

Economic Unease: Navigating Japan and the UK's Financial Challenges

Japan's economy is experiencing a noticeable shift, dropping to the world's 4th largest, primarily due to the significant depreciation of the yen and demographic transitions. This depreciation has had a multifaceted impact on Japan's economic landscape, presenting both opportunities and challenges.

- **Japan's Economic Dilemma:** The depreciation of the yen has been a boon for Japan's export businesses, enhancing their competitiveness in global markets. However, it has simultaneously escalated import costs, particularly for oil, a critical import for Japan's energy needs. The low price elasticity of oil demand in Japan means that even with rising costs due to a weaker yen, oil imports continue unabated, exacerbating the burden on the economy. This situation has triggered import inflation, escalating domestic prices, and eroding real household income, potentially dampening consumer spending and affecting the standard of living.
- **Demographic Challenges and Economic Stagnation:** Japan's ageing population, coupled with sluggish aggregate demand and a slow recovery from COVID-19, poses unique economic challenges. The tendency towards frugality among Japanese households, characterized by substantial private savings, further contributes to the nation's economic stagnation.
- **UK's Economic Strain:** The UK is grappling with its economic woes, marked by high inflation and rising living costs, leading to a recession in the latter half of 2023. Despite Prime Minister Rishi Sunak's efforts, the UK's GDP contraction by 0.3% in the 4th quarter of 2023 underscores the challenges in revitalizing the economy.