Japan





Japan



Form of Government: Parliamentary monarchy

Capital: Tokyo

Official language: Japanese

Population: 127 million inhabitants (2019)

Currency: Yen (JPY)

Exchange rate: 1 EUR = 119.84 JPY (29/05/2020)
1 USD = 107.79 JPY (29/05/2020)

GDP: \$4,971 billion (4% of world GDP)

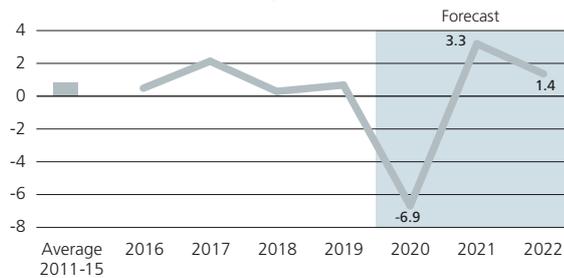
GDP per capita: \$39,304 (\$44,246 purchasing power parity)

Ease of doing business: 29th in the world out of 190 according to the World Bank (Doing Business)

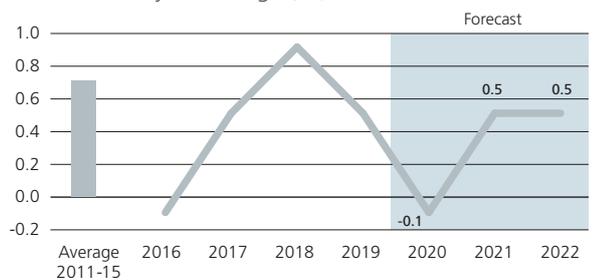
Religion: Buddhist

Economic forecast

GDP. Year-on-year change (%)



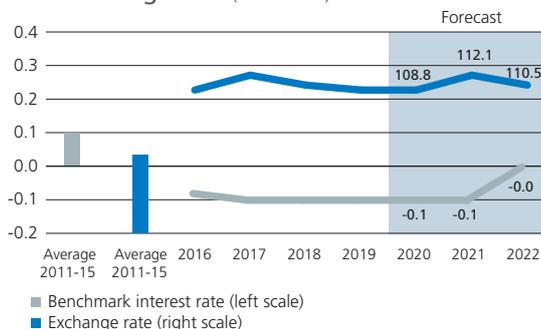
CPI. Year-on-year change (%)



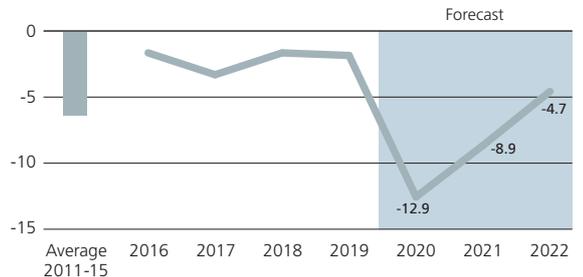
- In 2020, the Japanese economy will suffer its biggest contraction since the end of World War II (6.9% drop in GDP) due to: i) the effects of the coronavirus pandemic on domestic and foreign economic activity (as Japan is an open economy) and ii) the negative impact that is still being felt from the VAT hike at the end of 2019. However, the strength of the economic measures will help to partially mitigate these two negative impacts. Thus, looking ahead to 2021, the economy will grow by +3.3%, signalling a gradual but incomplete recovery. Furthermore, the high level of uncertainty regarding the containment of COVID-19 and possible medical advances to counteract it mean that current forecasts are more uncertain than usual.
- Inflation will ease and go into negative territory for the whole of 2020 (-0.1%) as a result of the weakness of domestic demand due to the impact of COVID-19 and the sharp fall in the price of oil. These two deflationary factors will more than offset the upward pressure exerted by the rise in VAT in October 2019. A return to normality after the impact of the pandemic and a recovery in oil prices will help to ensure a return to positive rates in 2021.

Economic policy

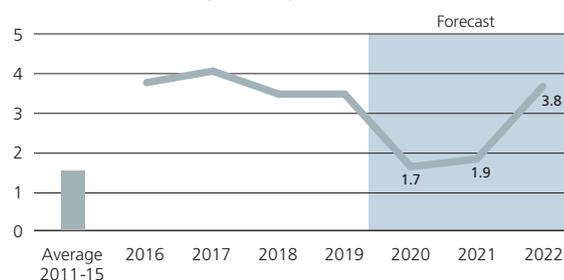
Benchmark interest rate (%) and exchange rate (JPY/USD)



