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Financial Status of Aichi Prefecture

October 2023

Aichi Prefectural Government

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Highlights

Outstanding Economic and Industrial Platforms

- One of the prefectures that have the largest scale of economy and population
- Focus on automobiles with an outstanding concentration of industries
- Center of the three largest metropolitan areas which will be connected more closely

Maintenance of Fiscal Soundness

- Firm and sound fiscal standing
- Ample provision of sinking funds

Aichi Prefecture Bonds

- Received the same ratings as those of Japanese government bonds
- A leading bond issuer in Japan: JPY320bn issuance planned for FY2023



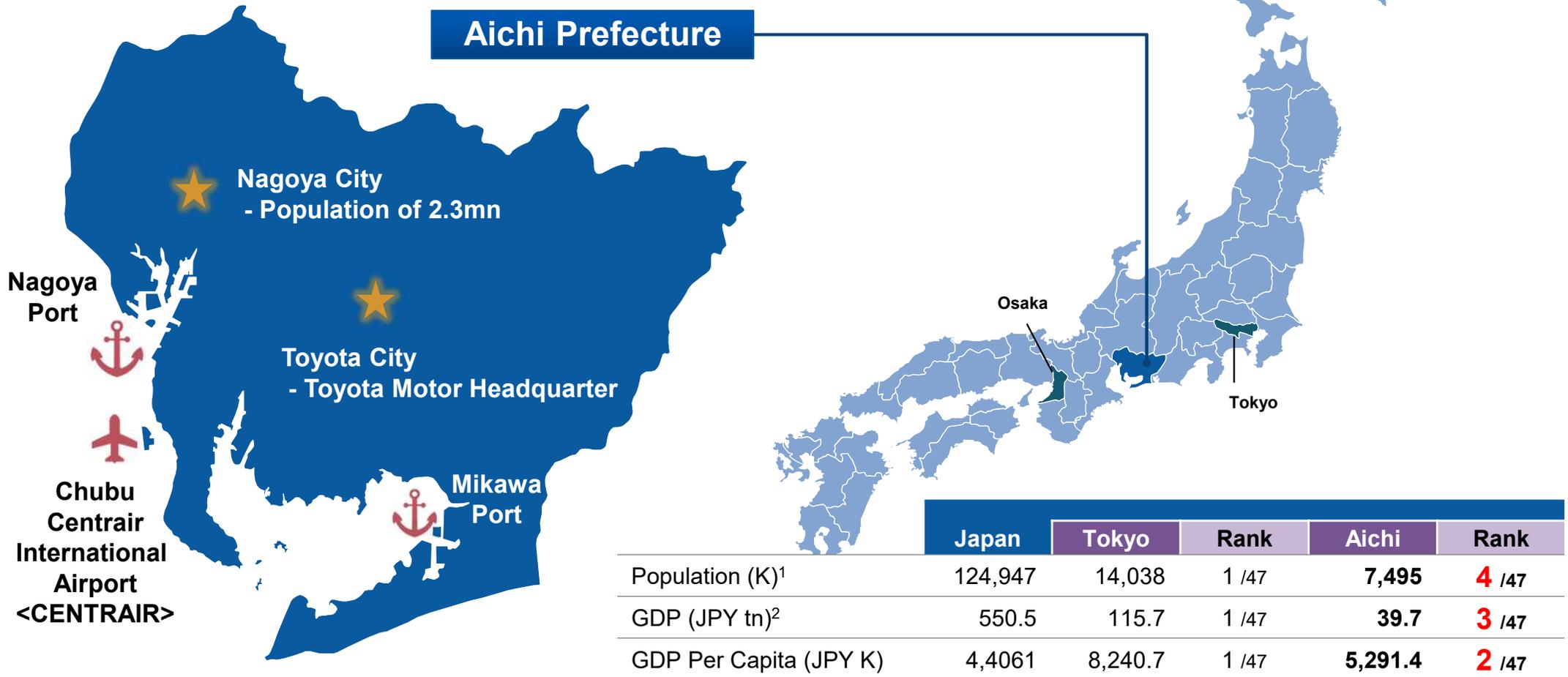
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1. Overview



Overview of Aichi Prefecture

- Aichi Prefecture is located in the center of Japan, and is the core of the third-largest metropolitan area in Japan
- Aichi has the world's leading automobile industry cluster
- Nagoya city, the capital of Aichi, is the fourth-largest city in Japan



¹ Source: Statistics Division of Aichi Prefectural Government, Statistics Bureau of Ministry of Internal Affairs and Communications, as of Oct 2022

² Source: Economic and Social Research Institute of Cabinet Office, Japan as of JFY2021, Tokyo as of JFY2019 and Aichi as of JFY2020

Economic Presence of Aichi Prefecture

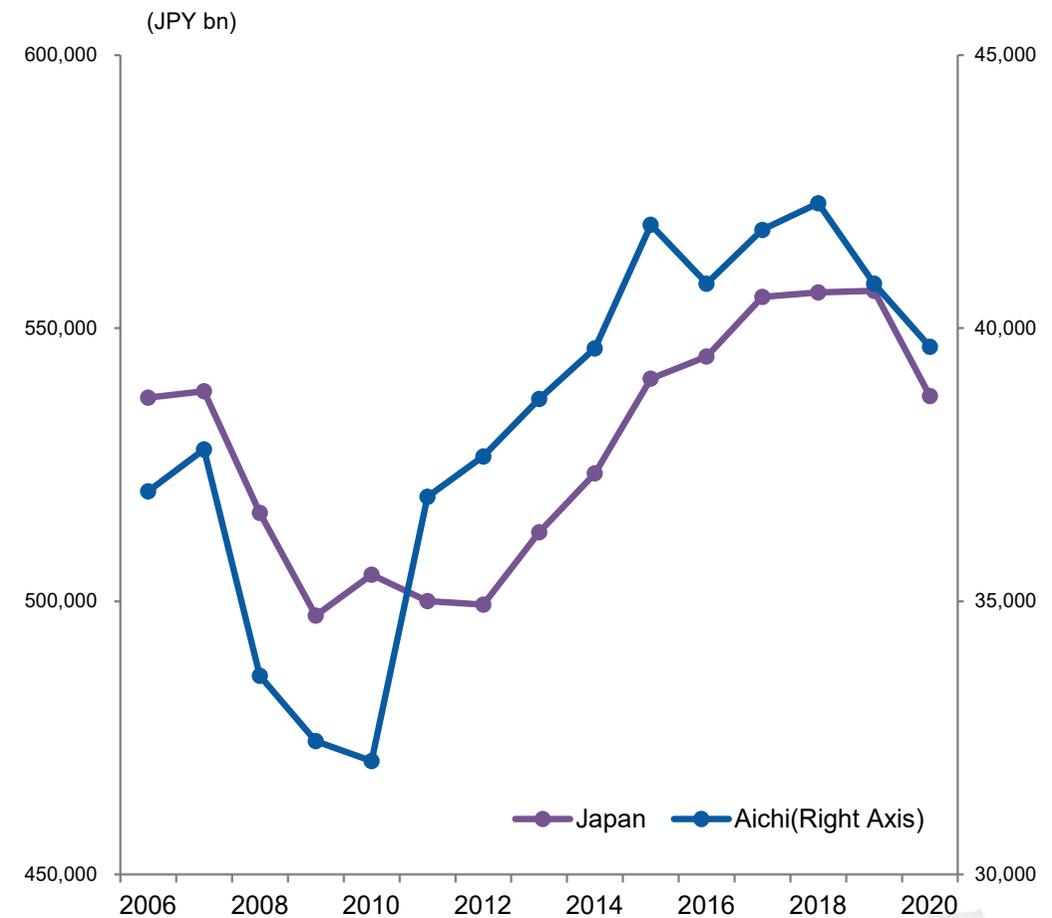
- GDP of Aichi is third-largest among 47 prefectures, and is comparable to those of medium-sized countries in the world

