



**MIC**

**Local Government Bond System  
and Market in Japan**

**Ministry of Internal Affairs  
and Communications**

**October 2012**



## Gratitude

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**First of all, we would like to sincerely thank you for your country's support and messages of encouragement after the Great East Japan Earthquake.**

**We will continue our efforts to recover from the disaster with gratitude, and ask for your continuing support.**



## Summary

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I Safety of Japanese LGB

II Attractiveness of Japanese LGB

III The Comprehensive Reform of Social Security and Tax (topic)

IV Appendix



## I Safety of JLGB (Japanese Local Government Bond)

1. Solid support of the central government to redemption
2. Check and control system by the central government, etc.
3. Control of fiscal discipline



**Principal and interest of JLGB have been fully paid without default (similar to JGB).**



The risk-weight of JLGB is regarded as 0% in Basel Capital Accord (Basel II, domestic standard, standardized approach).

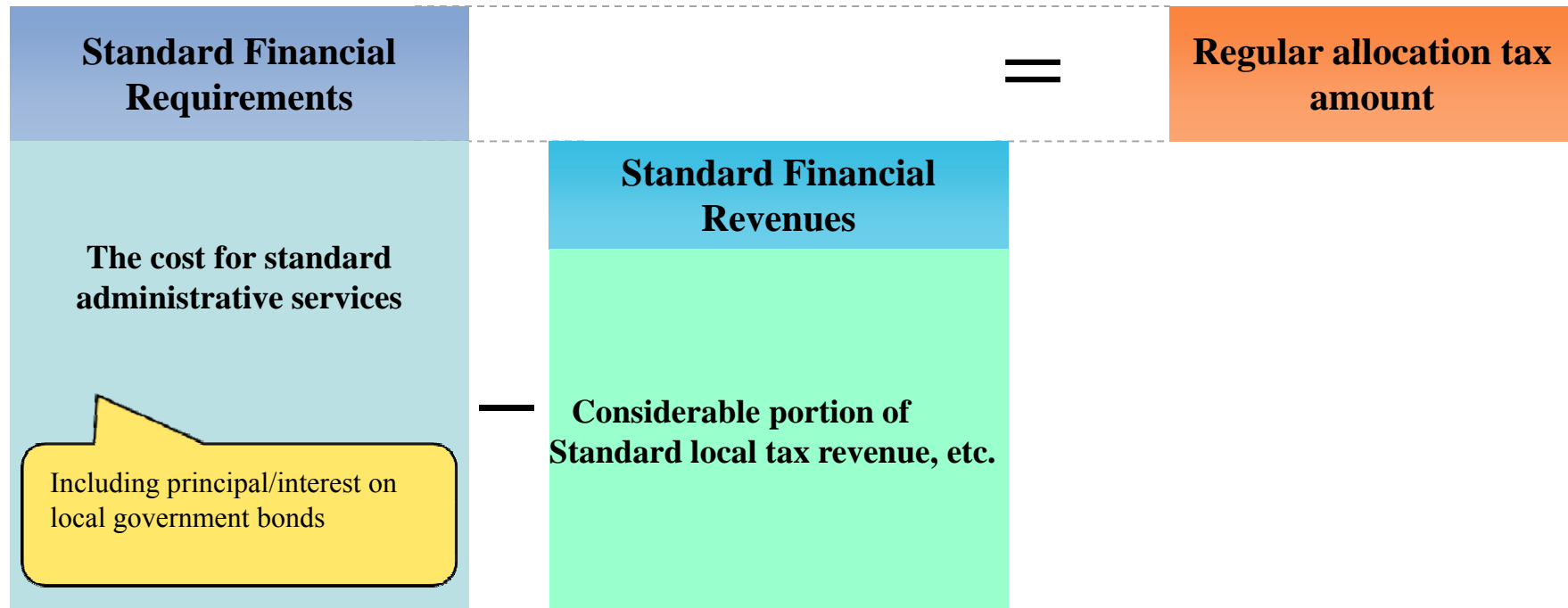


## MIC I-1 Solid support of the central government to redemption

The central government secures revenue sources required for principal/interest payment on local government bonds through the local public finance system.

In particular, it is secured through local allocation tax each local government receives from the central government to provide basic social capital and standard administrative services to citizens.

The local allocation tax system has functioned for about 60 years since 1954. The size of this system is around 17trillion yen, by adding a considerable portion to the standard fiscal demand amount when calculating local allocation tax.

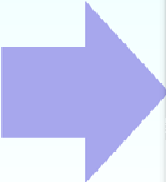


Source: White Paper on Local Public Finance, 2012 - Illustrated -, MIC



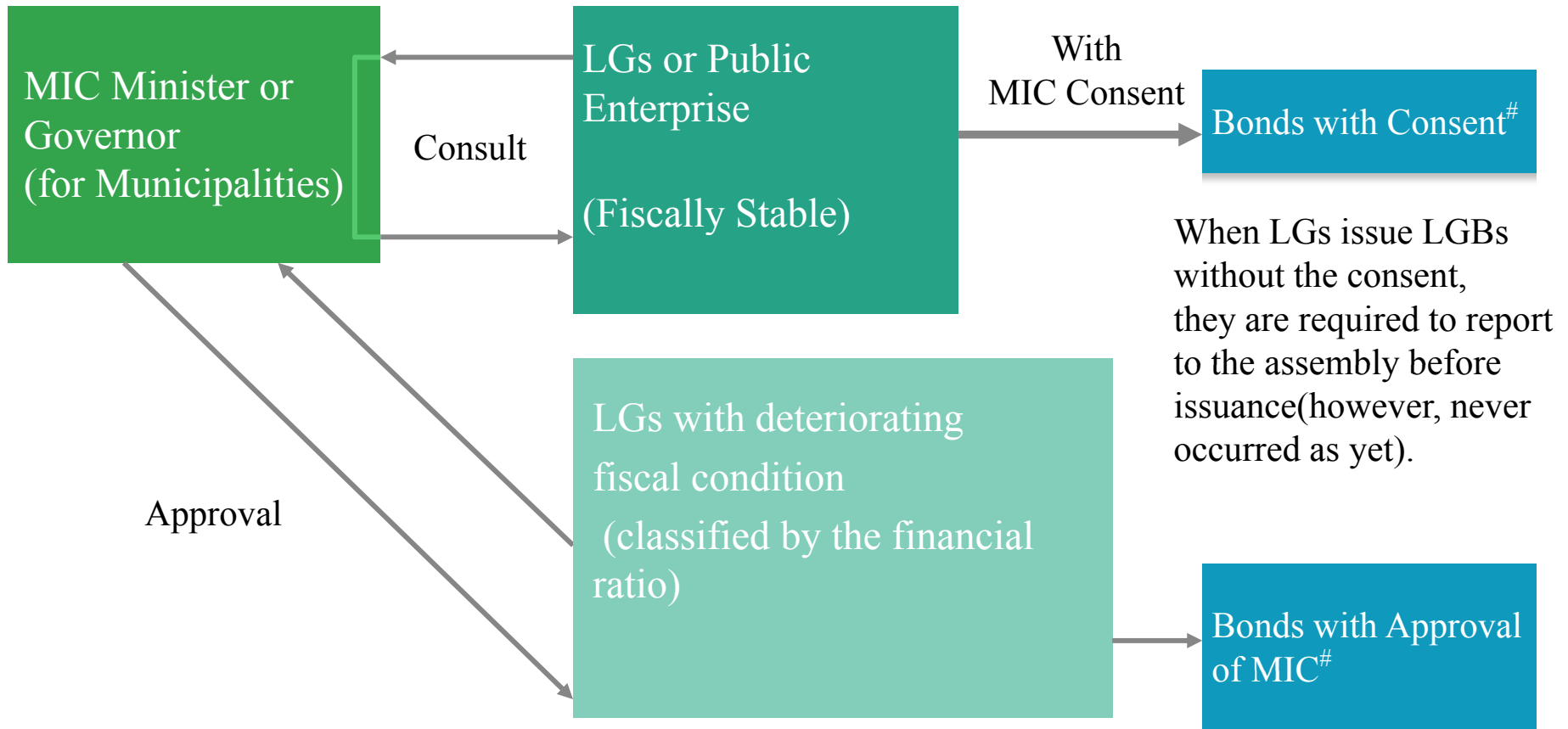
## I-2 Check and control system by the central government, etc. (1)

- Local governments (LGs) are required to consult with the Minister of MIC (or the prefectural governor) at the time of issuance of Local Government Bond (LGB).
- LGB issuance without the consent of the Minister of MIC (or prefectural governors) is not eligible for public funds and is not local allocation tax system (Although LGs can issue LGBs without the consent, there is no previous case.).
- In addition, LGs with deteriorating fiscal conditions are required to obtain the approval of the Minister of MIC (or the prefectural governor) in their issuance. LGB issuance without the approval shall not be issued in this case with LGs with relatively weak fiscal conditions.

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- The central government(or prefectures) check all the local government bonds.
  - The central government secures the redemption of LGBs as a form of the consent after the consultation.
  - Funding of LGs with deteriorating fiscal conditions is restricted.  
(the number of LGs necessary to approval FY2010 : 175(total LGs : 1,793))



## I-2 Check and control system by the central government, etc. (2)




# Only the bonds which obtained the consent or the approval of MIC, LGs may borrow from the Government funds or JFM

From FY2012, LGs with sound fiscal conditions can issue LGBs<sup>※</sup> without the consultation or the approval by notifying the Minister of MIC (or the prefectural governor). <sup>※</sup> LGBs by private funds only.

## I-3 Control of fiscal discipline (1)

- In Japan, the structure is built to check the fiscal conditions of local governments thorough the disclosure of relevant information, and to take measures for early-stage improvement of fiscal conditions before they seriously deteriorate.
- Under this structure, local residents, local assemblies and auditors are to examine latent risks of relevant local public corporations and third-sector companies in addition to local governments.
- These examinations are designed to confirm both flow and stock indicators from the perspective of ensuring the medium- and long-term improvement of fiscal management.
- In addition, if the rehabilitation by local governments on their own is deemed difficult, the central government will play a role to ensure their rehabilitation.

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- The fiscal conditions of local governments are checked in detail in terms of both flow and stock.
  - The structure is designed to prevent unforeseen liabilities by checking the fiscal conditions of related entities as well.
  - As of the end of FY2010, only 5 local governments exceed the early warning limit, and 1 of those 5 local governments exceeds the reconstruction limit(out of a total of 1,793 local governments).





