



# **Financial Status of Aichi Prefecture**

**October, 2012**

**Budget Management Division,  
Department of General  
Affairs, Aichi Prefecture**

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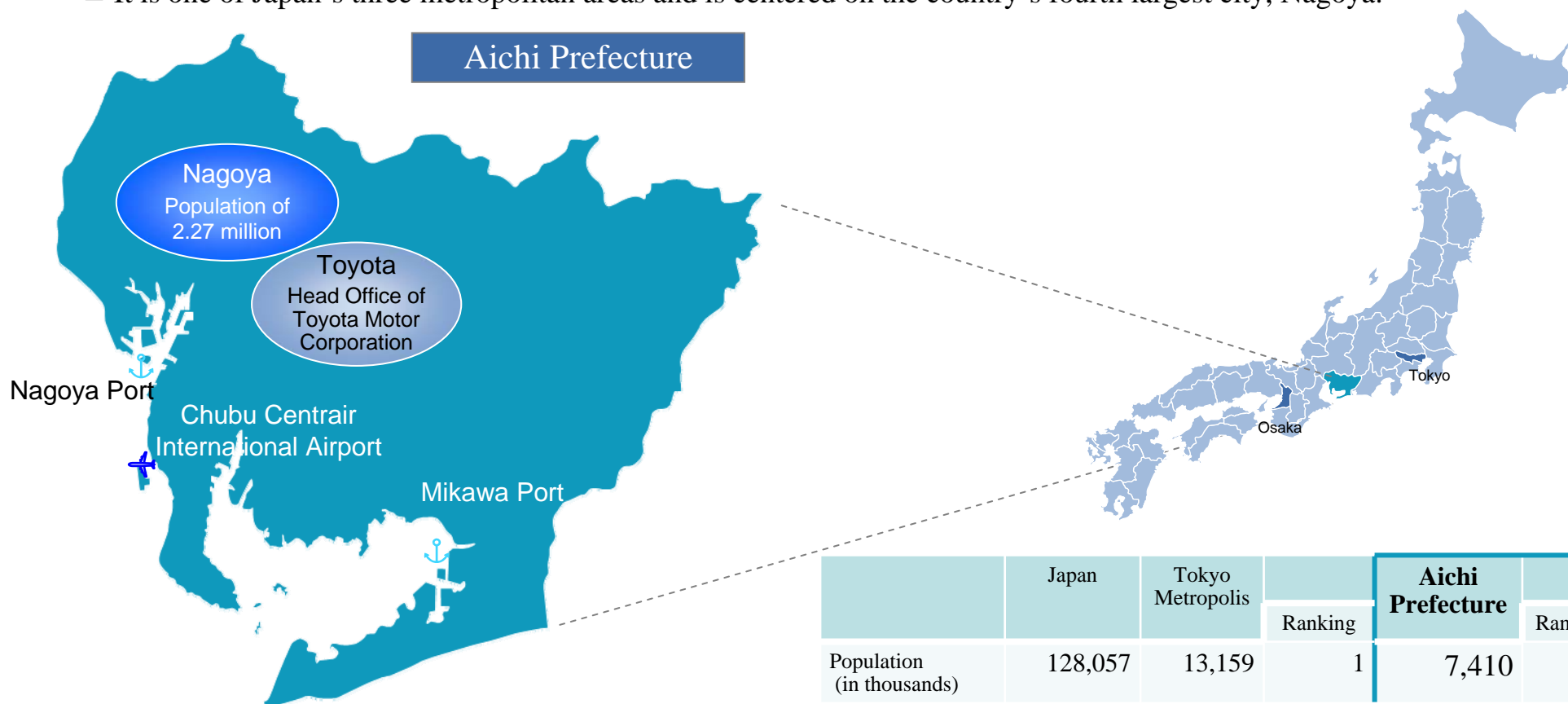
# 1. Overview

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# Overview of Aichi Prefecture

- Aichi Prefecture, located in the central area of Japan, has the world’s leading automotive cluster and is home to Toyota Motor Corporation’s headquarters and major plants.
- It is one of Japan’s three metropolitan areas and is centered on the country’s fourth largest city, Nagoya.