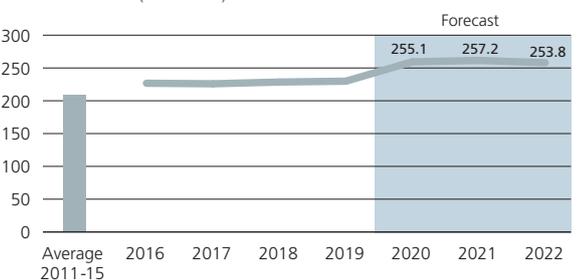
Fiscal balance (% GDP)



Current account (% GDP)



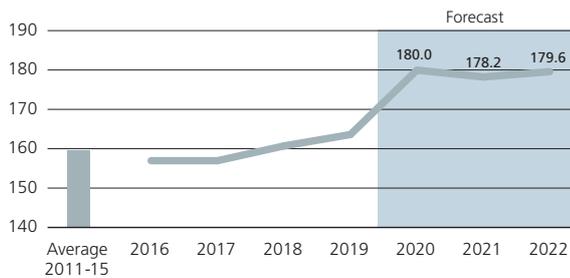
Public debt (% GDP)



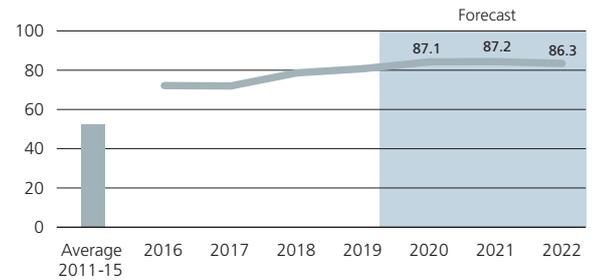
- The Bank of Japan's response to the coronavirus crisis has been important. This institution has increased the amount and frequency of its sovereign bond purchases, it has significantly increased its purchases of corporate debt and other assets and it has set up a new scheme to provide loans to businesses at very low interest rates.
- In the same vein, the fiscal response adopted by the Japanese government has also been decisive. Various fiscal packages have been announced that are valued at 234 trillion yen (42% of the country's GDP), where direct spending measures could represent around 10% of GDP. Notable policies include direct payments to citizens, increased coverage for unemployment, loans, guarantees and subsidies for companies and the deferral of tax payments.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



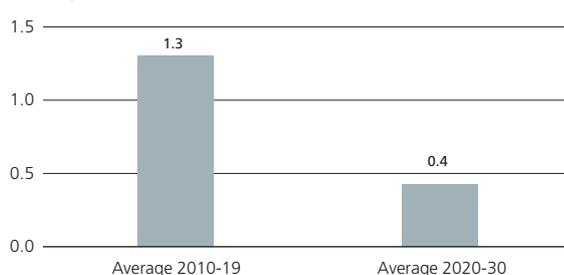
- The low interest rate environment, which will continue for a prolonged period, represents a major challenge for the profitability of the banking sector. Specifically, greater risk-taking by banks (especially regional banks) insurance companies and pension funds is a significant financial risk. However, the Japanese banks' capitalisation levels and the NPL ratio are still at satisfactory levels (Tier 1 regulatory capital ratio stands at 15.1%, and the NPL ratio is 1.1%).
- The strong fiscal response will lead to a significant worsening of the deficit, applying pressure on the country's substantial public debt, the highest in the world as a percentage of GDP and, by extension, on external debt. Nevertheless, the COVID-19 required exceptional measures. Moreover, despite the bloated debt, that fact that most of this debt is denominated in yen and nearly 80% of it is in domestic hands significantly tempers the sovereign risk.

Political situation

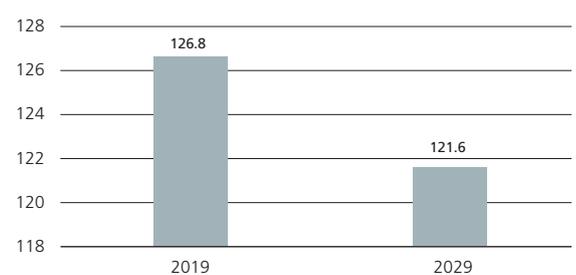
- The party of Prime Minister Shinzō Abe (LDP) is expected to remain in power through its coalition with the centre-right Kōmeitō party in the upcoming years without too many difficulties. This will allow further measures against COVID-19 to be approved if necessary and the continuation of its structural reform programme that was launched in 2013. Specifically, reforms that encourage an increase in workforce participation are expected.
- International relations with the US will remain close, despite the US swing towards protectionism with Trump as President. Considering this, the trade agreement reached by both countries and which has been in force since 2020 is remarkable, although no further progress is expected on trade in the short term. With regard to South Korea, we do not expect any major reconciliation, although we also do not anticipate any further heightening of tensions as happened in the summer of 2019.