## I-3 Control of fiscal discipline (2)

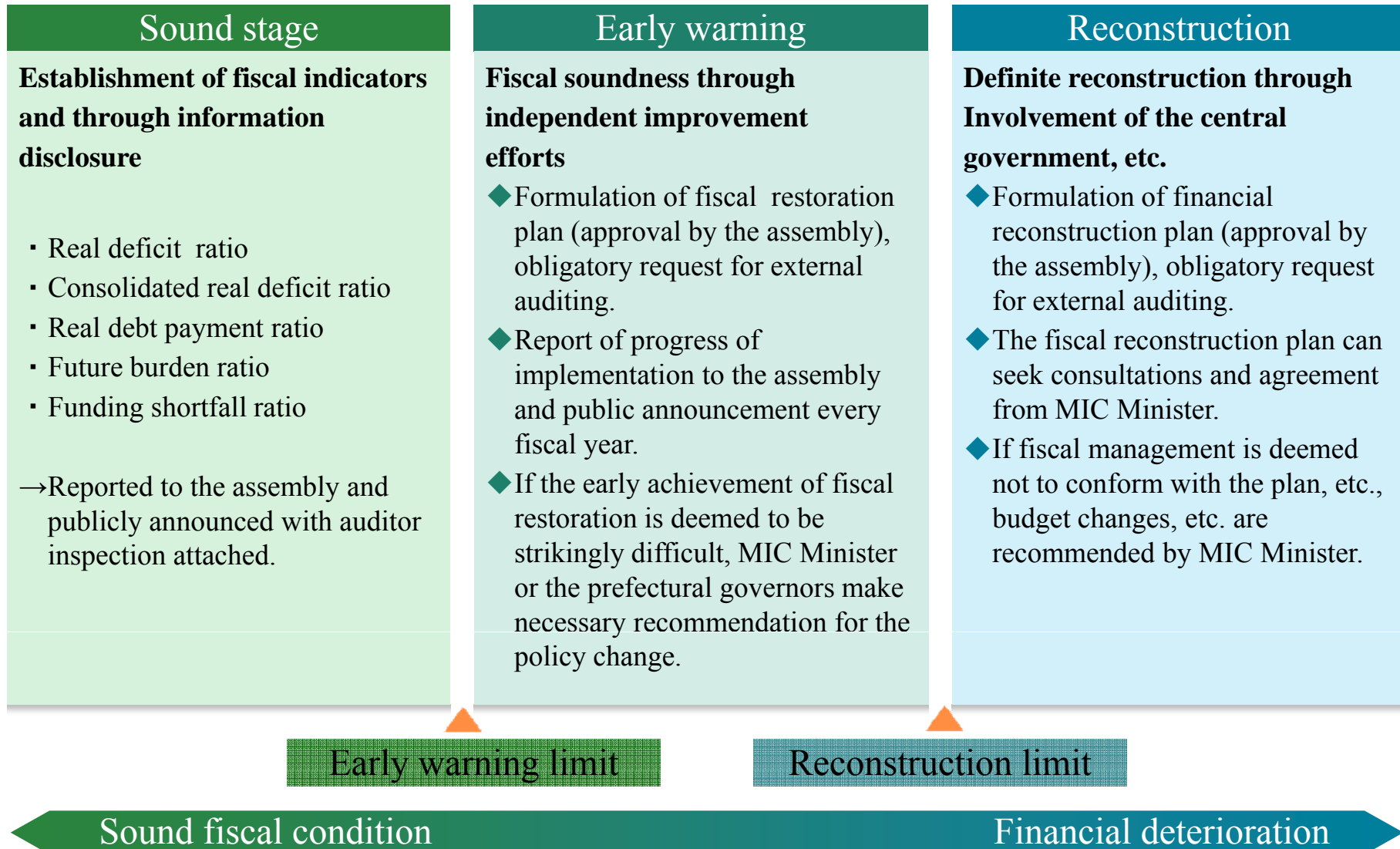
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- ◆ LGs are required to report the following ratios to the local assembly every fiscal year after receiving an assessment by the auditor, and disclose those ratios to the public.

| Fiscal indicator                                 | Definition  |
|--|---|
| 1. Real deficit ratio                            | The ratio of deficit to the standard financial scale.   |
| 2. Consolidated real deficit ratio               | The ratio of consolidated deficit in the all accounts to standard financial scale.  |
| 3. Real debt payment ratio                       | The ratio of debt payment by general revenue to standard financial scale.   |
| 4. Future burden ratio                           | The ratio of outstanding debt as well as contingent liabilities of public enterprises and government affiliates, to standard financial scale.   |
| 5. Funding shortfall ratio at Public Enterprises | The ratio obtained by dividing the previous fiscal year's shortfall in funds for each public enterprise, calculated in the manner specified by Cabinet Order, to the previous fiscal year's business scale calculated in the manner specified by Cabinet Order. |



## I-3 Control of fiscal discipline (3)





## I-4 Opinions for the safety aspects of the Japanese LGB

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### ■ Opinions by the International Rating Agencies

**We rate Japanese regional and local governments (RLGs) at Aa3/stable, the same as Japanese government bonds, reflecting the close linkage between the central government and the RLGs, the local allocation tax (LAT) equalization system, and the central government's strong oversight. We believe that it is unlikely that any policy changes would emerge and which would weaken the government's support for the RLGs.**

**The central government primarily provides its strong support through LAT. The latter is designed to reduce fiscal disparities among RLGs and guarantee minimum services for all residents.**

**(As of 28 September 2012, Moody's )**

**Passage of the Act on Assurance of Sound Financial Status of Local Governments in 2007 has, in our view, enhanced extraordinary central government support for local and regional governments by providing them with unequivocal permission to access central government funds when faced with a dire shortage of liquidity.**

**(As of 1 August 2011, S&P )**



## II Attractiveness of Japanese LGB

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- ◆ Japanese LGBs have enjoyed stable distribution thanks to public awareness of their safety natures as well as the following attractive investment features.

### **1. Offering diverse investment opportunities**

- A steady increase in issuance size coupled with diversification of the term to maturity allows for the selection of bonds suited to investment needs

### **2. Attractiveness as the position similar to JGB**

- Established positioning as a core asset in the investment plans of investors who are focused on safe investing
- Under the turmoil condition in Financial crisis, LGB performed stably
- Many of credit ratings of LGBs are equivalent to that of JGB (Moody's, S&P)

### **3. Further advancement of the commercial value of LGB**

- Issuance of Joint bond (2003~)
- Tax exemption measures for Nonresident investors (2008~)

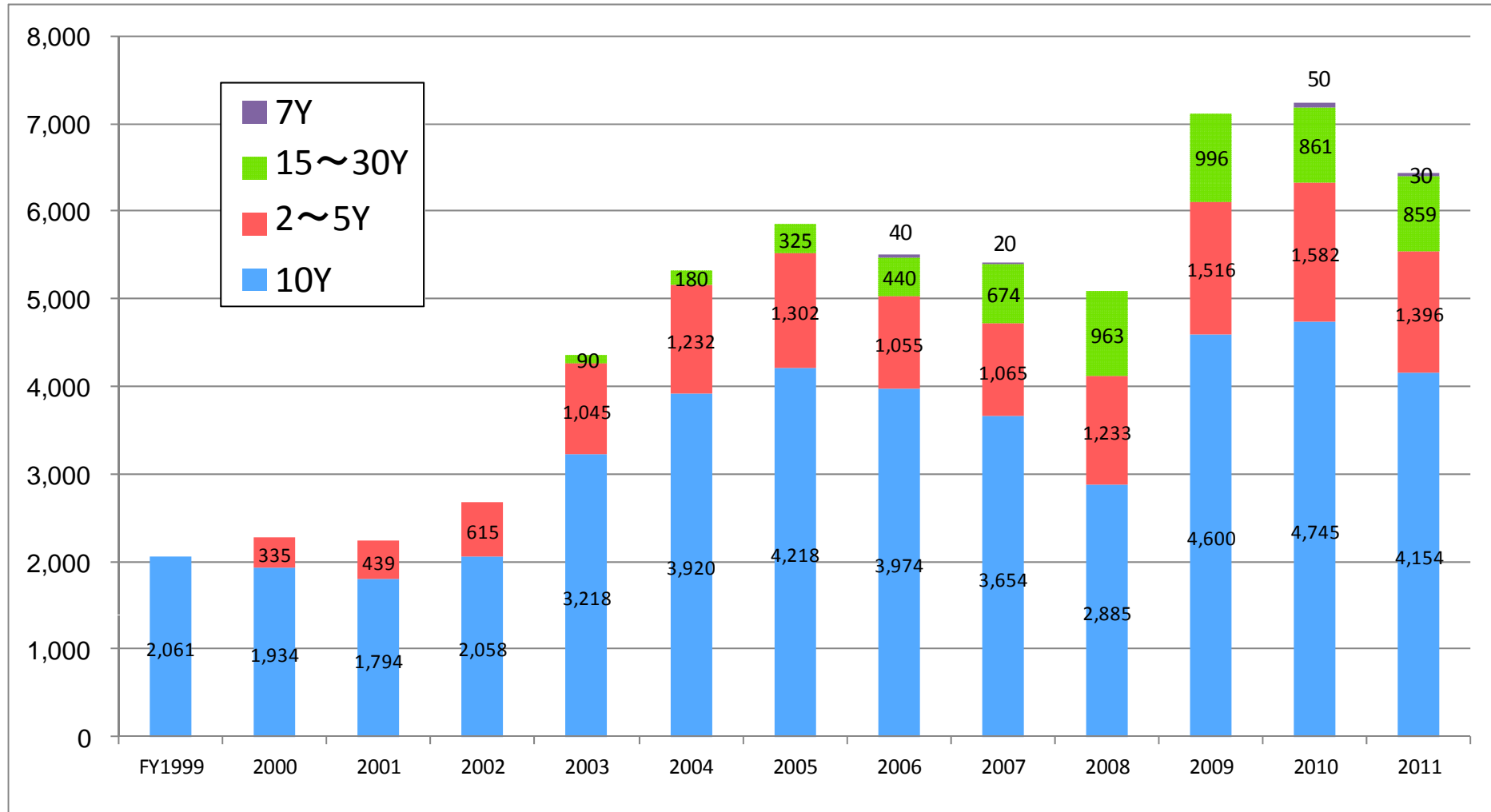




## MIC II-1 Offering diverse investment opportunities (2)

### ◆ Historical issuance amount of Public Offering LGBs

(Unit: 100millions of YEN)