GDP of the Countries around the World

#	Country	GDP (USD bn)
1	United States	25,462.7
2	China	17,963.2
3	Japan	4,231.1
...		
42	Hong Kong	359.8
43	Colombia	343.9
44	Romania	301.3
45	Chile	301.0
46	Czechia	290.9
47	Finland	280.8
-	Aichi Pref.	269.8
48	Iraq	264.2
49	Portugal	251.9
50	New Zealand	247.2
51	Peru	242.6
52	Qatar	237.3
53	Kazakhstan	220.6

¹Source(except Aichi): World Bank, as of 2022, USD equivalent (1USD=147JPY)

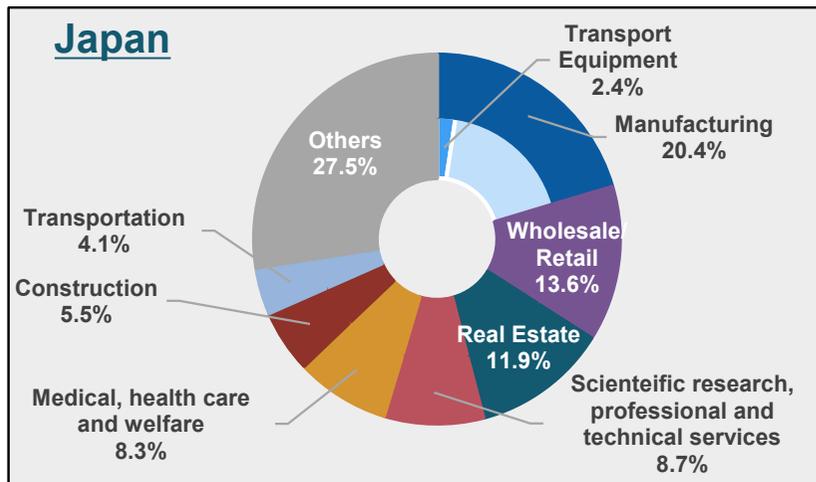
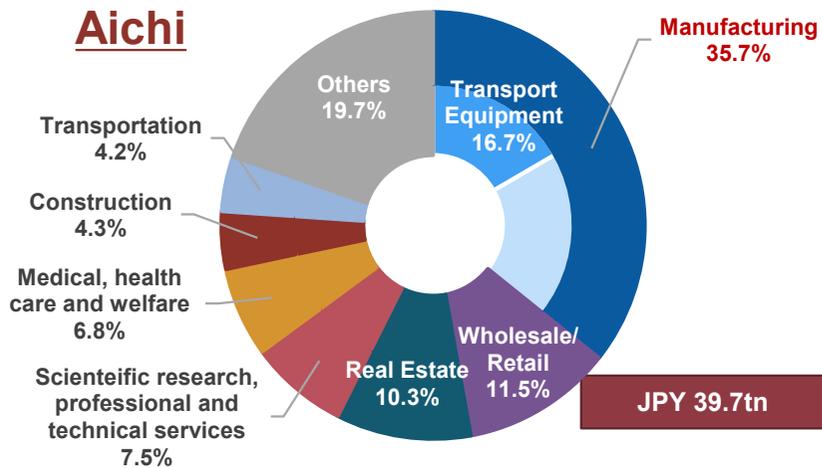
GDP Trend of Aichi



Industrial Structure of Aichi

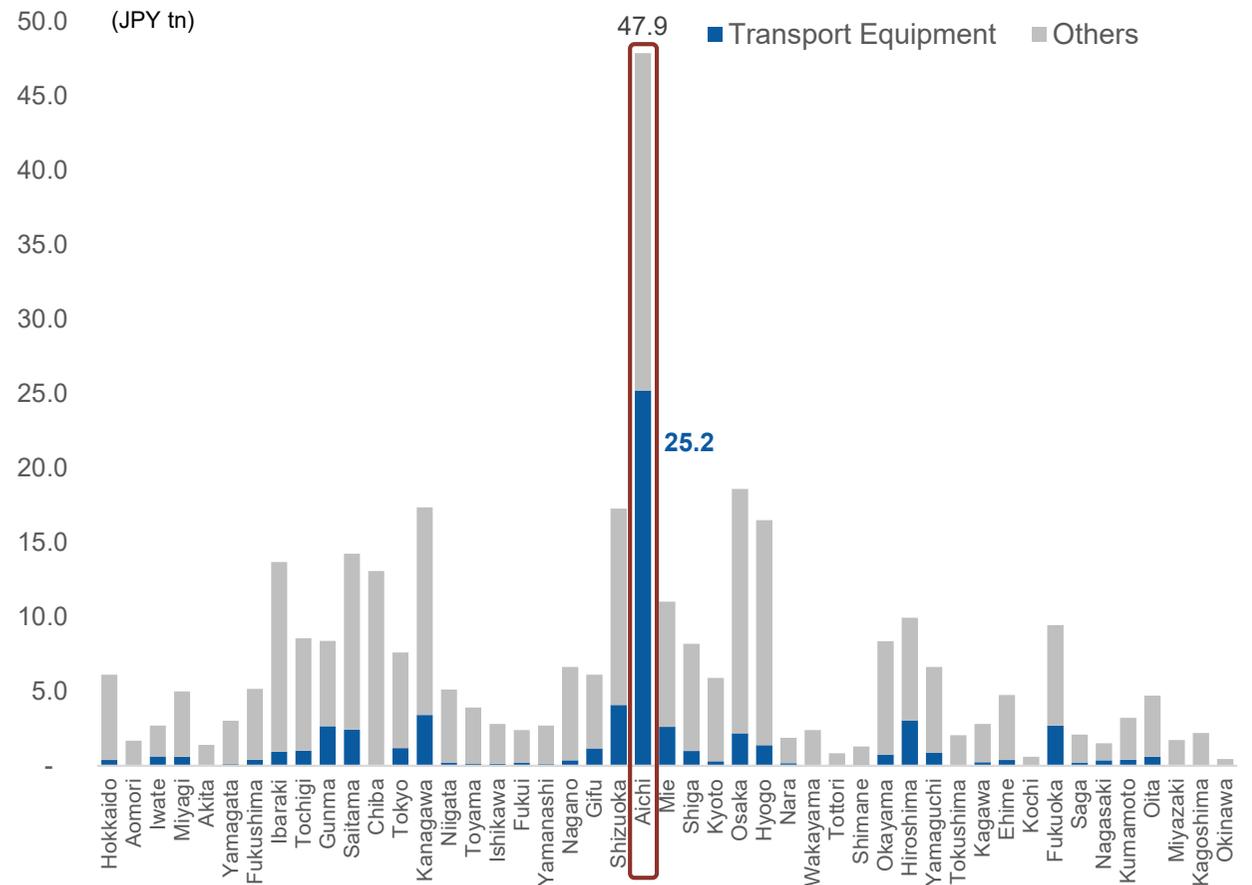
- Diversified industrial structure with manufacturing sector at the core
- Aichi drives Japan's manufacturing sector, particularly the automotive industry