	Japan	Tokyo Metropolis	Aichi Prefecture	
			Ranking	Ranking
Population (in thousands)	128,057	13,159	1	4
GDP (trillions of yen)	483.2	85.2	1	3
Production (trillions of yen)	289.1	8.2	12	1

# Economic Size of Aichi Prefecture

- Third largest GDP in Japan after Tokyo and Osaka. It is comparable to that of a country in Europe and reflects a leading economic size also in Asia.
- While Japan's population is on the decline, Aichi Prefecture's population continues to rise.

## 2009 GDP of OECD Countries

(Billion U.S. dollars)

Country	GDP
U.S.A.	13,863.6
Japan	5,044.4
China	4,990.2
Germany	3,298.6
France	2,624.5
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South Korea	834.1
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Austria	381.8
Norway	370.7
Greece	321.8
Denmark	311.1

	GDP
Aichi Prefecture	343.6

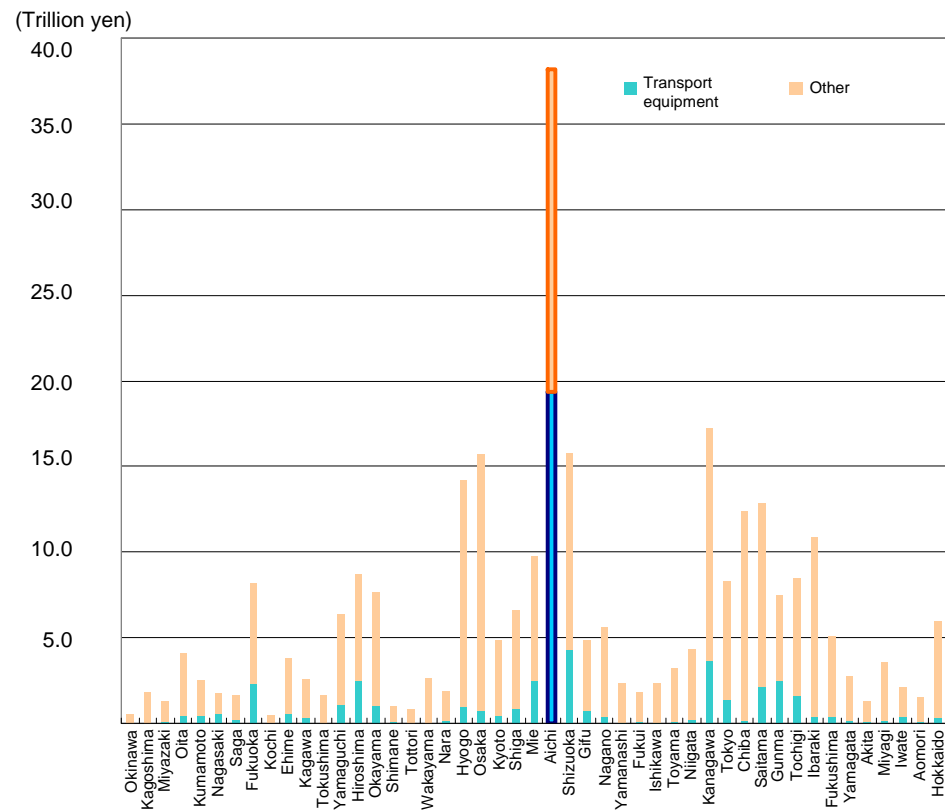
\* Converted at the rate of USD1 = JPY100.46

Source: Statistics Bureau of the Ministry of Internal Affairs and Communications, Economic and Social Research Institute of Cabinet Office, and Statistics Division of Aichi Prefectural Government

# Industrial Structure of Aichi

- Well-balanced industrial structure with manufacturing sector at the core.
- Has an overwhelming domestic share in manufacturing, placing No. 1 in terms of total shipments of manufactured goods for 34 consecutive years, and drives Japan’s manufacturing sector particularly the automotive industry.

Total Shipments of Manufactured Goods (FY2010)