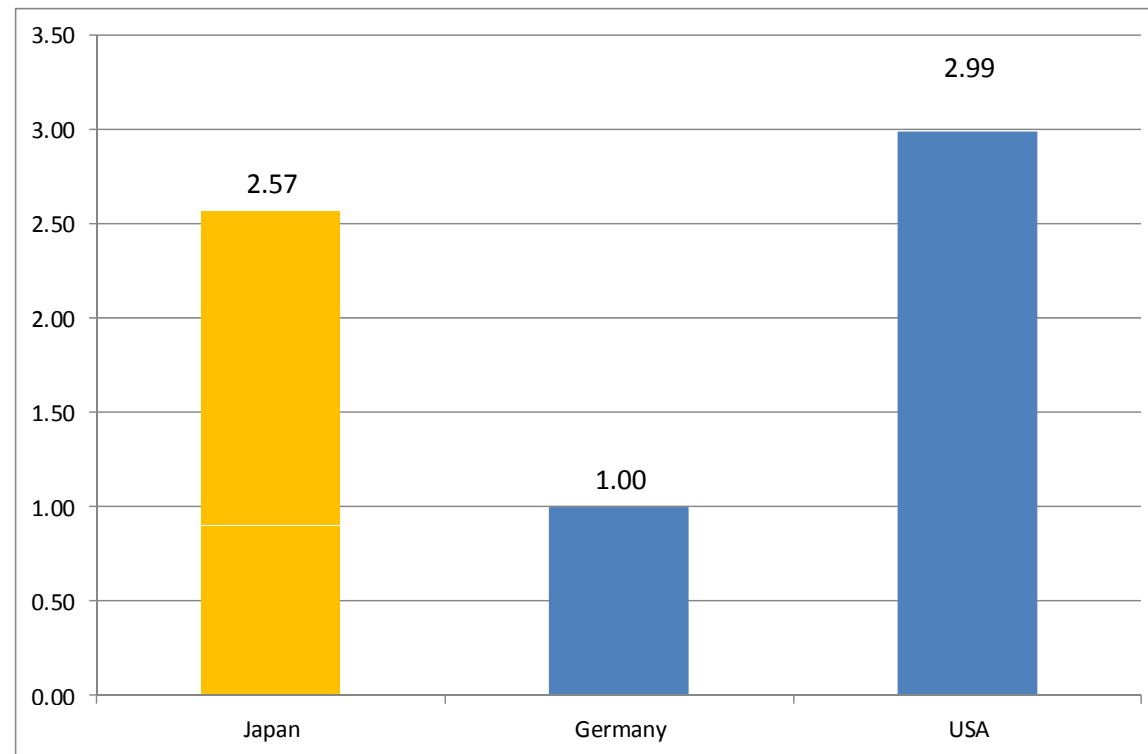
## MIC II-1 Offering diverse investment opportunities (3)

- ◆ Japanese Local Governments' total debt outstanding has reached to US\$ 2.57 trillions (next to that of USA)

\*calculated by exchange rate (Oct.1, 2012)

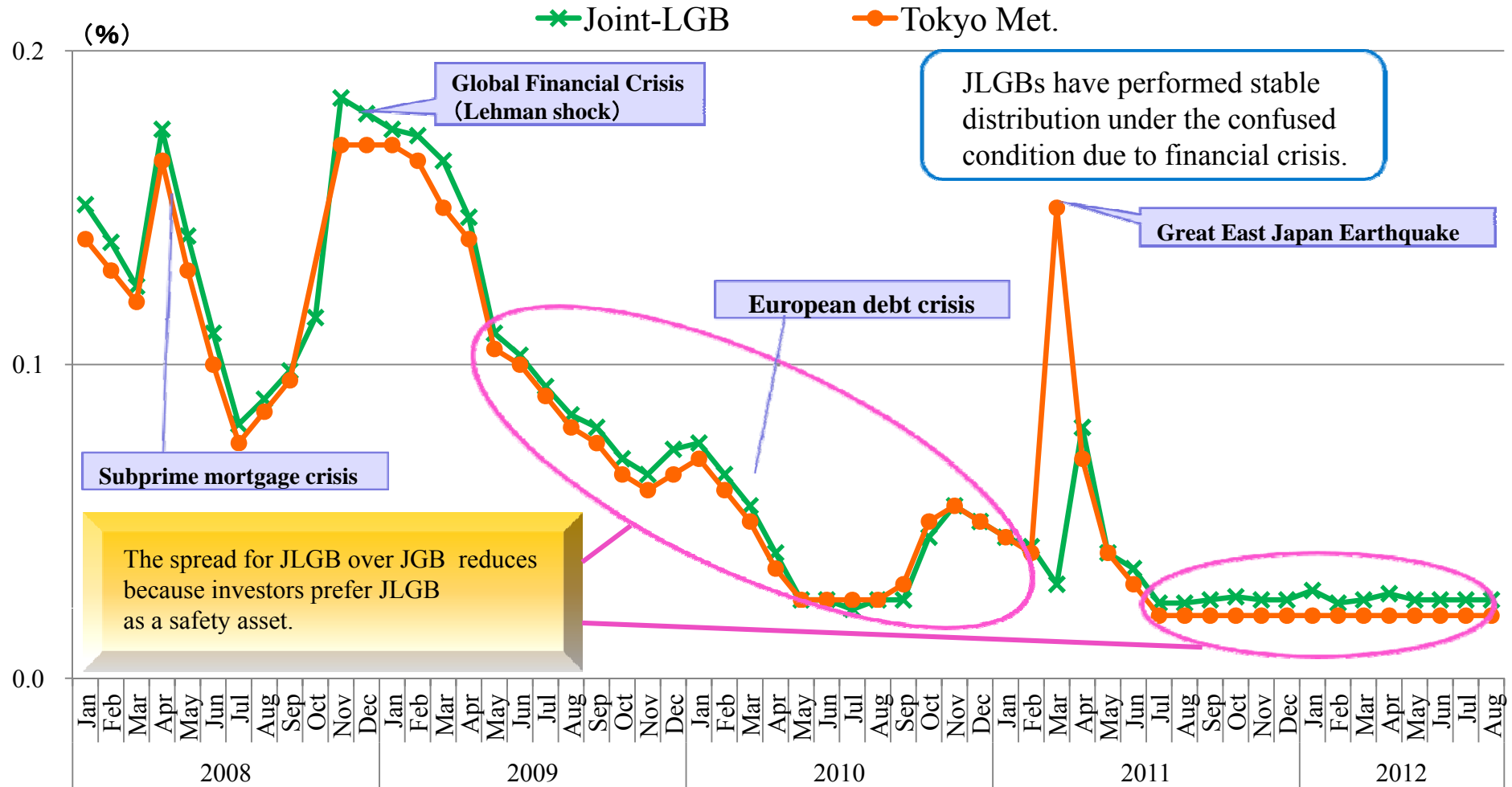
### LGs' Total Debt Outstanding (2011) Japan/Germany/USA

(Unit: Trillions of US-dollar)



## II-2 Similar attractiveness of JGB and JLGB (1)

- ◆ The spread for public offering JLGB (10year) over JGB (10year)



※Issuance Yield (Jan 2008 –Aug 2012)



## II-2 Similar attractiveness of JGB and JLGB (2)

- ◆ International rating agencies assign rating levels of JLGB close to JGB thanks to the solid JLGB system.

| Local Government        | Ratings    |              |
|-------------------------|------------|--------------|
|                         | Moody's    | S&P          |
| JGB(Central Government) | Aa3/Stable | AA-/Negative |
| Tokyo                   | -          | AA-/Negative |
| Niigata Prefecture*     | Aa3/Stable | -            |
| Shizuoka Prefecture*    | Aa3/Stable | -            |
| Aichi Prefecture        | -          | AA-/Negative |
| Hiroshima Prefecture*   | Aa3/Stable | -            |
| Fukuoka Prefecture      | Aa3/Stable | -            |
| Sapporo City            | Aa3/Stable | -            |
| Chiba City*             | -          | A+/Stable    |
| Yokohama City           | -          | AA-/Negative |
| Sagamihara City         | -          | AA-/Negative |
| Niigata City*           | -          | AA-/Negative |
| Shizuoka City*          | Aa3/Stable | -            |
| Hamamatsu City          | Aa3/Stable | -            |
| Nagoya City             | Aa3/Stable | -            |
| Kyoto City*             | Aa3/Stable | A+/Stable    |
| Osaka City*             | Aa3/Stable | AA-/Negative |
| Sakai City              | Aa3/Stable | -            |
| Fukuoka City*           | Aa3/Stable | -            |
| Miyazaki City           | -          | A/Stable     |



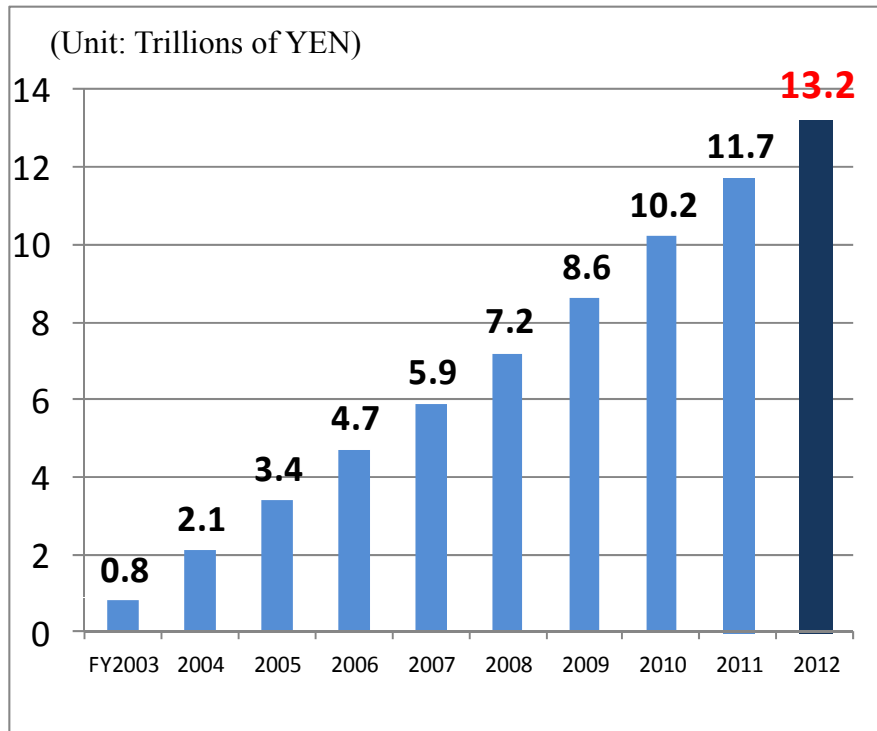
## II-3 Further advancement of the commercial value of LGB