Breakdown of GDP



Source: Statistics Division of Aichi Prefectural Government (FY2020), Economic and Social Research Institute of Cabinet Office(CY2021)

Total Shipments of Manufactured Goods (47 Prefs, 2021)



Source: "FY2021 Surveys on Economic Structure" issued by Ministry of Economy, Trade and Industry

Aichi as Industrial Capital

- Aichi Prefecture is the industrial capital of Japan and manufacturing center that leads the world economy

Automobiles and Next-Generation Vehicles

- Is home to Toyota Motor
- FCVs(Fuel Cell Vehicles) “MIRAI” were adopted as official cars by Aichi Pref. Government
- Supports research and development of autonomous cars and relevant verification tests
- Has 38 hydrogen stations, the highest number of all prefectures in Japan



Robots

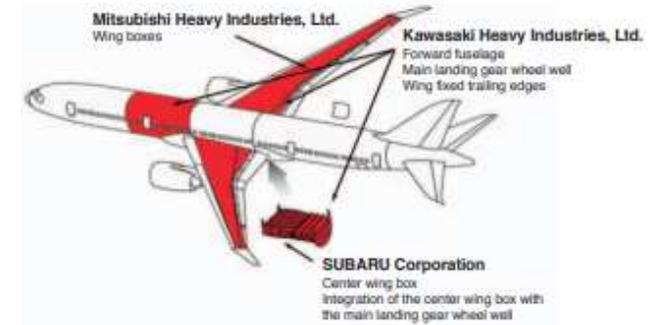
- Has established “the Aichi Robot Industry Cluster Promotion Council”
- Is working to develop and promote the widespread use of robots with the aim of fostering growth of the robot industry



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Aerospace

- Designated as “The Special Zone to Create Asia's No.1 Aerospace Industrial Cluster”
- About 35% of a Boeing 787 is manufactured in Aichi Pref.



Startups

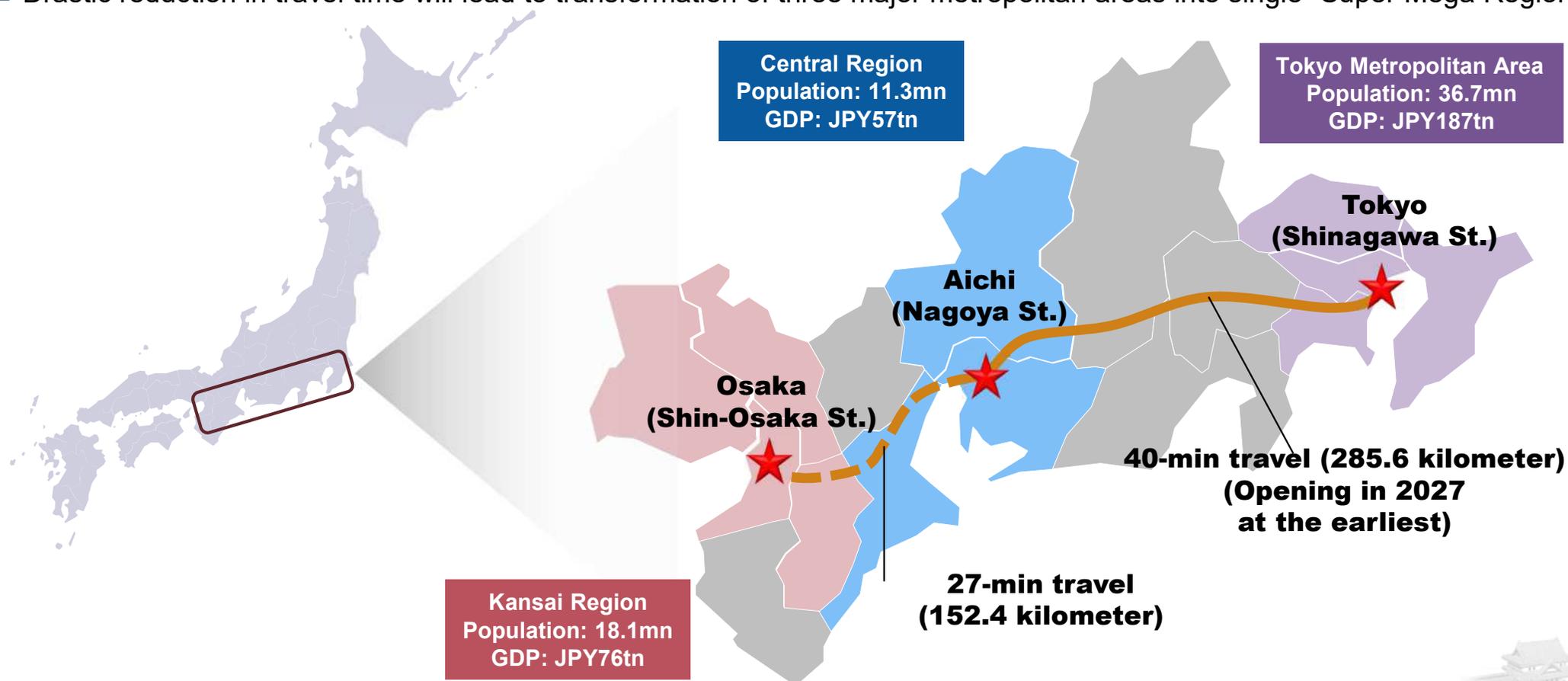
- Will open “STATION Ai” in October 2024, the largest startup support facility in Japan
- Implements startup support programs in collaboration with the University of Texas at Austin, Tsinghua University, and other institutions leading global innovation



Increasing Presence as a Part of “Super Mega Region”

The Chuo Shinkansen Project using the Superconducting Maglev (SCMAGLEV) System

- The Chuo Shinkansen Project using the Superconducting Maglev System is a project to create faster artery transportation linking Tokyo, Aichi (Nagoya) and Osaka
- The Chuo Shinkansen, scheduled to start its operation in 2027 hopefully, enables as short as 40-minute journey from Tokyo to Nagoya
- Drastic reduction in travel time will lead to transformation of three major metropolitan areas into single “Super Mega Region”



Source: Central Japan Railway Company Annual Report 2022



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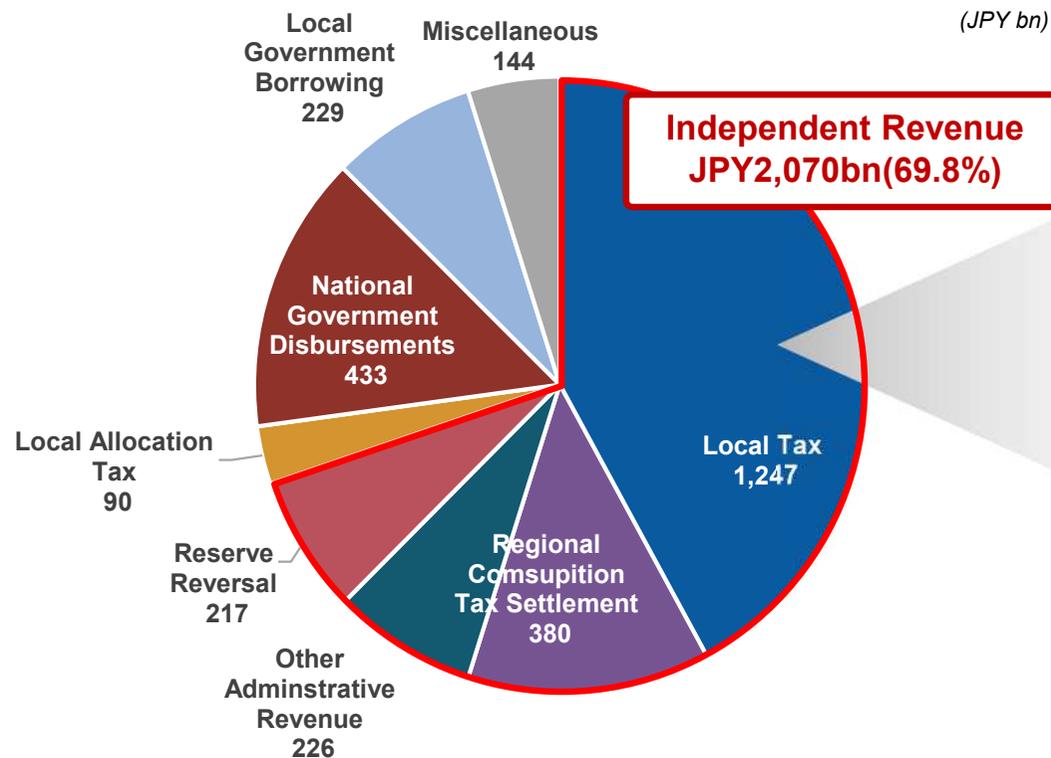
2. Fiscal Profile