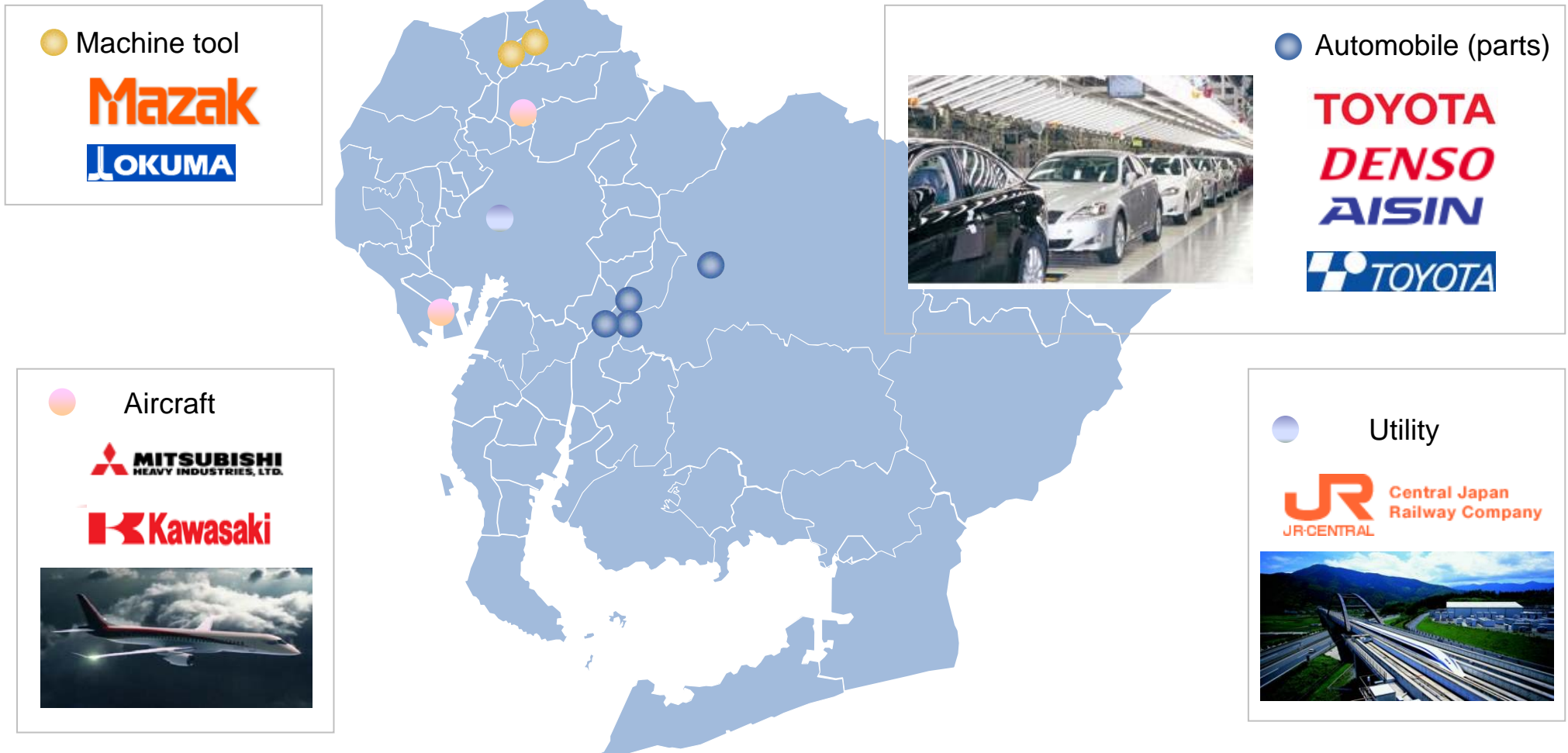


(Source: "FY2010 Census of Manufacturers (summary)" issued by Ministry of Economy, Trade and Industry)

# Major Corporations Located in Aichi Prefecture

■ In the automotive sector, not only are the major plants of Toyota Motor Corporation located in Aichi, but also component manufacturers of all sizes including Denso — one of the world's top companies — and small-and-midsize firms.

■ Also located there are world-class machine tool manufacturers, aircraft manufacturers undertaking production of B787 wings, JR Tokai that operates the Shinkansen (Bullet Train) and more.



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## 2. Fiscal Profile

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# FY2011 Results of Ordinary Accounts

■Local governments undertake municipal administration in Japan, and the size of a local government is comparable to that of a country under a federal system. Prefectures are engaged in a wide range of administrative services such as operating the police, running high schools and bearing the costs of elementary and junior high schools.

■Aichi Prefecture's expenditures for FY2011 amounted to over 2.1 trillion yen. Aichi has continued to be in the black for 12 consecutive years despite the decline in tax revenue.