### ◆ The initiative to enhance the commercial value of LGB

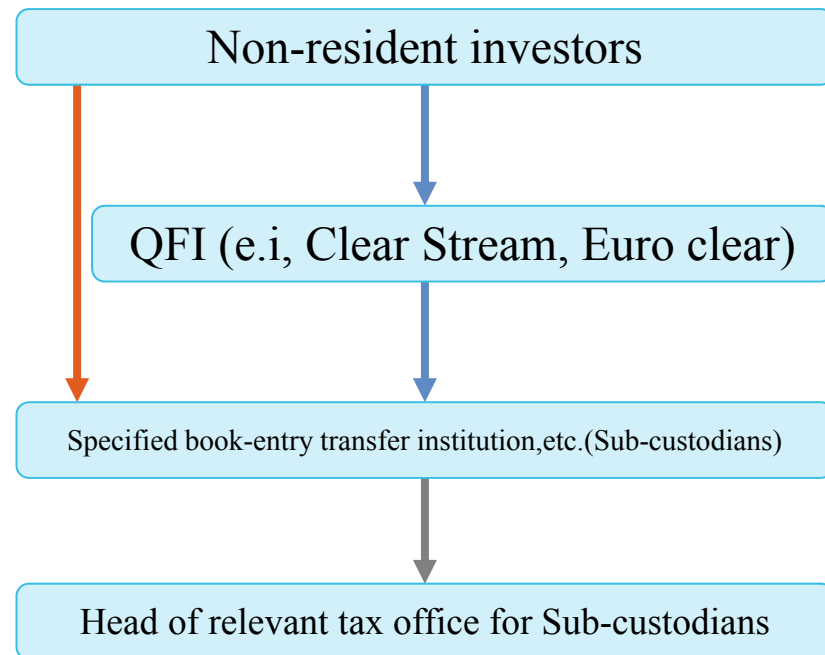
- issuance of Joint bond(2003~)
- tax exemption measures for nonresident investors(2008~),etc.

※ Please refer to the presentation by Japan Local Government Bond Association

#### 1) Market Size for Joint LGB (Total Outstanding)



#### 2) Procedure of tax exemption for nonresidents

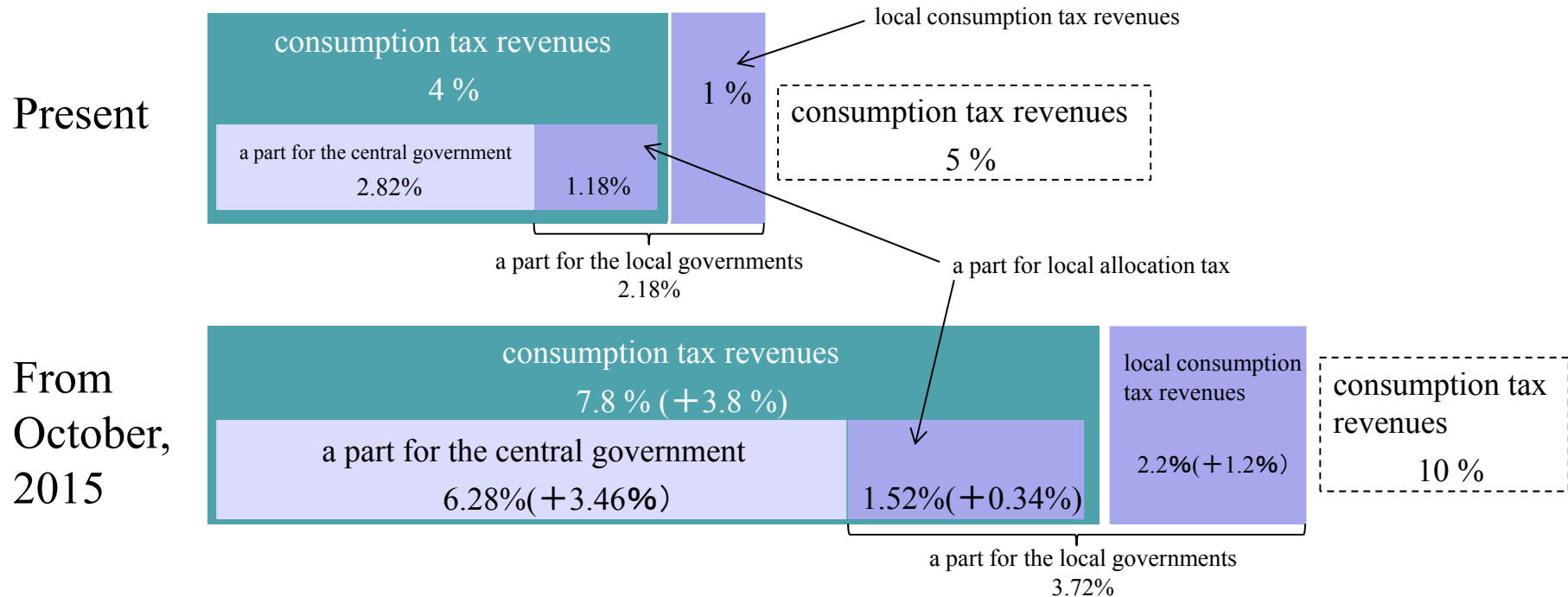




### MIC III The Comprehensive Reform of Social Security and Tax

- ◆ Under the situation of a rapid dwindling birthrate and aging, and the severe financial status of Japan, in order to secure stable resources for social security the bill related to the comprehensive reform of social security and tax was passed in August, 2012.
- ◆ The bill provides that the consumption tax rate is raised from the present 5% to 8% in April, 2014 and from 8% to 10% in October, 2015.

#### Distribution in the central government and the local governments of consumption tax revenues



Note: When consumption tax rate is 8%, 6.3% (a part for the central government is 4.9% (+2.08%), a part for local allocation tax is 1.4% (+0.22%)) of that consists of consumption tax revenues and 1.7% (+0.7%) of that consists of local consumption tax revenues (a part for the local governments is 3.1%).



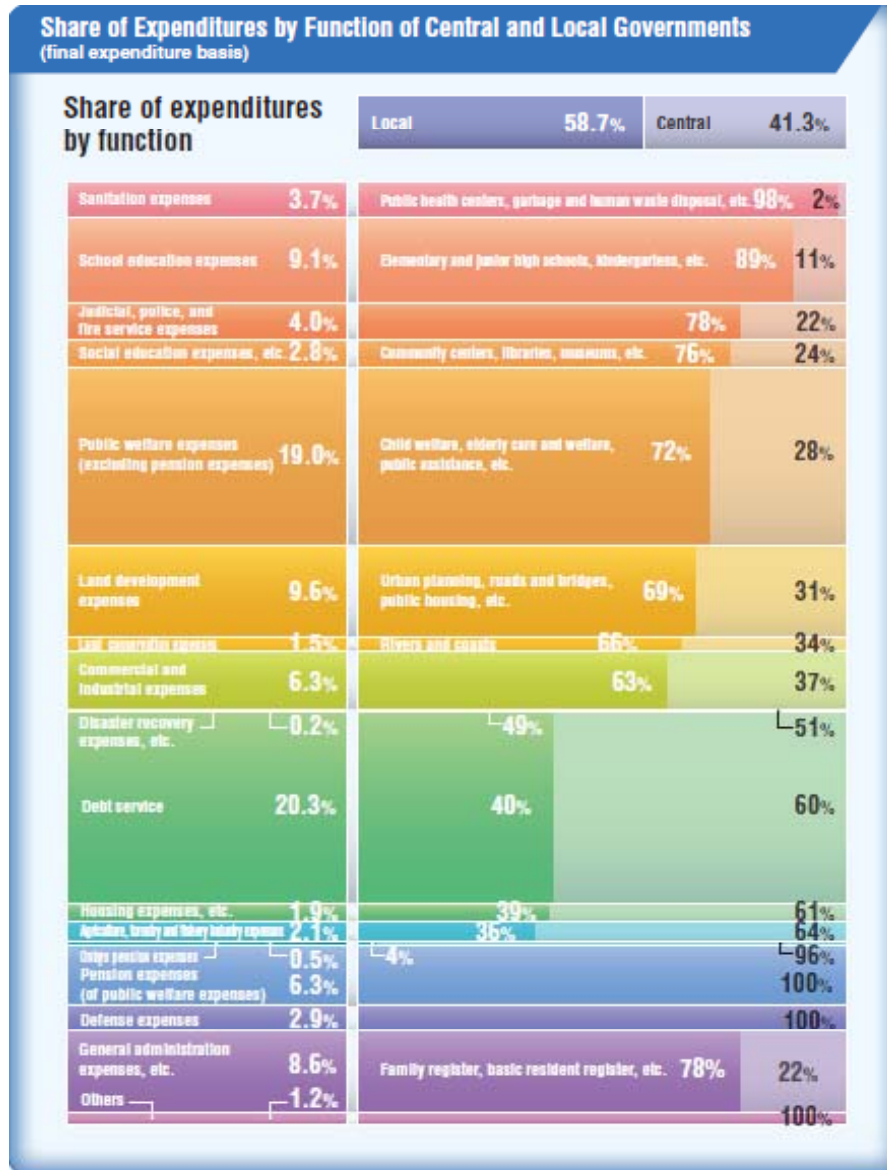
## Concluding remarks

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We recommend Japanese Local Government Bond (JLGB) as a safe asset and believe they would enhance the value of any investment portfolio on the basis of sovereign risk, financial stability and government backing.