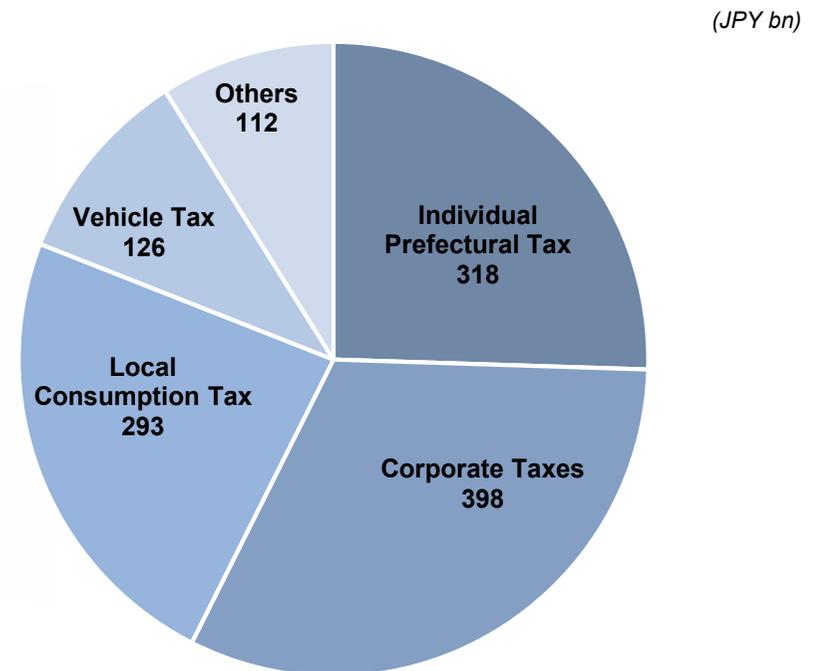
Revenue and its Robust Structure

- Majority of Aichi's revenue is covered by "Independent Revenue" source, and its ratio is one of the highest among Japanese local governments

Breakdown of Revenue (FY2023 Initial Budget)



Breakdown of Local Tax Revenue (FY2022 Initial Budget)



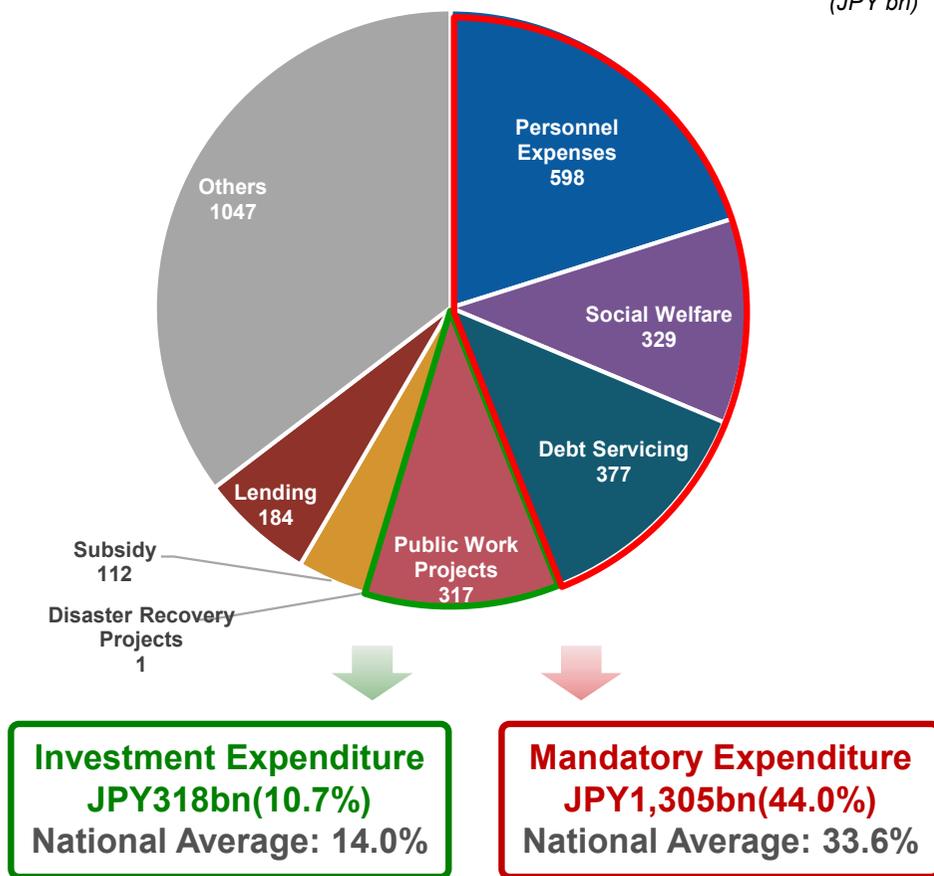
- In FY2021, Aichi recorded 4th highest *Independent Revenue Ratio* among all local governments in Japan

Expenditure under Disciplined Control

- Aichi is handling the rising trend of mandatory expenditure by disciplined control to maintain fiscal soundness

Breakdown of Expenditure (FY2023 Initial Budget)