(million yen)

	FY2011	FY2010	Changes
Local Tax	906,211	926,685	-20,474
Local Transfer Tax	98,815	91,712	7,103
Local Allocation Tax	57,789	57,782	7
National Government Disbursements	213,009	225,777	-12,768
Local Government Borrowing	422,641	477,434	-34,793
Other Revenues	462,321	387,003	75,318
<b>Total Revenues</b>	<b>2,160,786</b>	<b>2,166,393</b>	<b>-5,607</b>

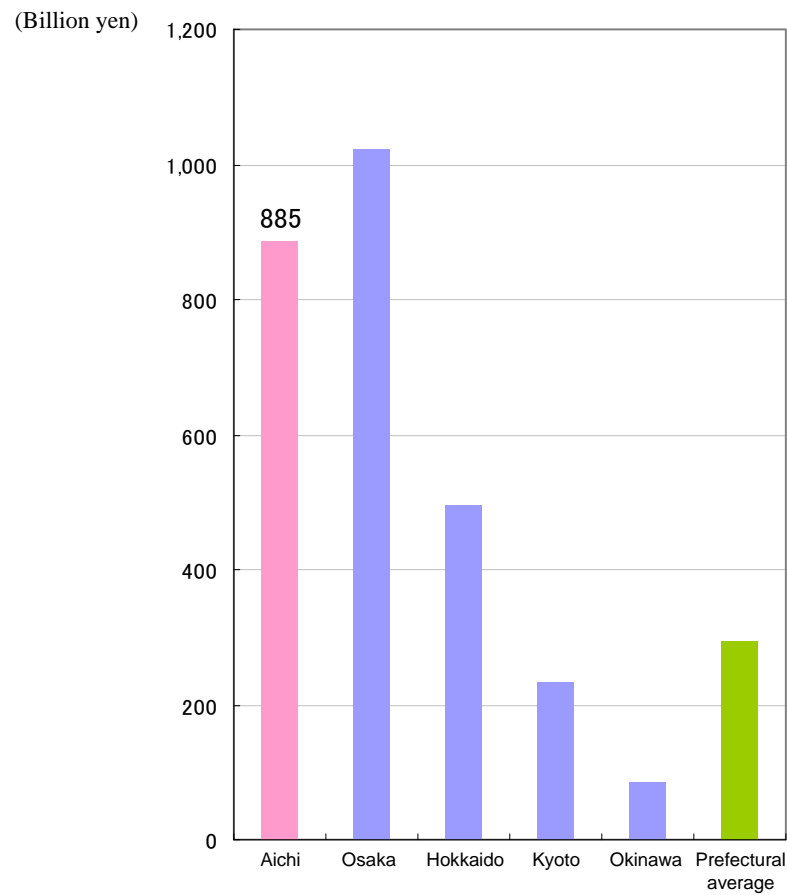
	FY2011	FY2010	Changes
Mandatory Expenditures	1,095,170	1,071,175	23,995
Personnel Expenditures	698,732	698,862	-130
Debt Services	356,573	333,135	23,438
Social Assistance Expenditures	39,865	39,178	687
Investment Expenditures	206,309	203,205	3,104
Other Expenditures	843,173	875,584	-32,411
<b>Total Expenditures</b>	<b>2,144,652</b>	<b>2,149,964</b>	<b>-5,312</b>

Gross Balance	16,133	16,429	-296
Real Balance	6,541	7,951	-1,410

# Aichi Prefecture's Tax Revenue Base

■ Aichi has one of Japan's strongest tax revenue bases with corporate residence tax and corporate enterprise tax as the primary source, reflecting the economic strengths of the region.

FY2012 Local Tax Comparison (Initial Budget)



# Financial Ratios

■ Aichi continues to attain the country's second highest financial strength index that measures the autonomy of local governments.

Financial Strength Index (FY2011 Initial Estimate)

Ranking	Prefecture	Financial Strength Index
1 <sup>st</sup>	Tokyo	-
2 <sup>nd</sup>	Aichi	0.932
3 <sup>rd</sup>	Kanagawa	0.907
4 <sup>th</sup>	Chiba	0.747
5 <sup>th</sup>	Saitama	0.740
6 <sup>th</sup>	Osaka	0.720
7 <sup>th</sup>	Shizuoka	0.679
8 <sup>th</sup>	Ibaraki	0.591
⋮	⋮	⋮
Average		0.447

## No. 2 in Japan since 1992

- A financial strength index is an index that reflects the financial strength of a local government. It is derived by dividing basic financial revenue by basic financial demand.
- A financial strength index above 1 shows that financial resources exceed the amount of ordinary allocation tax and hence there is no tax allocation.