# Appendix

# Functions of Japanese Local Governments



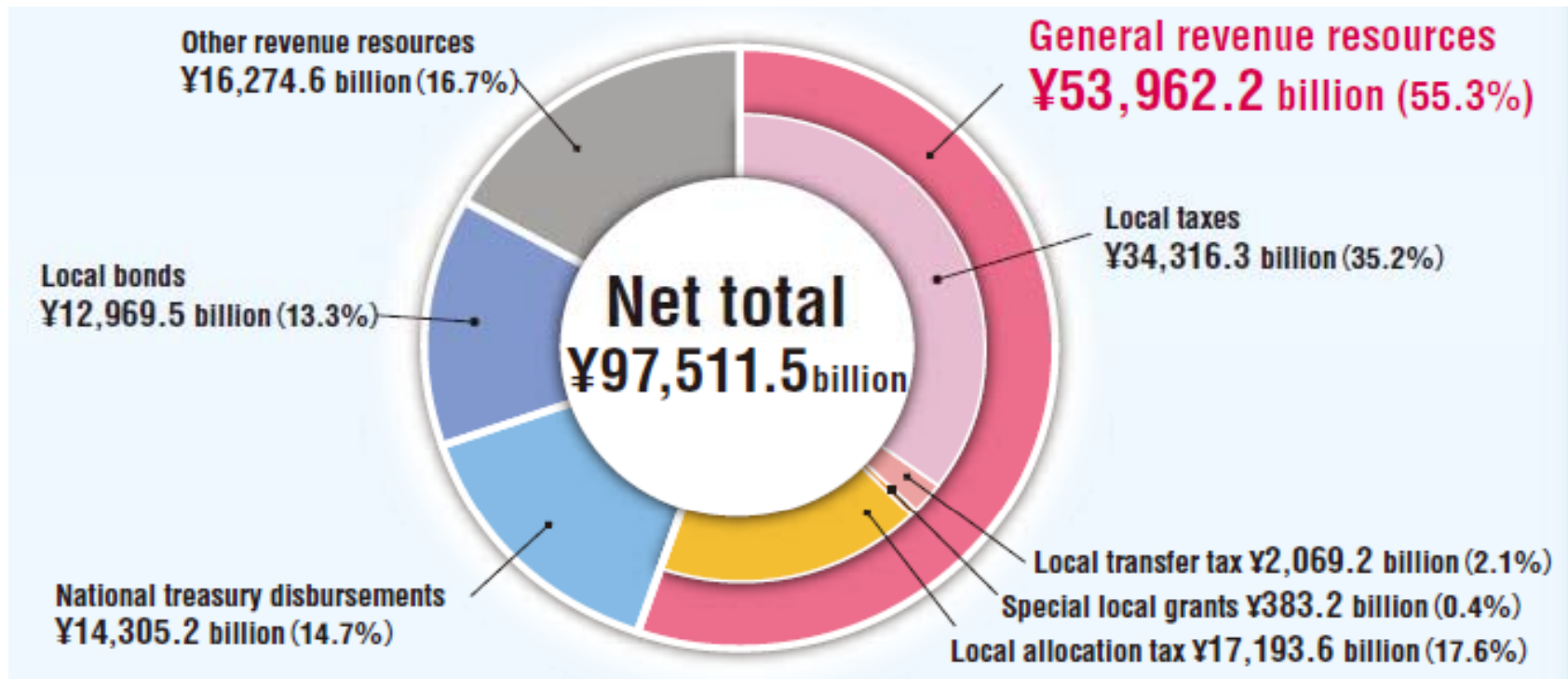
- ◆ Local governments have relatively large responsibilities & functions.
- ◆ The greatest portion of local government annual expenditures is directed toward supporting everyday public services: public health and sanitation, education, social education, and police and fire prevention, etc.

Source: White Paper on Local Public Finance, 2012 “FY2010 Settlement” by Ministry of Internal Affairs and Communications

# The revenue of local governments

- ◆ The revenue of local governments comes mainly from local taxes, local allocation tax, national treasury disbursements, and local bonds.

< Revenue Breakdown (FY2010 settlement) >



Source: White Paper on Local Public Finance, 2012 “FY2010 Settlement” by Ministry of Internal Affairs and Communications

## Consultation system for the issuance of LGB

- ◆ JLGB system changed from approval system to consultation system in FY06 due to decentralization. Moreover, notification system was introduced in FY12 limited to Private Fund from the perspective of enhancement of LGs' autonomy.

### 1. Consultation

LGs are required to consult with the Minister of Internal Affairs and Communications (prefectures and government designated cities) or the prefectural governor (in the case of municipalities) before debt issue.

### 2. Allocation of public funds for LGB with the consent

Only LGB with the consent by MIC Minister or the prefectural governors may borrow public funds [Government funds, JFM funds].

### 3. Debt payment for bonds with the consent included in Local Allocation Tax system

Debt payment for LGBs with the consent by MIC Minister or the prefectural governors is included in Local Allocation Tax system.

### 4. LGs are required to report issuance of the bond without the consent to the assembly

In order to issue the LGBs without the consent, the head of the local government are required to report it to the assembly.

### 5. Standard for consent

MIC Minister releases the standard for the consent every fiscal year. Issuers in high deficit, issuers with high real-debt-payment-ratio, and public enterprises in high deficit, etc. are required to obtain the approval of issuance from the Minister or the governor.

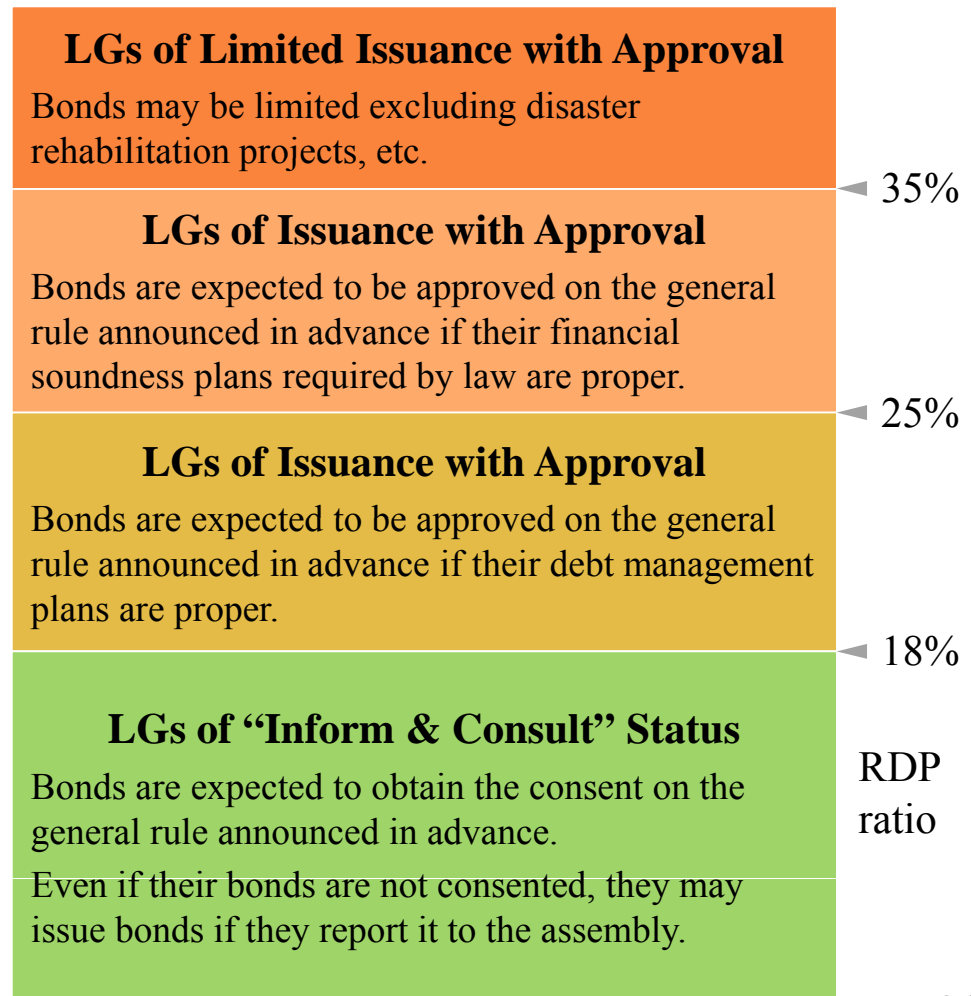


# Consultation system for the issuance of LGB

- ◆ In order to secure fiscal soundness, local governments with higher real-debt-payment-ratio or higher deficit than a set limit are required to get the approval for bond issue instead of the consultation.

## Approval required if real-debt-payment-ratio(RDP) is 18% or more

- ◆ Issuers with RDP between 18% ~ 25% must draft the debt management plan and obtain the approval of the MIC minister (or the prefectural governor), based upon the general approval standard.
- ◆ Issuers with the ratio between 25% ~ 35% must draft the financial soundness plan required by law and obtain the approval of the MIC minister (or the prefectural governor), based upon the general approval standard.
- ◆ Issuers with the ratio of 35% or more must draft the financial rebuilding plan and obtain the approval of the MIC minister. Otherwise, Issuers are prohibited from debt issue excluding disaster rehabilitation projects, etc.