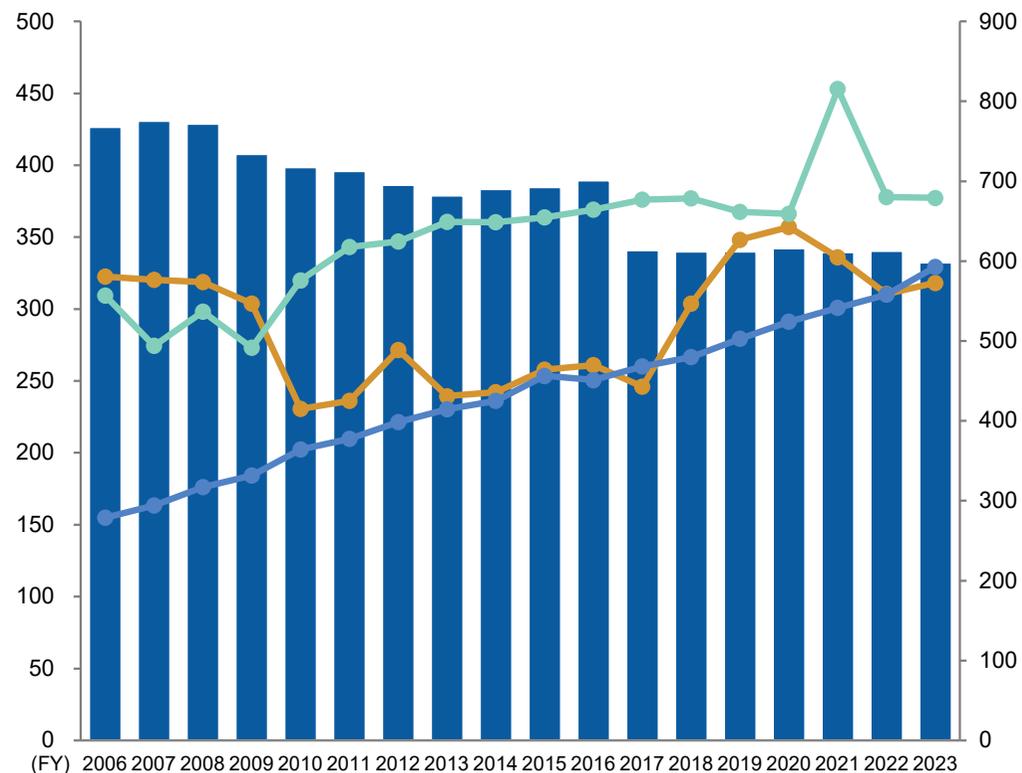
(JPY bn)



Trends in key items of Expenditure

(JPY bn)

(JPY bn)



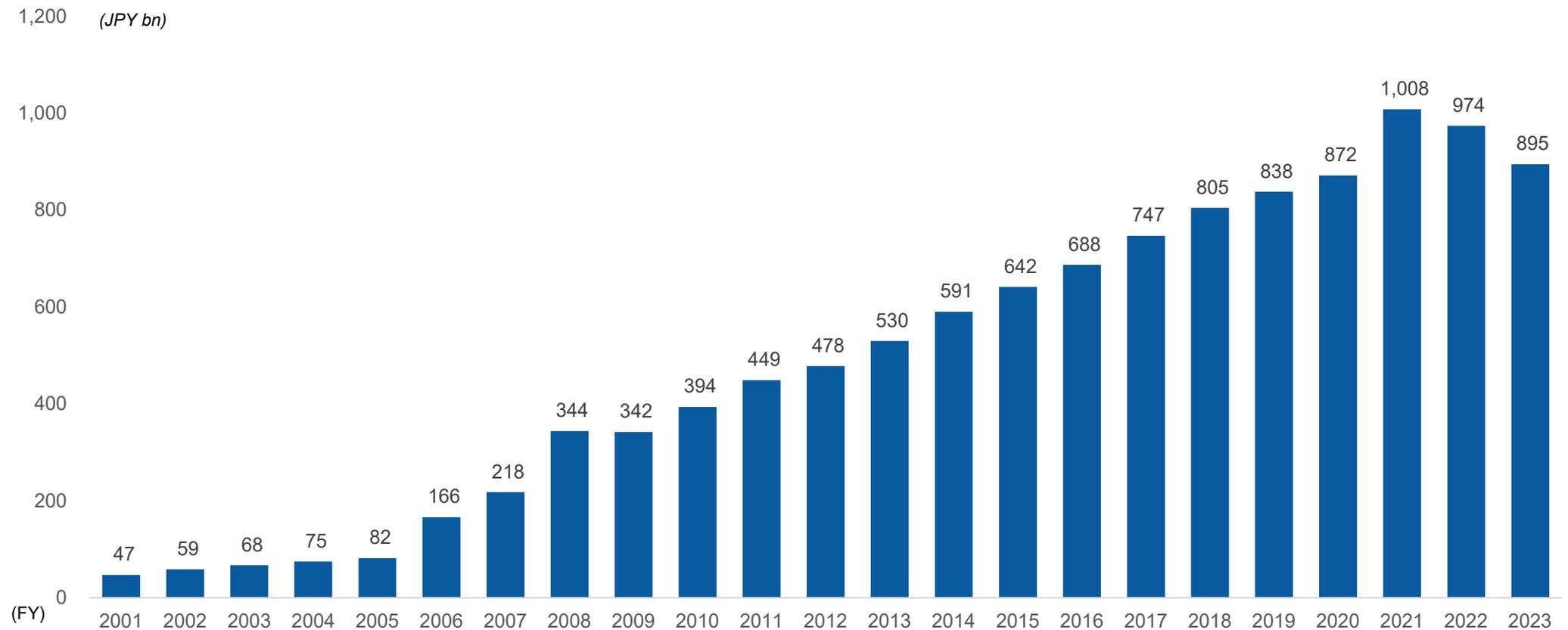
- Right:** ■ Personnel Expenditure
- Left:** ■ Public Work Expenditure
 ● Social Assistance Expenditure
 ▲ Debt Servicing

Source: Aichi Prefecture

Sufficient Accumulation of Sinking Fund

- Sufficient amount of sinking fund is set aside for the purpose of repayment for debt obligation

Balance of the Sinking Fund



Source: Aichi Prefecture, Figures of FY2023 is based on budget



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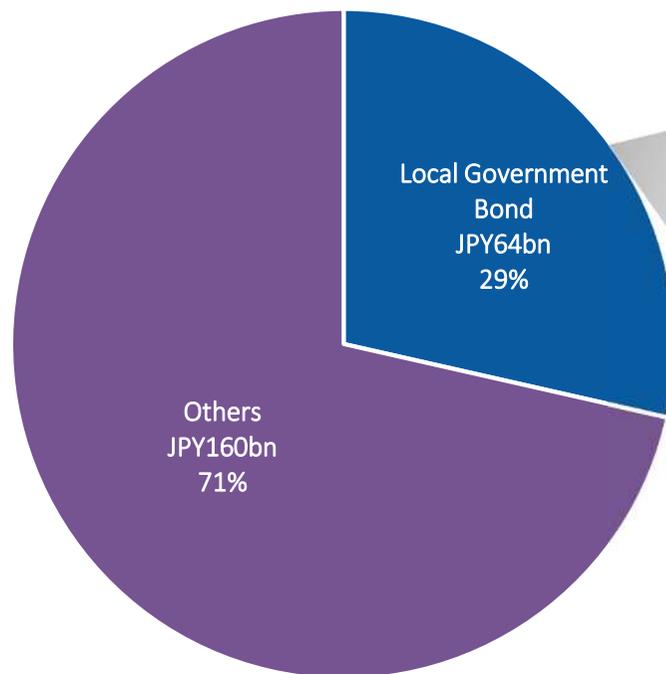
3. Aichi Local Government Bonds