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### **3. Aichi Prefecture's Bond (APB)**

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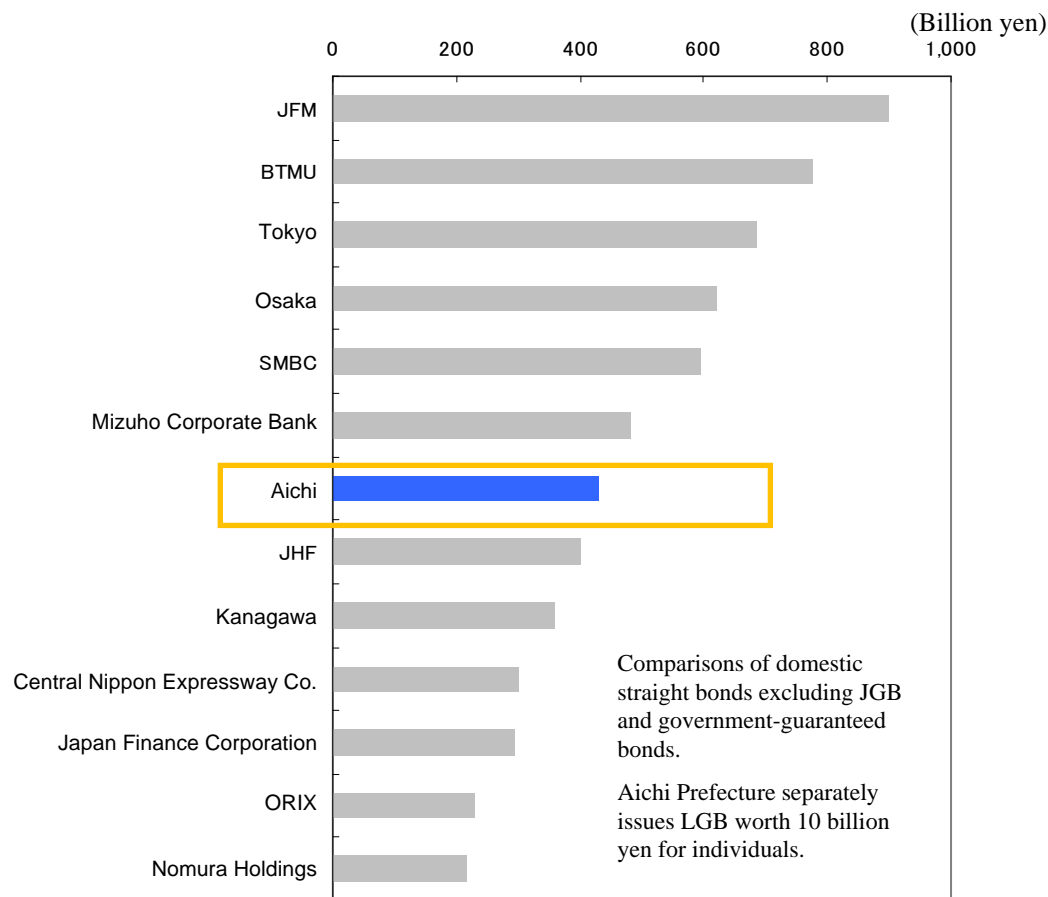
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# Positioning of Aichi LGB in Japan

■ Aichi has the third largest LGB issuing volume after Tokyo and Osaka and is one of Japan's leading issuer of bonds even including government-affiliated organizations, financial institutions and business companies.

Major Issuing Bodies with Large Issuing Volume in Japan



# FY2012 Public Offering Bond Issuance Plan

■ Aichi Prefecture plans on issuing public offering bonds worth 470 billion yen in FY2012.

## FY2012 Public Offering Bond Issuance Plan

(Billion yen)	April	May	June	July	August	September	October	November	December	January	February	March	Total
Joint-LGB	5	5	5	5	5	5	5	5	5	5	5	5	60
5-year LGB	20			20			20						60
10-year LGB	20	20	25	20	20	30	20	20	20	20	20	20	255
20-year LGB			10				10					20	
Flex term							65					65	
Prefectural resident bond				5							5		10
<b>Total</b>													<b>470</b>

## Concepts Underlying the Issuance Plan

■ Continue to monthly issue 10-year bonds as benchmark.