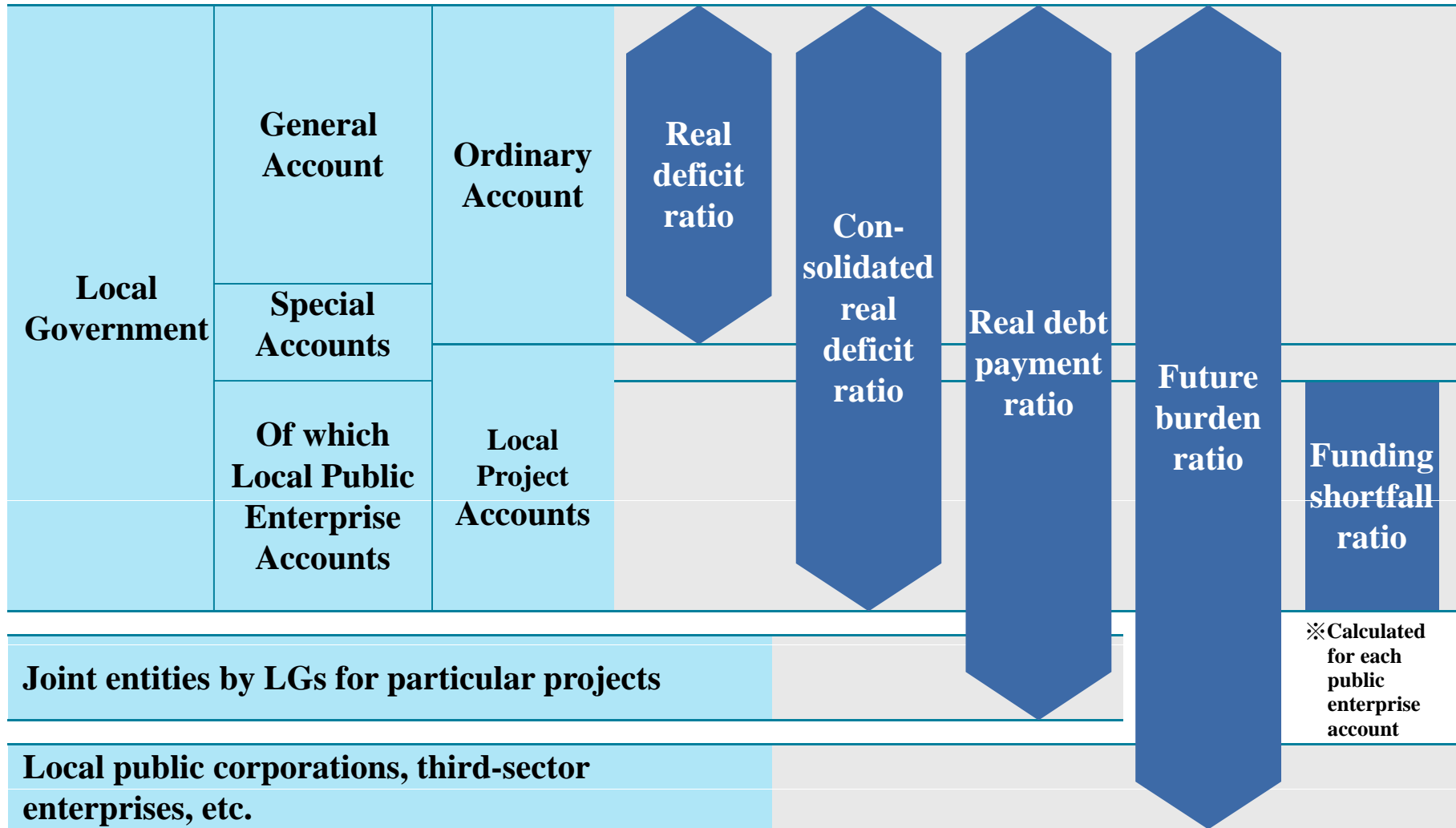


# Limits for Early warning and reconstruction

|   | Early warning limit                                   | Reconstruction limit                 |
|---|---|--------------------------------------|
| <b>1. Real deficit ratio</b>                            | Prefectures: 3.75%                                    | Prefectures: 5%                      |
|   | Municipalities, depending on fiscal size: 11.25 ~ 15% | Municipalities: 20%                  |
| <b>2. Consolidated real deficit ratio</b>               | Prefectures 8.75%                                     | Prefectures: 15%                     |
|   | Municipalities, depending on fiscal size: 16.25 ~ 20% | Municipalities: 30%                  |
| <b>3. Real debt payment ratio</b>                       | Prefectures, and Municipalities: 25%                  | Prefectures, and Municipalities: 35% |
| <b>4. Future burden ratio</b>                           | Prefectures and government-designated cities: 400%    |                                      |
|   | Municipalities: 350%                                  |                                      |
| Management Improvement limit                            |   |                                      |
| <b>5. Funding shortfall ratio at public enterprises</b> | 20%   |                                      |



# Scope of fiscal indicators in the Law



# Revision of consultation system for the issuance of LGB

- ◆ Notification system for the issuance of LGB was introduced from FY2012 by revising the part of consultation system in order to enhance the independence and autonomy of LGs.

## 1. Conditions of LGs that don't need consultation when they issue LGBs

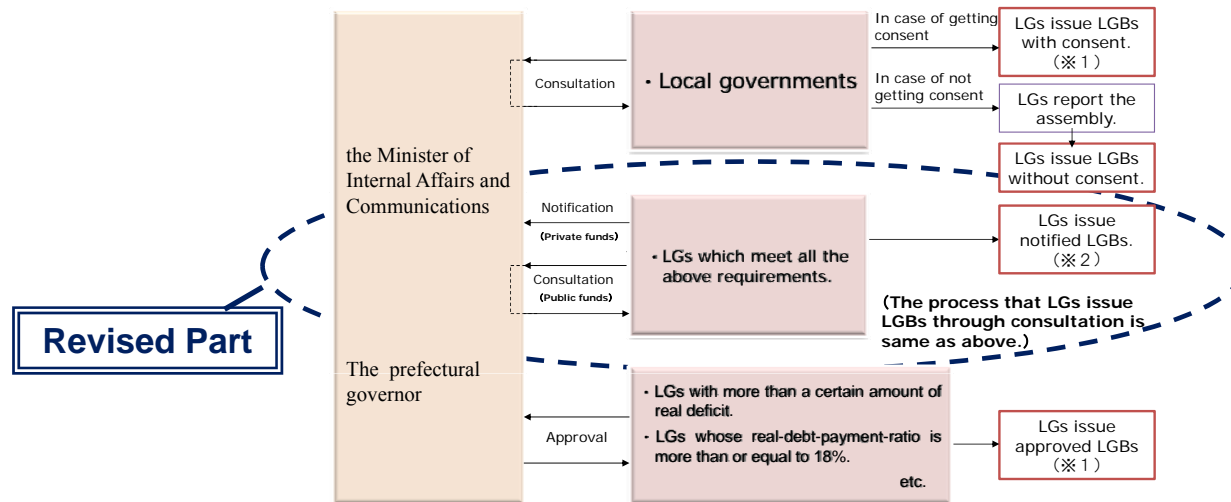
If they meet the following requirements, LGs can issue LGBs※ without the consultation with the Minister of Internal Affairs and Communications or the prefectural governor. ※LGBs by private funds only.

- ① Real-debt-payment-ratio is less than 16% (it must be less than 14% only in FY2012).
- ② Real deficit is 0.
- ③ The total amount of LGBs after the consent or the approval is less than or equal to 25% of the previous three year average of the total amount of the standard fiscal scale and the scale of the business of public enterprise.

etc.

## 2. Local Allocation Tax system

Debt payment for notified LGBs which are approved that LGs could issue with the consent if they consult with the Minister of Internal Affairs and Communications or the prefectural governor is included in Local Allocation Tax system.



※1 LGBs with the consent(or the approval) are approved to be allocated public funds and debt payment for LGBs with the consent(or the approval) is included in Local Allocation Tax system.

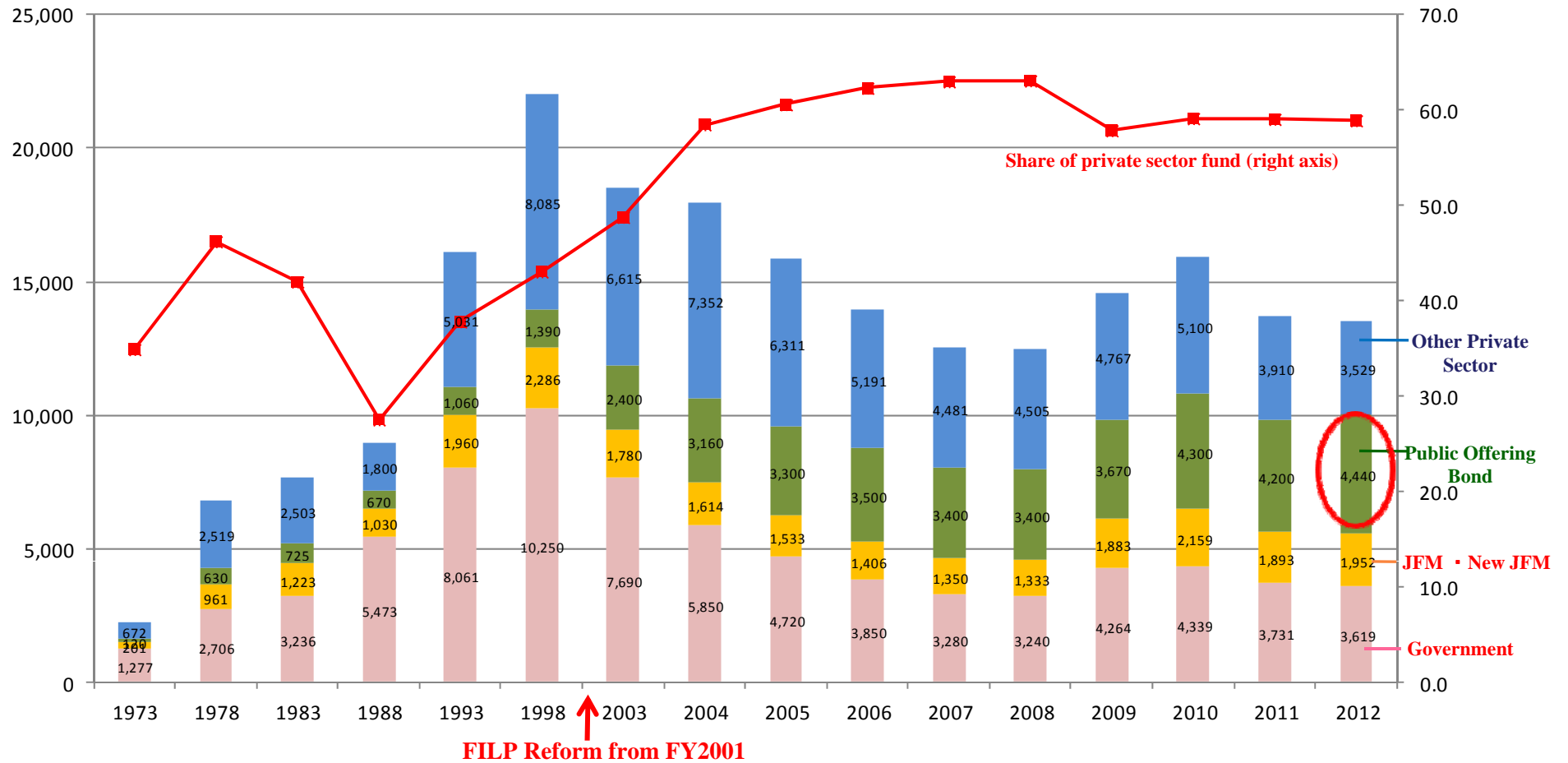
※2 Debt payment for notified LGBs which are approved that LGs could issue with the consent if they consult with the Minister of Internal Affairs and Communications or the prefectural governor is included in Local Allocation Tax system.



# Historical changes of annual issue amount

- ◆ Reduction in government funding due to FILP (Fiscal Investment and Loan Program) Reform to minimize government funding role from FY2001.