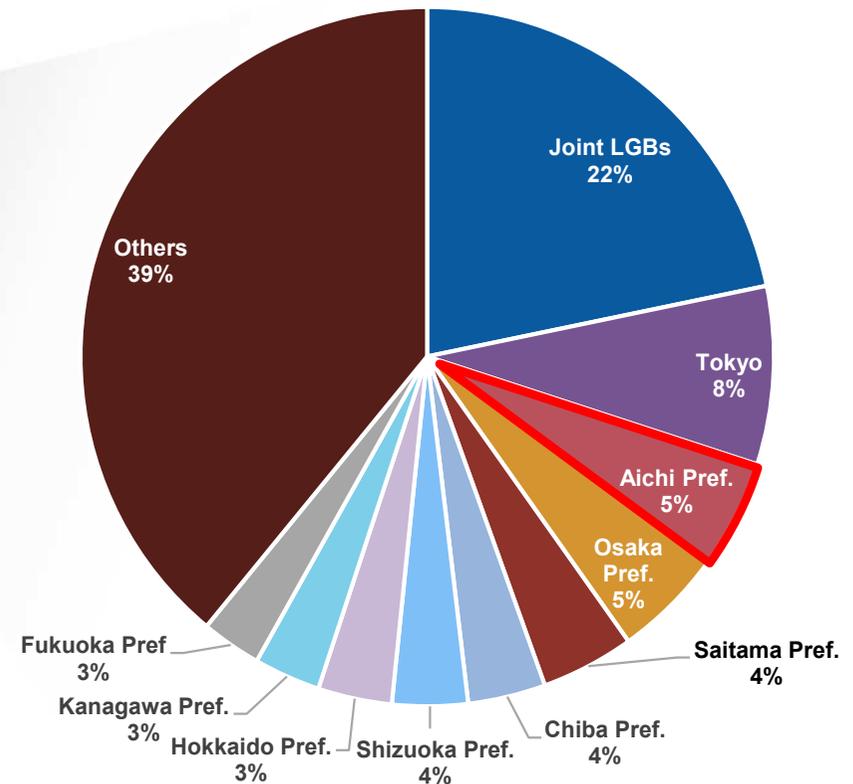
Aichi is a Leading Issuer of Local Government Bonds

- Aichi is one of the leading bond issuers in Japan and the fourth largest Local Government Bonds issuer

Breakdown of Japan Domestic Issuance Market

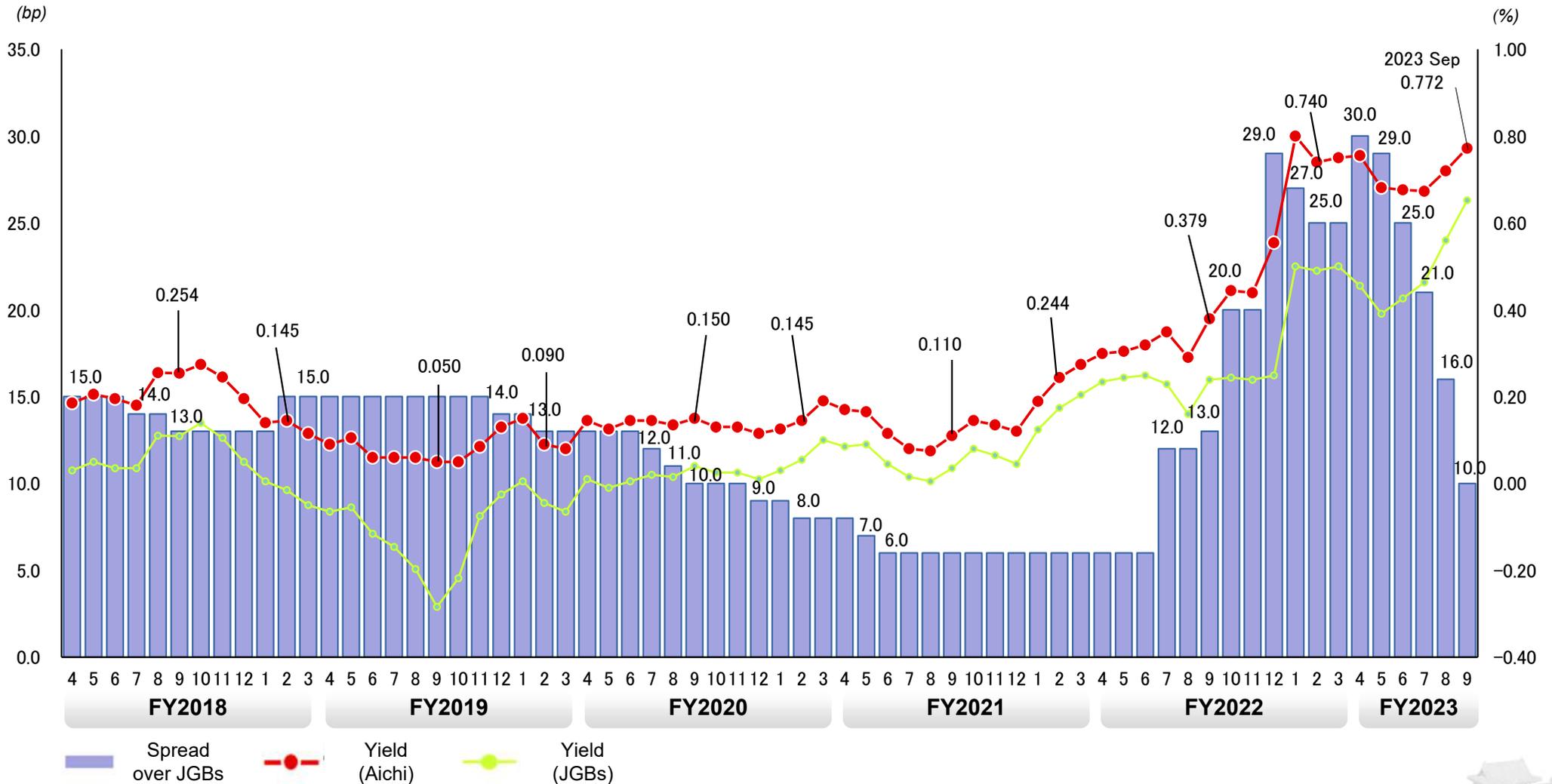


Top Issuers of Japan Local Government Bonds



Pick-up against JGBs

10-Year Bond Historical Yields and Spreads (New Issue)



Source: Aichi Prefecture

Ratings and BIS Risk Weights

- Aichi obtains credit ratings from 2 rating agencies
- Its ratings are identical as those of JGBs

Credit ratings of Aichi Prefecture

International

S&P A+ (stable)

- Balanced financial management thanks to a strong local economy supported by highly competitive manufacturers
- Improving budget balances will reduce outstanding debt
- Stable independent revenue sources and steady financial administration results
- Same as JGBs and Tokyo Metropolitan

(as of August 2023)

Domestic

R&I AA+ (stable)

(as of January 2023)

Risk Weights under BIS Standards ※

JGBs	0%
Aichi LGBs	0%
Government agency bonds	10%~20%
Bank debenture bonds	20%
Straight bonds	20% or more