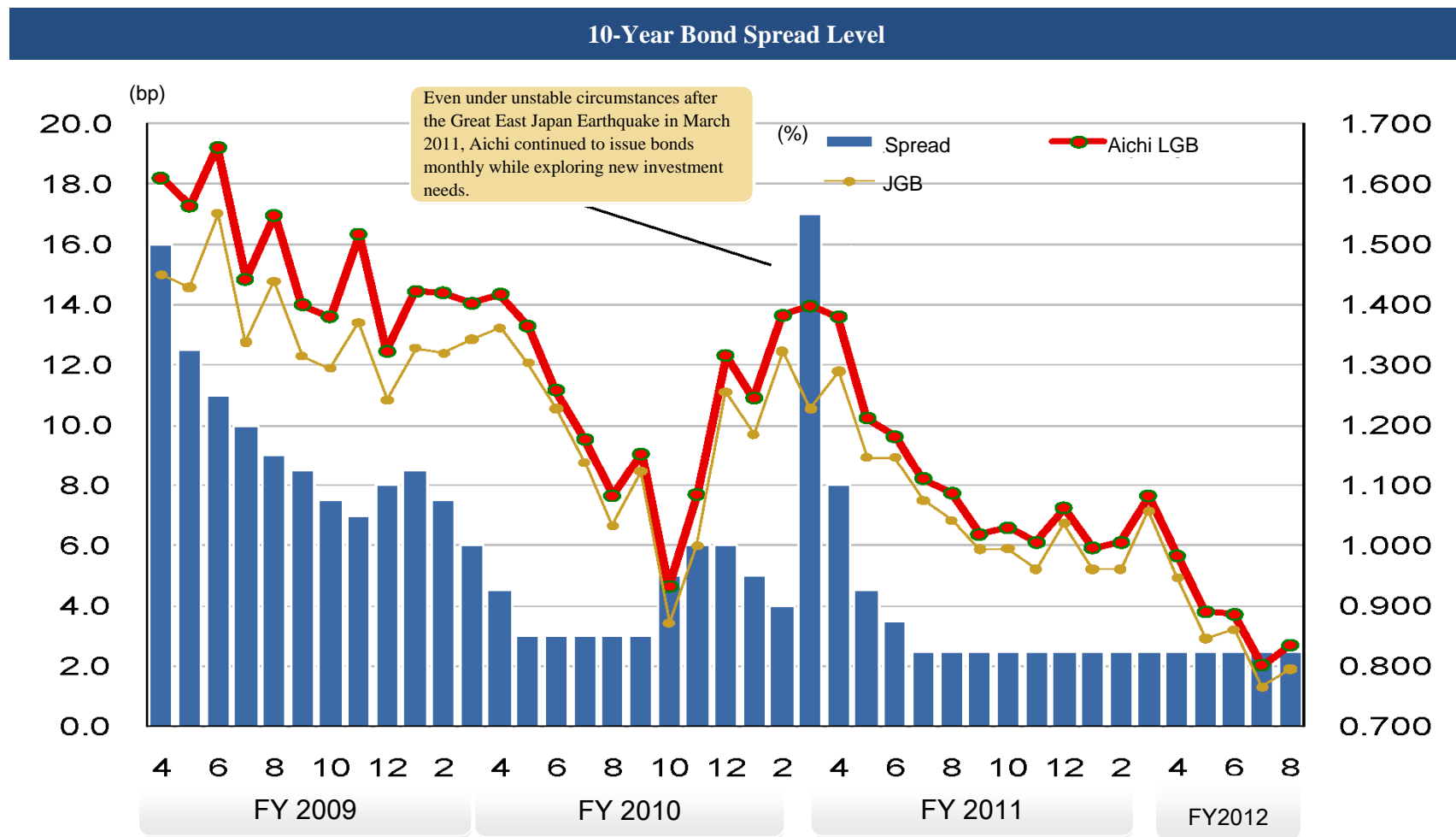
■ Issue a variety of bonds including 5-year and 20-year ones and bonds for prefectural residents.

■ Offer flex term bonds that do not set the term up front in order to secure flexibility in bond issuance in response to the needs of investors.

- ✓ Respond to the needs for increased amount during marketing activities.
- ✓ Respond to the needs for diversifying bond terms (Aichi has issued 2-year, 7-year, 15-year and 30-year bonds in the past).