(Billions of yen)



Source: Ministry of Internal Affairs and Communications

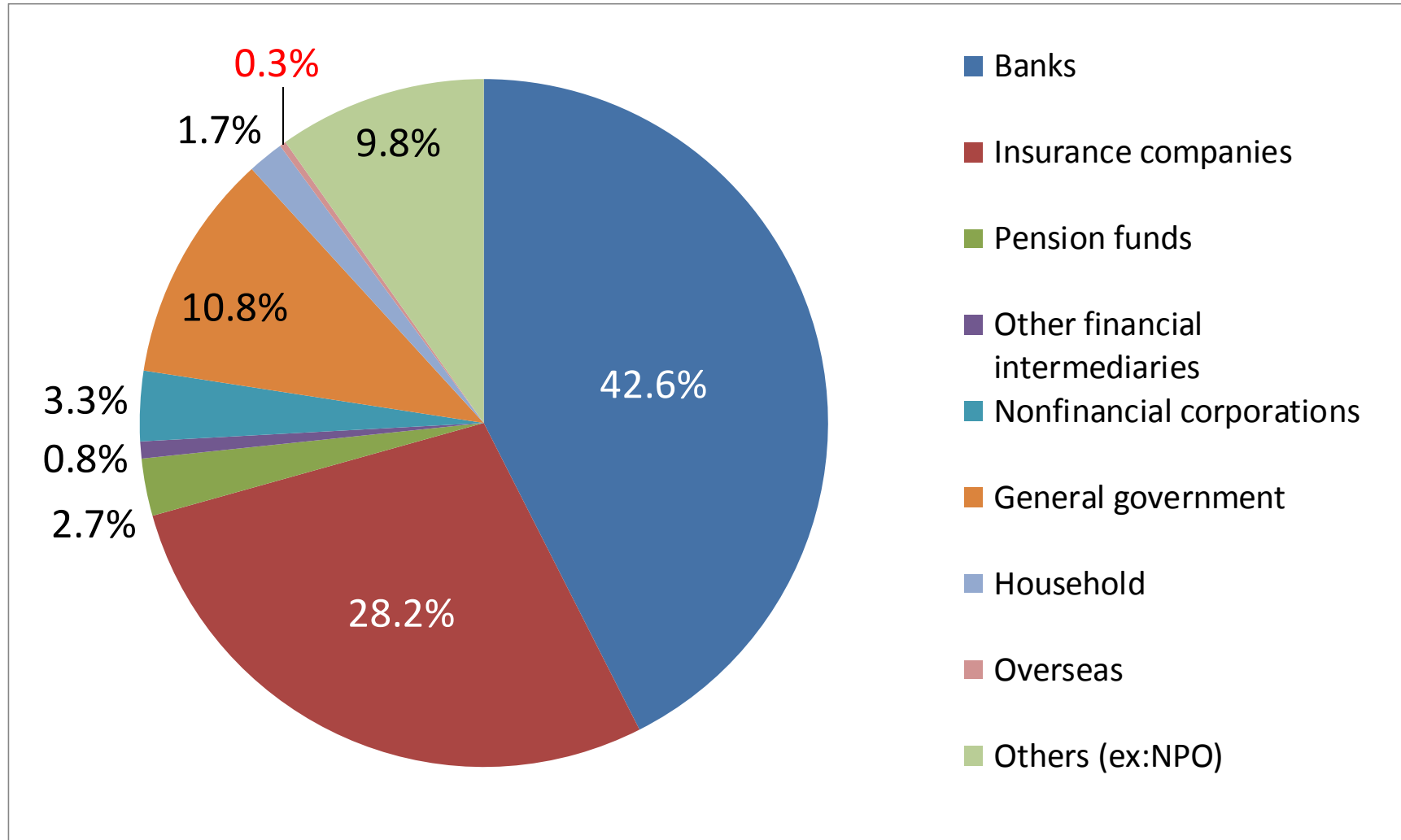


# Planned Issuance for Nationwide Public Offering LGBs in Fiscal-Year 2012

| Government | Total | 2y or 3y<br>5y or 7y | 10y   | 15y or 20y<br>or 30y | Joint-LGB | Other | Government       | Total  | 2y or 3y<br>5y or 7y | 10y    | 15y or 20y<br>or 30y | Joint-LGB | Other |
|------------|-------|----------------------|-------|----------------------|-----------|-------|------------------|--------|----------------------|--------|----------------------|-----------|-------|
| Hokkaido   | 3,300 | 1,200                | 1,200 | -                    | 800       | 100   | Tokushima        | 350    | -                    | 100    | -                    | 250       | -     |
| Miyagi     | 900   | 300                  | -     | -                    | 600       | -     | Fukuoka          | 2,350  | 500                  | 750    | 600                  | -         | 500   |
| Fukushima  | 760   | 200                  | 200   | -                    | 360       | -     | Nagasaki         | 100    | -                    | 100    | -                    | -         | -     |
| Ibaraki    | 400   | 100                  | -     | -                    | 300       | -     | Kumamoto         | 500    | 100                  | 100    | -                    | 300       | -     |
| Tochigi    | 100   | -                    | 100   | -                    | -         | -     | Oita             | 300    | -                    | 100    | -                    | 200       | -     |
| Gunma      | 400   | 100                  | 200   | 100                  | -         | -     | Kagoshima        | 700    | 100                  | -      | -                    | 600       | -     |
| Saitama    | 3,200 | 800                  | 1,400 | 200                  | 800       | -     | Sapporo City     | 1,300  | 400                  | 300    | -                    | 300       | 300   |
| Chiba      | 3,000 | 600                  | 1,400 | 400                  | 600       | -     | Sendai City      | 510    | 150                  | -      | -                    | 360       | -     |
| Tokyo      | 7,800 | 1,100                | 5,800 | 900                  | -         | -     | Saitama City     | 100    | -                    | 100    | -                    | -         | -     |
| Kanagawa   | 3,300 | 800                  | 1,400 | 600                  | 500       | -     | Chiba City       | 500    | -                    | 200    | -                    | 300       | -     |
| Niigata    | 1,000 | -                    | 400   | -                    | 600       | -     | Yokohama City    | 1,600  | 200                  | 800    | 200                  | -         | 400   |
| Fukui      | 450   | 50                   | 300   | -                    | 100       | -     | Kawasaki City    | 1,000  | 280                  | 100    | 300                  | 240       | 80    |
| Yamanashi  | 200   | -                    | 200   | -                    | -         | -     | Sagamihara City  | 100    | -                    | 100    | -                    | -         | -     |
| Nagano     | 800   | 200                  | -     | -                    | 600       | -     | Niigata City     | 300    | -                    | 100    | -                    | 200       | -     |
| Gifu       | 300   | -                    | 100   | -                    | 200       | -     | Shizuoka City    | 200    | -                    | 100    | -                    | 100       | -     |
| Shizuoka   | 2,700 | 600                  | 800   | 300                  | 600       | 400   | Hamamatsu City   | 100    | -                    | 100    | -                    | -         | -     |
| Aichi      | 4,600 | 600                  | 2,400 | 200                  | 600       | 800   | Nagoya City      | 1,300  | 200                  | 700    | 200                  | -         | 200   |
| Mie        | 200   | -                    | 100   | -                    | 100       | -     | Kyoto City       | 1,200  | 300                  | 200    | 100                  | 400       | 200   |
| Shiga      | 100   | -                    | 100   | -                    | -         | -     | Osaka City       | 2,400  | 400                  | 400    | 300                  | 800       | 500   |
| Kyoto      | 2,100 | 500                  | 500   | 200                  | 700       | 200   | Sakai City       | 200    | -                    | 100    | 100                  | -         | -     |
| Osaka      | 6,400 | 2,600                | 2,200 | -                    | 800       | 800   | Kobe City        | 1,100  | 200                  | 200    | 300                  | 200       | 200   |
| Hyogo      | 3,200 | 600                  | 600   | 400                  | 800       | 800   | Okayama City     | 100    | -                    | 100    | -                    | -         | -     |
| Nara       | 300   | 100                  | -     | -                    | 200       | -     | Hiroshima City   | 600    | 100                  | 200    | -                    | 300       | -     |
| Shimane    | 300   | 300                  | -     | -                    | -         | -     | Kita-Kyushu City | 800    | 100                  | 200    | 200                  | 300       | -     |
| Okayama    | 300   | -                    | 200   | -                    | 100       | -     | Fukuoka City     | 1,250  | 400                  | 260    | 200                  | 240       | 150   |
| Hiroshima  | 1,500 | 100                  | 600   | 100                  | 700       | -     | Kumamoto City    | 100    | -                    | 100    | -                    | -         | -     |
|            |       |                      |       |                      |           |       | Total            | 66,670 | 14,280               | 25,810 | 5,800                | 15,150    | 5,630 |

※This is based on the figures of domestic bonds announced by Ministry of Internal Affairs and Communications in Apr 2012.

# Distribution of JLGB holders (2012/March end)



Source: Bank of Japan “Flow of funds accounts”



# List of QFI for LGB

|    |   |    |   |    |   |
|----|---|----|---|----|---|
| 1  | Bank Sarasin & Co. Ltd                    | 20 | FIDEURAM BANK(LUXEMBOURG)S.A.                         | 39 | RBC Dexia Investor Services Bank S.A.             |
| 2  | BANQUE PRIVEE EDMOND DE ROTHSCHILD EUROPE | 21 | HSBC Bank Plc   | 40 | SIX SIS AG  |
| 3  | BARCLAYS BANK PLC                         | 22 | HSBC Institutional Trust Services (Singapore) Limited | 41 | Skandinaviska Enskilda Banken AB (publ)           |
| 4  | Barclays Capital Securities Limited       | 23 | JP Morgan Bank(Suisse)SA                              | 42 | SOCIETE GENERALE                                  |
| 5  | BNP Paribas Securities Services           | 24 | JP Morgan Bank(Ireland) plc                           | 43 | Standard Chartered Bank (Hong Kong) Limited       |
| 6  | BNY Mellon, National Association          | 25 | JP Morgan Bank Luxembourg S.A.                        | 44 | STATE STREET AUSTRALIA LIMITED                    |
| 7  | BROWN BROTHERS HARRIMAN (LUXEMBOURG)S.C.A | 26 | JP Morgan Clearing Corp.                              | 45 | State Street Bank and Trust Company               |
| 8  | BROWN BROTHERS HARRIMAN&CO.               | 27 | JP Morgan Chase Bank, N.A.                            | 46 | State Street Bank GmbH                            |
| 9  | CACEIS Bank                               | 28 | KAS BANK N.V.   | 47 | STATE STREET BANK LUXEMBOURG S.A.                 |
| 10 | CACEIS Bank Deutschland GmbH              | 29 | KBL European Private Bankers S.A.                     | 48 | STATE STREET CUSTODIAL SERVICES (IRELAND) LIMITED |
| 11 | CACEIS Bank Luxembourg                    | 30 | Mitsubishi UFJ Securities International plc           | 49 | State Street Trust Company Canada                 |
| 12 | Citibank, N.A.                            | 31 | Mizuho INTERNATIONAL PLC                              | 50 | State Street Trustees Limited                     |
| 13 | Citigroup Global Markets Inc.             | 32 | Mizuho Trust & Banking (Luxembourg) S.A.              | 51 | The Bank of New York Mellon                       |
| 14 | Clearstream Banking Aktiengesellschaft    | 33 | Morgan Stanley & Co. International plc                | 52 | The Bank of New York Mellon (SA/NV)               |
| 15 | CLEARSTREAM BANKING S.A.                  | 34 | Morgan Stanley & Co. LLC                              | 53 | The Northern Trust Company                        |
| 16 | Deutsche Bank Aktiengesellschaft          | 35 | Norddeutsche Landesbank Luxembourg S.A.               | 54 | UBS AG  |
| 17 | Dexia Banque Internationale a Luxembourg  | 36 | Northern Trust (Guernsey) Limited                     | 55 | UBS Securities LLC                                |
| 18 | DnB NOR Bank ASA                          | 37 | Northern Trust Fiduciary Services (Ireland) Limited   |    |   |
| 19 | Euroclear Bank SA/NV                      | 38 | Northern Trust Global Services Limited                |    |   |