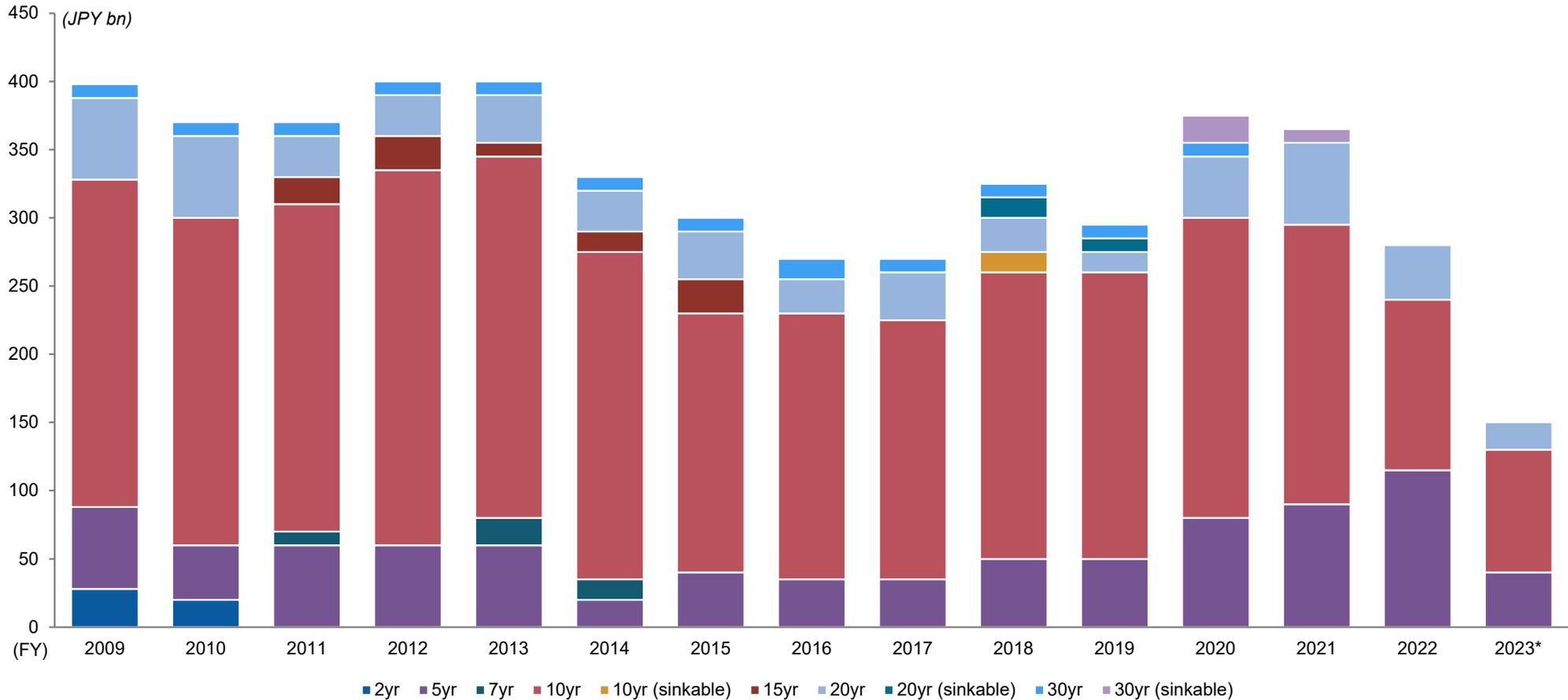
※ Risk weights for domestic investors in Japan.

For overseas investors, BIS Risk Weighting will depend on confirmation of relevant regulatory authority in each country.

Issuance Footprints

- Aichi continuously issues about JPY300 to 500bn per fiscal year

Issuance Volume Breakdown by Tenors



Source: Aichi Prefecture
*As of September 30, 2023

FY2023 Public Offering Bond Issuance Plan

- Aichi Plans to issue public offering bonds of JPY320bn in FY2023.

FY2023 Public Offering Bond Issuance Plan

(JPY bn)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Joint LGBs (10yr)	5	5			5		10			5			30
Green Joint LGBs								2.5	← 2.5 →				5
5-year LGBs		↑ 10					↑ 10						20
10-year LGBs	10	10	10	10	10	↑ 10	10	10	10	10	10	10	120
20-year LGBs			↑ 10					10					20
Flex term		+30 upsize onto 5yr	+10 upsize onto 20yr			+30 upsize onto 10yr	+20 upsize onto 5yr	← 35 in the rest of the FY of which 10 will be issued as Green Bonds (5yr) →				125	
Total													320

*Actual Issuance as of October 5th 2023

Concepts for the Plan

- Continues monthly issue of 10-year bonds as benchmark
- Issues a variety of bonds including 5-year and super long
- Plans to issue second green bonds following first time in FY2022
- Offers flex term bonds for flexible funding to respond to investor needs
 - Upsize requests
 - Needs for diversified maturities

Aichi Prefecture Green Bond

- Aichi Prefecture issued its inaugural green bond in Dec 2022.

Aichi Pref's inaugural Green Bond: Issue Details

Tenor	5 year
Issue amount	JPY 10.0bn
Coupon	0.249%
Issue Price	100.00
Spread	JGB (JGB 0.10% 12/20/27 #349) + 11.0bp
Issue Date	20 December 2022
Ratings	A+ (S&P), AA+ (R&I)
SPO	R&I

Other Use of Proceeds

Pollution prevention and control



Upgrades of air pollution monitoring systems



Environmentally sustainable management of living natural resources and land use



Paving of forest roads



Biodiversity Conservation



Improvement of river environments



Energy Efficiency



Switching to LED traffic lights



Use of Proceeds: Case Study

Clean Transportation



Switching of official vehicles to EVs



- Promoting the adoption of EVs will help reduce CO2 and improve air pollution, and also will contribute to the development of the automobile industry
- In FY2022, it introduces 18 EVs. The project is expected to deliver an environmental benefit of a reduction of approximately 6t-CO2 annually

Climate change adaptation

Before renovation After renovation



Renovation of farm irrigation facilities as part of disaster prevention measures for farmland



Before Installation After Installation



Installation of forest control facilities



Green Buildings



Construction of prefectural facilities



- In FY2022, it constructs STATION Ai, a new energy-efficient facility
- The facility aims to create and develop excellent start-ups in this region and attracting leading start-ups and highly skilled people from abroad



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4. Appendix



Safeguard System of Japanese Local Government Bonds

- Japanese local government bonds have a risk weight of zero as a result of powerful national fiscal backing, a tax system designed to prevent failure and other measures as described below

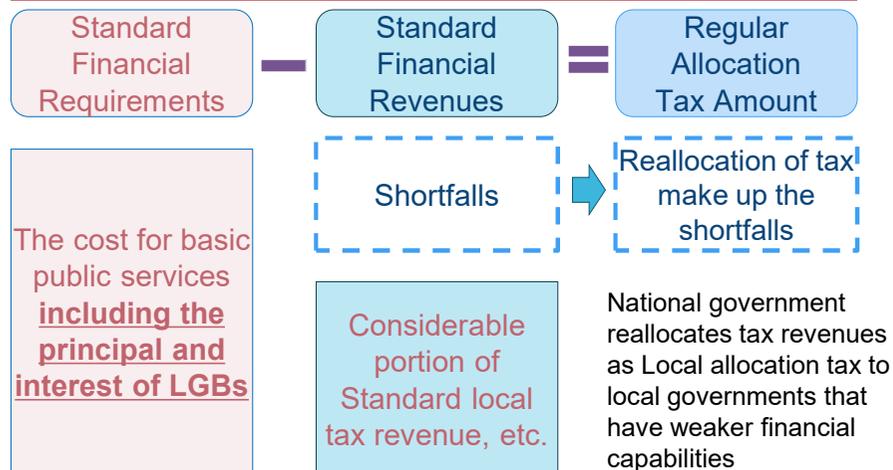
1. Local Allocation Tax System – Securing Financial Resources -

- When determining budgets for each fiscal year, the national government sets forth an estimate of revenues and expenditures for all local governments, and guarantees revenue shortfalls.
- As part of this system, the national government provides backing for the redemption of the principal and interest of local government bonds, thereby strengthening the repayment capacity of local government bonds by local governments.

2. Bond issuance approval system as an early correction measure

- Local governments must discuss with the national government before issuing bonds, and receive confirmation that the new bond issuance is reasonable and will not negatively affect the local governments' future ability to repay principal and interest of local government bonds.