# Attractiveness relative to JGB(1)

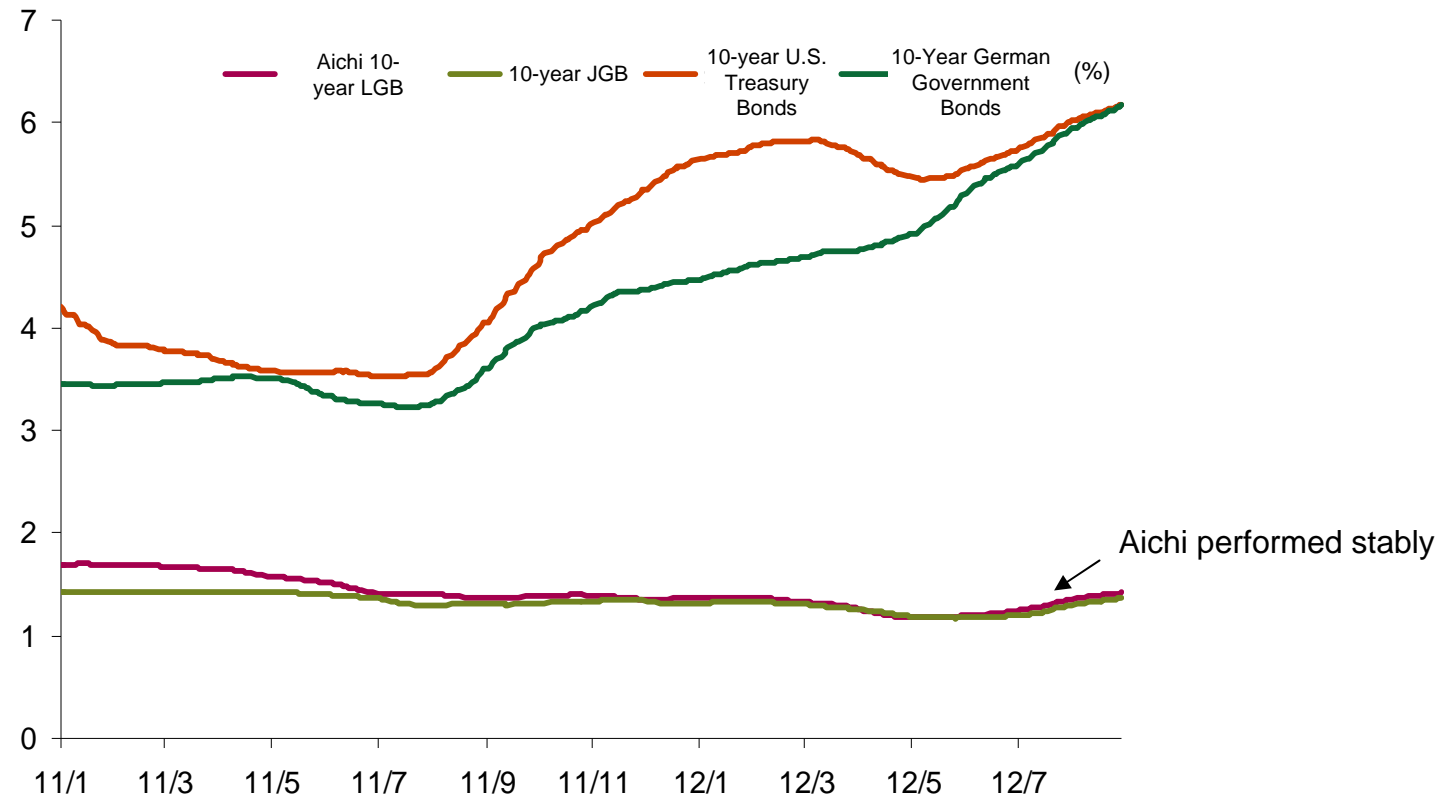
- Aichi issues the core 10-year bonds monthly. In Japan, monthly issued bonds other than JGB and government guaranteed bonds are Tokyo Metropolitan LGB, Joint LGB and Aichi LGB only.
- Aichi LGB demonstrates a stable transition in spread relative to JGB.



# Attractiveness relative to JGB(2)

■ While the low volatility of JGB attracts attention, Aichi LGB demonstrates stable volatility comparable to that of JGB on the markets.

Historical Volatility Trends (90 Days)



Aichi performed stably



# Ratings

■ To help investors make investment decisions, Aichi obtained ratings on its bonds from 3 rating agencies.