Long-term outlook

GDP growth (%)



Population (millions of inhabitants)



- The long-term growth outlook is very moderate in the face of declining demographics, high public debt, a still low rate of female participation in the labour market and corporate structures that are still dysfunctional (despite improvements in corporate governance in recent years). Although pro-growth reforms are being implemented, their impact has so far been limited.
- However, the outbreak of COVID-19 could provide stimulus for the Japanese economy in the long term. The country's automation rate is very high, which gives it a clear advantage in a world where social distancing may become the norm. Furthermore, it is also a major producer of robotic equipment and machinery, for which there is strong demand potential in a post-coronavirus world.

Country risk

	Rating	Last changed	Outlook	CDS* 5 years (basis points)
STANDARD & POOR'S	A+	16/09/15	Positive	15.8
MOODY'S	A1	01/12/14	Stable	
FitchRatings	A	27/04/15	Stable	14.5

Average 2016-20: 15.8
31/05/2020: 14.5

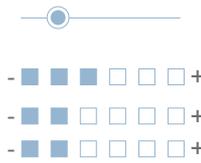
■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".

*Credit default swap: a measure of country risk that reflects the cost of insuring the default of the sovereign bond.

Risks

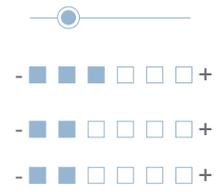
SHORT-TERM

- Greater than expected global impact of the pandemic
- World trade slowdown
- Low inflation



LONG-TERM

- Sustainability of public debt
- Lack of pending pro-growth reforms
- Ageing population



Business environment

STRENGTHS

- Education and training of the population.
- Infrastructures.
- Institutional environment.
- Potential from automation.

WEAKNESSES

- Excessive corporate savings.
- High land prices.
- Duality of the labour market.

Main sectors

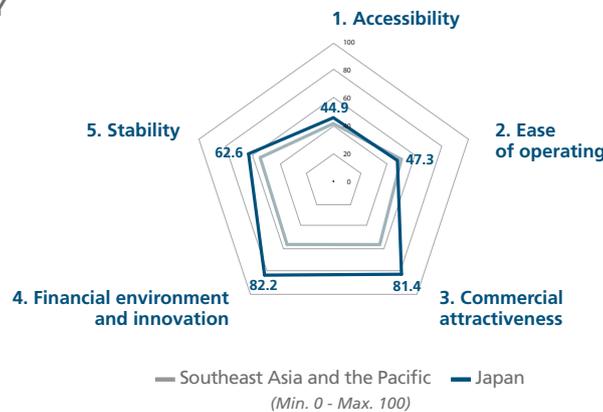
Cars, consumer electronics and capital goods.

CIBI | CaixaBank Index for Business Internationalisation

POSITION IN COUNTRY RANKING



PILLARS



SUBPILLARS

Top
Credit and financial development
Infrastructures
Purchasing Power

Bottom
Distance, communications, and agreements with Spain
Investment relations with Spain
Easiness of operating a business

Taxation

The tax year runs from 1 April to the following 31 March. There are two types of taxes in the Japanese tax system: the national ones and some regional ones. Corporate tax is divided into two. Companies whose capital exceeds 100 million yen are levied at 28.05% for the first three tax years (since 2012) and then at 25.5% for the following years. For small and medium-sized firms the tax rate is 15% for

the first 8 million yen of taxable income and 25.5% above these 8 million. In addition to this corporate tax there is a "local inhabitant tax" (depending on where the firm is located) and another tax levied on business activity, bringing the effective tax rate to about 38%. The tax applied to general consumption in Japan is 10%.

Investment

In Japan, one of the priorities of economic policy is attracting foreign direct investment to the country. Among the measures that they are trying to implement are those designed to strengthen the profitability of SMEs, the

relaunching of the services sector nationwide, implementation of proactive management for agriculture, forestry and fisheries, revitalisation of healthcare industries and making tourism one of the key sectors of the economy.

Establishment**LOCAL COMPANY**

Japanese law recognises four types of company to carry out commercial activities in the country: joint-stock company (*Kabushiki-Kaisha, KK*), limited liability company (*Godō-Kaisha, GK*), unlimited partnership (*Gomei-Kaisha*) and limited partnership (*Goshi-Kaisha*). The first type is the most widely used to enter the Japanese market by foreign investors due

to the fact that shareholder liability is limited to how much capital they contribute. The last two types of company are not widely used in practice by foreign firms because, although they have the status of companies under Japanese law, the liability of some of the founding shareholders is unlimited and the risks are greater.