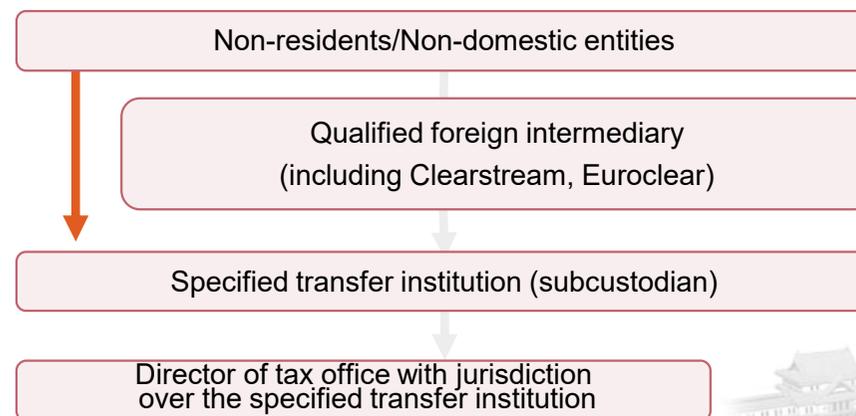
National Government ensures the revenue source for redemption of interest and principal of LGBs through Local allocation tax



Outline of Tax Exemption for Non-Residents

Tax Exemption for Non-Residents

- 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.



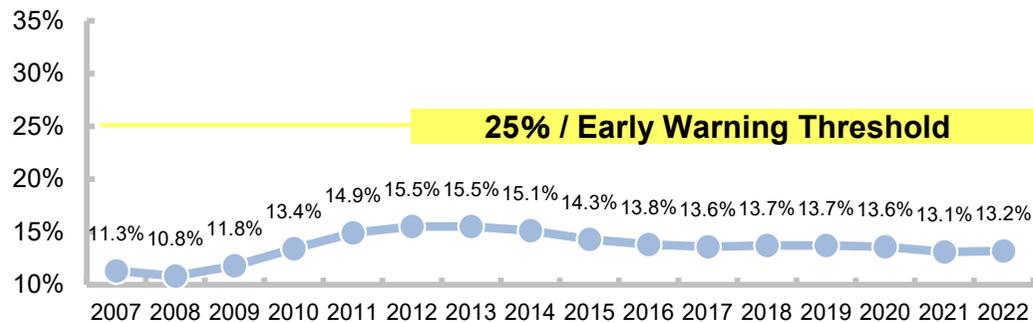
Financial Ratios

Fiscal Health Indicators

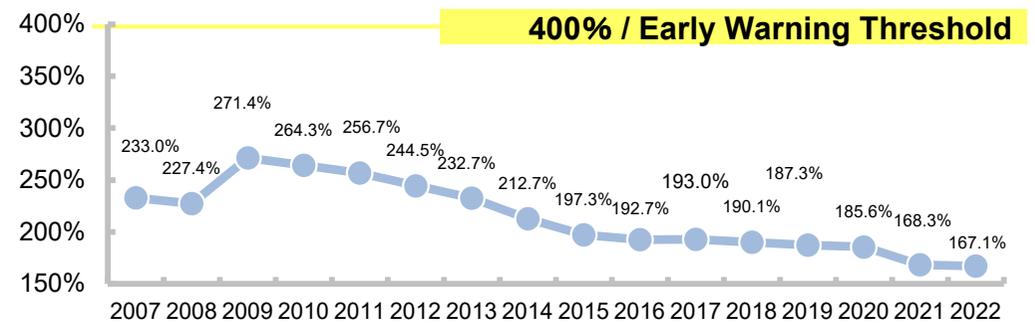
- All four key indicators that measure local government's financial soundness are comfortably below the limit levels.

	FY 2020	FY 2021	FY 2022	Early Warning Threshold
(1) Real Deficit Ratio	Not Applicable to Aichi Pref.			△ 3.75%
(2) Consolidated Real Deficit Ratio	Not Applicable to Aichi Pref.			△ 8.75%

(3) Real Debt Payment Ratio



(4) Future Burden Ratio



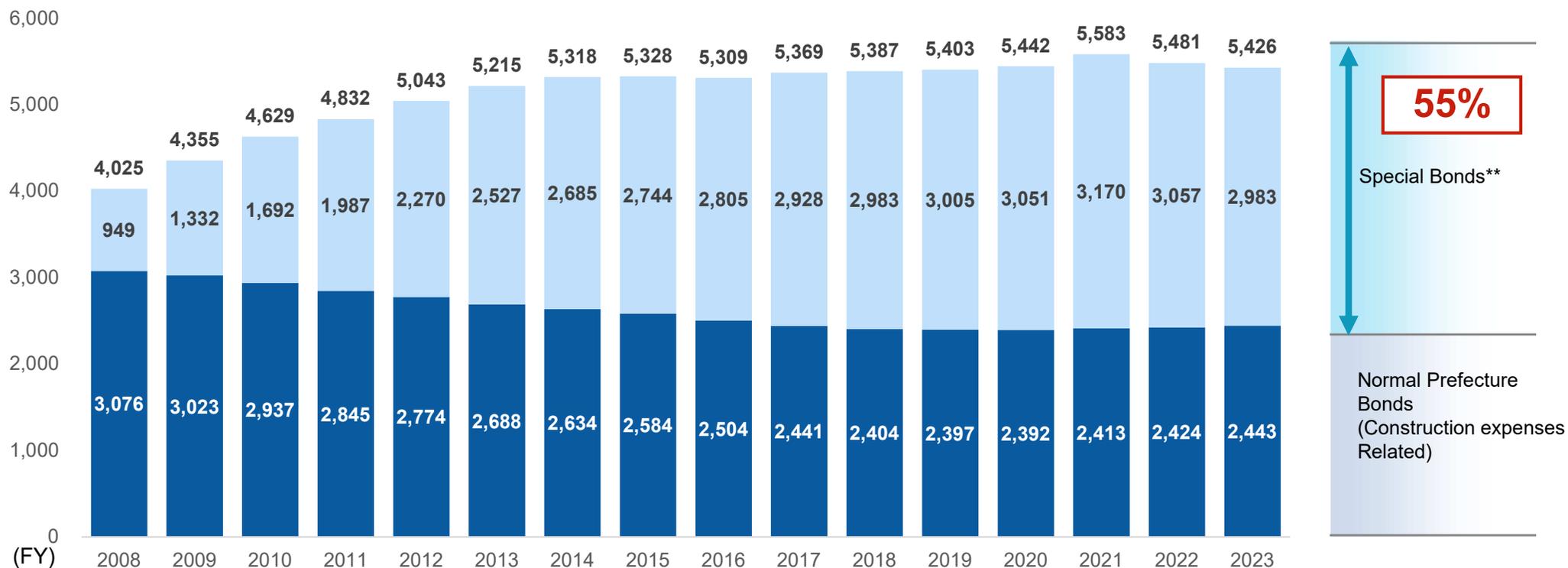
Details

- The ratio of "real deficit within the General Account" to "standard financial scale".
- The ratio of "all account-based real deficit" to the "standard financial scale".
- The ratio of the "general revenue resources appropriated to pay off bonds" to the "standard financial scale".
- The ratio of "future debts including those of the public-private joint sector as well as expected future debts on the General Account" to the "standard financial scale".

Historical Outstanding Volume (FY2008~)

Historical Outstanding Volume from FY 2008*

(JPY bn)



*Based on ~FY22: results/ FY23: budget

** Interim measures for fiscal condition and decline of tax revenue, etc.