■ Its ratings are the highest of Japanese local government bonds and are the same as JGB.

**S&P AA- (negative\*)** \* On April 27, 2011, APB moved in line with JGB, to negative outlook. **Same as JGB**

- The rating continues to reflect stable independent revenue sources and steady financial administration results.
- Bond rating is the same as those for Japanese government bonds (JGB) and Tokyo Metropolitan bonds

AAA	Hong Kong (Special Administrative Region) Singapore (Republic of)
AA+	USA, Greater London Authority, Paris (City of)
AA	Vancouver (City of)
AA-	<b>Aichi (Prefecture of)</b> , Tokyo Metropolitan Government, Japan, China, Ontario (Province of), JBIC (Japan Bank for International Cooperation), JFM (Japan Finance Organization for Municipalities)
A+	Israel (State of)
A	Korea (Republic of) Seoul Metropolitan Government,
A-	Malaysia

(as of September 6, 2012)

**R&I AA+ (stable)** **Same as JGB**

**JCR AAA** **Same as JGB**

## Outstanding Economic and Industrial Platforms

- One of the most highly populated prefectures in Japan with an economy whose size is comparable to that of a country.
- Outstanding concentration of industries: in addition to the automotive industry, aircraft and space, machine tool, and other industries.

## Sustained fiscal soundness based on high financial capability

- Prefecture with one of the highest levels of tax revenue in Japan
- Firm and sound fiscal standing shown by the indicators of financial soundness

## Aichi Prefecture's Bond

- Leading bond issuing entity in Japan: Issuance worth 470 billion yen planned for FY2012
- Continuous monthly issuance of 10-year bonds as benchmark
- Received the highest rating of local government bonds comparable to that for Japanese government bonds (JGB)



# Appendix

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# Characteristics of Japanese Local Government Bonds

- Japanese local government bonds (LGB) are extremely safe under the regulatory framework described below, and there has never been any default in the past.
- Under BIS standards, the risk weight of Japanese LGB is 0% as with Japanese government bonds.

## No Past Default of Japanese LGB

### 1 Ample local government financial resources

- Strong taxation right.
- The required funds are secured nationwide based on the fiscal plan of local governments developed by the state.
- Local allocation tax system by which the state government allocates the amount of “fiscal demand – revenue”.

### 2 Bond issuance requires advance discussions with the state

- In principle, bonds are issued only with the concurrence and approval of the state government.

### 3 Monitoring system using financial soundness indicators

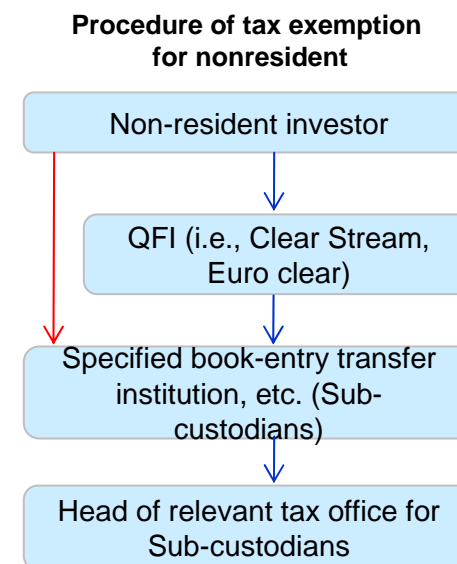
- The Act on Assurance of Sound Financial Status of Local Governments was established in 2007 based on which local governments are required to compute and disclose four indicators.

## Risk Weight under BIS Standards

JGB	0%
Aichi LGB	0%
Government agency bonds	10%~20%
Bank debenture bonds	20%
Straight bonds	20% or more

## Outline of Tax Exemption for Non-Residents, etc.

Starting in 2008, with the Article 5-2 Act on Special Measures Concerning Taxation (Limited to the provisions related to nonresidents and foreign corporations), the interest gains on LGBs owned by non-resident or foreign corporations which settled by the book-entry system are exempted from withholding tax.



## Contact

- Finance Group, Budget Management Division,  
Department of General Affairs
  - Tel.: +81-52-954-6045 (dial-in)
  - Fax: +81-52-971-4536
  - E-mail: [zaisei@pref.aichi.lg.jp](mailto:zaisei@pref.aichi.lg.jp)
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