BRANCH

For foreign investors, opening a branch may be the simplest way to operate in Japan. A branch can carry out all kinds of commercial operations once an operations base has been established, with a Japanese domicile (fiscal address) and all the necessary information has been registered.

Such branches can open bank accounts in the Japanese system. Although the branch has an independent corporate status from its parent company, the latter is ultimately responsible for all debts and credits incurred by its branch in Japan.

REPRESENTATIVE OFFICE

Before starting any kind of business in Japan, foreign investors often use a representative office to get to know the situation of the market and how it works. Like any office of this type, direct commercial operations

cannot be carried out nor can bank accounts be opened in the name of the office, although the name of one of the managers from the office can be used to do these actions.

**Alliances
strategic****FREE TRADE ZONE**

There are no free trade zones on the main islands of Japan. In Okinawa there is a free trade zone where the goods deposited can be re-exported. There are the so-called "Foreign Access Zones" established throughout the

country to attract foreign investment and promote imports. In these zones companies can benefit from lower distribution costs, support services for their businesses and sometimes tax breaks.

JOINT VENTURE

This kind of commercial alliance normally occurs between large and multinational firms. Small and medium-sized firms (not very widespread in Japan) do not have enough capacity to enter into this kind of agreement.

Should this system be chosen to position a business in Japan, it is advisable to secure legal support that is familiar with how these systems operate due to the complexity of the market and legal differences.

Customs conditions

FREE TRADE AGREEMENTS

Japan and the EU have a long commercial relationship which has gradually improved and strengthened over the years. In March 2013,

Japan and the EU started negotiations for a Free Trade Agreement to progressively liberalise bilateral flows of goods, services and investment.

FREE TRADE ZONE

They have the following advantages for foreign products made up of private and public capital: a tax rebate on property, privileged conditions to depreciate facilities, an exemption from the special tax levied on land holdings, loan

guarantees, credit guarantees (SMEs can access a credit insurance policy under favourable conditions such as lower premiums and wider coverage), financing at a low interest rate and deposit or storage services.

GENERALISED SYSTEM OF PREFERENCES (GSP)

Japan is one of the countries that grant preferential trade conditions by applying zero or low tariffs on beneficiary countries (developing countries).

Negotiations and protocol

BUSINESS CULTURE

Japan has cultural and business characteristics that might be considered unique. Physical contact is not very usual although a handshake on arrival at a negotiation is used. Bowing is the most correct and polite form to greet Japanese peers. While not needing to know Japanese, it is advisable to use some words in their language when greeting. It is vital to exchange business cards, which must be read carefully when received. Japanese business people are extremely cordial so, throughout the whole conversation,

they nod while they are listening, which does not mean they agree with what is being said. They mull things over deeply before making a business decision, so deadlines may become longer. Group spirit is deeply rooted in Japanese business culture and there are few meetings with just one representative. In fact, visitors should normally go at least in pairs to show respect and interest in the meeting. Punctuality in all aspects of a business relationship is imperative in order to do business with Japanese companies.

Top fairs

- Electrotest.
- Playtime.
- The Gourmet and Diningstyle Show.
- Super Market Trade Show.
- Logis-Tech.

Websites of interest

- Investing in Japan: www.jetro.go.jp/en/invest/
- Japanese customs: www.customs.go.jp/english/index.htm
- Japan External Trade Organization (JETO): www.jeto.go.jp
- Japanese tariff association: www.kanzei.or.jp/

Payment and charging methods

MEANS OF COLLECTION

The most widely used methods for collecting payment in Japan in international commercial transactions are: bills of exchange (*kawase tegata*) and promissory notes (*yakusoku tegata*). Both come under a fast-track procedure in the case of default. Japan's banking system is very

well-structured and regulations allow incidents to be resolved quickly. As is common in international trade, documentary credit is highly recommended when entering a new market due to the safety, in order to subsequently switch to bank transfer or bill of exchange.

MEANS OF PAYMENT

Documentary credit is the common option when starting commercial relations in this market. Subsequently, if a company continues working

with the same partner, the means of payment can shift towards faster and more convenient options such as bills of exchange or even bank transfers.

EXCHANGE RATE INSURANCE

As transactions are in another currency in Japan, it is advisable to insure the exchange rate to be used during negotiations to carry out international transactions of sale, thereby avoiding any

fluctuations occurring; to cover the fluctuation of the yen, both exchange rate insurances and options can be contracted.

CaixaBank in the country

The main objective of the Japan office is to improve communication channels with local financial institutions, supporting CaixaBank customers' activities in the country, whether they

are international trade or investment and deployment projects. It also provides consulting services and supports Spanish companies that wish to develop their business abroad.

**CaixaBank
in the world**

- Branches
- Representative offices
- Spanish Desks
- CaixaBank Group