# Information in English Available on Website

Japan Local Government Bond Association Website  
(<http://www.chihousai.or.jp/english/07/investor.html>)

| English Publications on JLGBs |   |
|-------------------------------|---|
| Presentation Materials        | Local Government Bond System and Market in Japan  |
|                               | Public Offering Joint Local Government Bond   |
|                               | Japan Finance Organization for Municipalities   |
|                               | Fukui Prefecture  |
|                               | Kawasaki City   |
| Other issuers                 | Tokyo Metropolitan Government (TMG), Chiba Prefecture, Fukuoka Prefecture, Sapporo City,<br>Kyoto City, Kobe City, Fukuoka City |
|                               | FY2010 Settlement White Paper on Local Public Finance, 2012   |
| Laws and Ordinances           | Law on the Fiscal Consolidation of Local Governments  |
|                               | Local Autonomy Law  |
|                               | Local Finance Law   |
|                               | Local Allocation Tax Law  |
| Others                        | Issue Outline of Joint Local Government Bond  |
|                               | Terms and conditions of Tokyo Metropolitan Government Bond  |

# Comparison of Great East Japan Earthquake with Great Hanshin-Awaji Earthquake (5-year Relief Period Comparison)

|                                       | Earthquake Damage                                     | Recovery and Reconstruction Expenditures |                                       |                                       |
|---------------------------------------|---|--|---------------------------------------|---------------------------------------|
|                                       |   | (National and Local Expenditures)        | Emergency Repairs and Recovery        | Reconstruction                        |
| <b>Great East Japan Earthquake</b>    | <b>JPY 16.9 trillion</b><br>(Cabinet Office estimate) | <b>Minimum approx. JPY 19 trillion</b>   | <b>Approx. JPY 10 trillion</b>        | <b>Minimum approx. JPY 9 trillion</b> |
| <b>Great Hanshin-Awaji Earthquake</b> | <b>JPY 9.9 trillion</b><br>(Hyogo Pref. estimate)     | <b>JPY 9.2 trillion</b><br>(Estimate)    | <b>JPY 4.7 trillion</b><br>(Estimate) | <b>JPY 4.5 trillion</b><br>(Estimate) |

(Reference) Comparison of Great East Japan Earthquake with Great Hanshin-Awaji Earthquake

|   | <b>Great East Japan Earthquake</b>   | <b>Great Hanshin-Awaji Earthquake</b>                          |
|---|--|--|
| <b>Magnitude of earthquake</b>  | 9.0  | 7.3  |
| <b>Number of prefectures affected by earthquake above level 6.0 on the Japanese scale</b> | 8 prefectures  | 1 prefecture   |
| <b>Tsunami</b>  | Massive waves seen in various regions<br>(Maximum wave height: 9.3m or higher in Soma; 8.5m or higher in Miyako; and 8.0m or higher in Ofunato)                              | Observed wave height was a few dozen centimeters.<br>No damage |
| <b>Number of dead and missing</b>   | 15,870 people were killed and 2,814 are still missing<br>(as of September 12, 2012)  | 6,434 people were killed and 3 missing<br>(as of May 19, 2006) |
| <b>Number of houses damaged (completely destroyed)</b>                                    | 129,423 houses (as of September 12, 2012)  | 104,906 houses   |
| <b>Number of municipalities to which Disaster Relief Act was applied</b>                  | 241 municipalities (10 prefectures)<br>(Note) The data include 4 municipalities (2 prefectures) to which Disaster Relief Act was applied due to the North Nagano Earthquake. | 25 municipalities (2 prefectures)                              |

Source: Prepared by the Ministry of Internal Affairs and Communications on the basis of survey data collected by the Reconstruction Agency.

## Estimate for Scale of Recovery and Reconstruction Measures

- Estimated aggregate size of recovery and reconstruction measures (national and local expenditures) during the intense reconstruction period (the coming 5 years): **Approximately JPY 19 trillion**

| Countermeasures   | Scale (National and Local Expenditures) |
|---|---|
| <b>(1) Scale of rescue and recovery operations</b>  | <b>Approximately JPY 10 trillion</b>    |
| - Disaster relief and livelihood restoration  | Approximately JPY 4 trillion            |
| - Debris removal and reconstruction of basic infrastructure, etc.   | Approximately JPY 6 trillion            |
| <b>(2) Scale of reconstruction operations</b>   | <b>At least JPY 9 trillion</b>          |
| - Infrastructure investment and facilitation of the enterprise for enhancing the provision of software for regional development | Approximately JPY 8 trillion            |
| - Urgent disaster prevention and relief measures on a national scale  | Approximately JPY 1 trillion            |
| <b>Total</b>  | <b>At least JPY 19 trillion</b>         |

- Estimated aggregate size of recovery and reconstruction measures over the next 10 years is at least around JPY 23 trillion.

(Note) In principle, the above estimated aggregate size of recovery and reconstruction measures does not include the costs to be borne by electric utilities pursuant to the Act on Compensation for Nuclear Damage and the Act to Establish a Nuclear Damage Compensation Facilitation Corporation.

Source: Prepared by the Ministry of Internal Affairs and Communications on the basis of survey data collected by the Reconstruction Agency.



# Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake (Abstract) (1)

MIC (Developed by the Reconstruction Headquarters in response to the Great East Japan Earthquake on July 29, 2011)

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## 4. Support for Reconstruction Incorporating All Resources (3) Scale of Projects and Securing Financial Resources

### 1) Scale of project

It is estimated that the budgetary scale of measures and projects (including the first and second supplementary budgets in fiscal 2011) expected to be implemented within the next five years (until the end of fiscal 2015), collectively dubbed the “intense reconstruction period,” will be approximately JPY 19 trillion at least, constituted by public expenditure by the national and local governments. The scale of recovery and reconstruction measures for the next 10 years (public expenditure by the national and local governments) is estimated to be at least approximately JPY 23 trillion.

The expenses to be borne by the relevant companies under the Act on Compensation for Nuclear Damage and a bill for the Act to Establish a Nuclear Damage Compensation Facilitation Corporation are not included in these estimates.

### 2) Basic concept for securing financial resources

The financial cost of recovery and reconstruction shall largely be borne by the entire current generation, which will collectively share the financial burden so as not to leave it to future generations.

### 3) Method of securing financial resources for recovery and reconstruction projects during the “intense reconstruction period”

In addition to the financial resources included in the first and second supplementary budgets in fiscal 2011, approximately JPY 13 trillion will be secured for recovery and reconstruction projects during the five years of the “intense reconstruction period” by reducing government expenditures, selling state-owned property, reviewing the special accounts and personnel costs of public servants, further increasing non-tax revenues and temporary taxation measures.

In regard to taxation measures, major taxes and the like will be examined from multiple perspectives. In addition, should there be agreement among the governing and opposition parties on the revision of the tax system for fiscal 2011, allocation of any increase in revenues resulting from this revision to fund recovery and reconstruction will be considered.



## Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake (Abstract) (2)

(Developed by the Reconstruction Headquarters in response to the Great East Japan Earthquake on July 29, 2011)

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#### 4) Classification of plans to secure financial resources for recovery and reconstruction and its use

In regard to reconstruction bonds, which will be issued as a temporary means to retroactively finance earlier recovery and reconstruction, the details of their issuance will be duly considered and reconstruction bonds shall be managed in a manner distinct from existing national bonds. The term of redemption will be considered subsequently, taking into consideration the duration of the intense reconstruction period and the subsequent reconstruction period. Temporary taxation measures shall be taken within the term of redemption and the tax revenue generated by such measures shall be managed in a manner distinct from other types of revenue in order to clearly signal that it will be used solely to fund recovery and reconstruction, including redemption of reconstruction bonds, and not for other purposes.

#### 5) Schedule

Based on the conditions described above, bills concerning the issuance of the reconstruction bonds and taxation measures shall be prepared and submitted to the Diet during the formulation of the third supplementary budget for fiscal 2011.

The concrete terms of taxation measures will be elaborated by the Tax Research Commission after August on the basis of these Guidelines. Multiple options, with combinations of concrete tax items, scale during each fiscal year and so forth, will be reported to the Reconstruction Headquarters in response to the Great East Japan Earthquake, then examined by the government, then finally determined by the Reconstruction Headquarters. Upon the determination of the Headquarters, consultation between the ruling and opposition parties will be entered into to reach a necessary consensus in conjunction with the fiscal 2011 tax reform.

Note: Examination by the Tax Research Commission will proceed with the temporary fixation of financial resources secured by expenditure reduction and increase of non-tax revenue of approximately JPY 3 trillion.

#### 6) Securing local financial resources for reconstruction

In the process of recovery and reconstruction, local governments will be burdened with redemption of local governmental bonds and implementation of projects responding to specific situations in each region, even after the national subsidy measures. Bearing these conditions in mind, financial resources to implement measures and projects of at least JPY 19 trillion, consisting of public expenditures by the national and local governments, will be secured. In addition, local financial resources for reconstruction will be secured through additional distribution of the local allocation tax and other measures to counter the burden on local governments.



## For further information

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- **Japan Local Government Bond Association**

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## Disclaimer

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