



**愛知県**

# Financial Status of Aichi Prefecture

Finance Section,  
Budget Management Division,  
Department of General Affairs,  
Aichi Prefecture

October, 2013



# Contents

**Highlights** **P2**

---

**1. Overview** **P3**

---

**2. Fiscal Profile** **P9**

---

**3. Aichi Prefecture Bonds** **P13**

---

# Highlights

## Outstanding Economic and Industrial Platforms

- One of the most highly populated prefectures in Japan with an economy comparable to that of a country.
- Focus on automobiles with an outstanding concentration of industries, including aircraft, space and machine tools

## Maintenance of Fiscal Soundness Backed by Strong Financial Capability

- Prefecture with one of the highest levels of tax revenues in Japan.
- Firm and sound fiscal standing shown by the indicators of financial soundness.
- Ample provision of sinking funds.

## Aichi Prefecture Bonds

- Leading bond issuer in Japan: 465 billion yen issuance planned for FY2013
- Continuing monthly issuance of 10-year bonds as benchmark.
- Received the highest rating of local government bonds comparable to that for Japanese government bonds (JGBs) from three domestic and international credit rating agencies



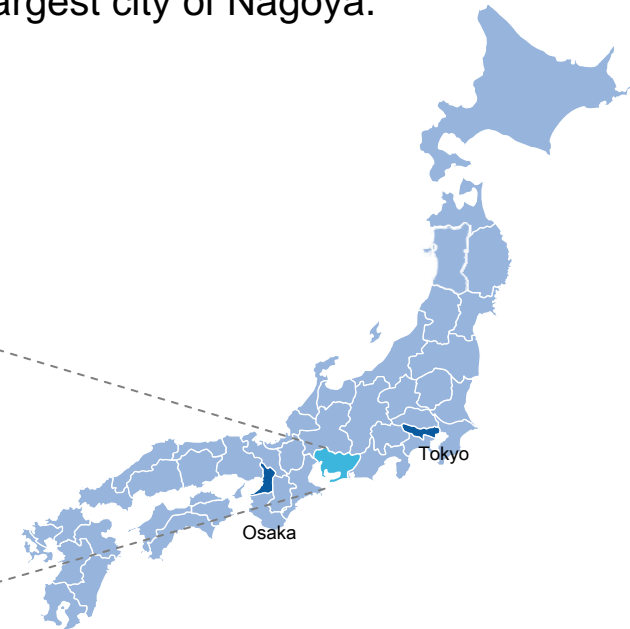
愛知県

# 1. Overview



# 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.
- One of Japan's three metropolitan areas with the country's fourth largest city of Nagoya.



	Japan	Tokyo	Ranking	Aichi	Ranking
Population (in thousands)	127,515	13,230	1	7,427	4
GDP (Yen in trillions)	495.6	91.1	1	31.6	3
Production (Yen in trillions)	277.3	7.7	12	38.1	1

# Economic Size and Demographics of Aichi Prefecture

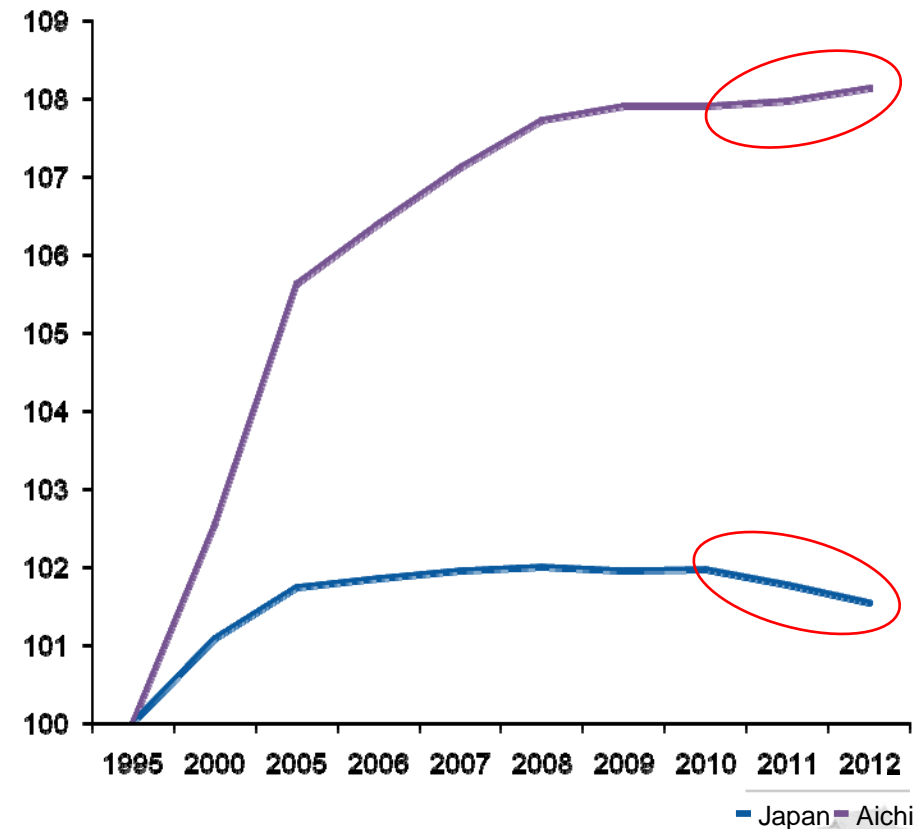
- Third largest GDP in Japan after Tokyo and Osaka. It is comparable to that of a country in Europe and also represents one of the largest economies in Asia.
- While Japan's population is on the decline, the population in Aichi continues to rise.

## 2010 GDP of OECD and ASEAN Countries <sup>(1)</sup>

(in billions of US dollars)

Country	GDP
U.S.A.	14,499.0
China	5,930.0
Japan	5,495.0
Germany	3,312.0
France	2,571.0
.....	
Norway	421.0
Austria	380.0
Aichi	361.5
Thailand	319.0
.....	
Singapore	232.0

## Population Growth (1995 = 100) <sup>(2)</sup>



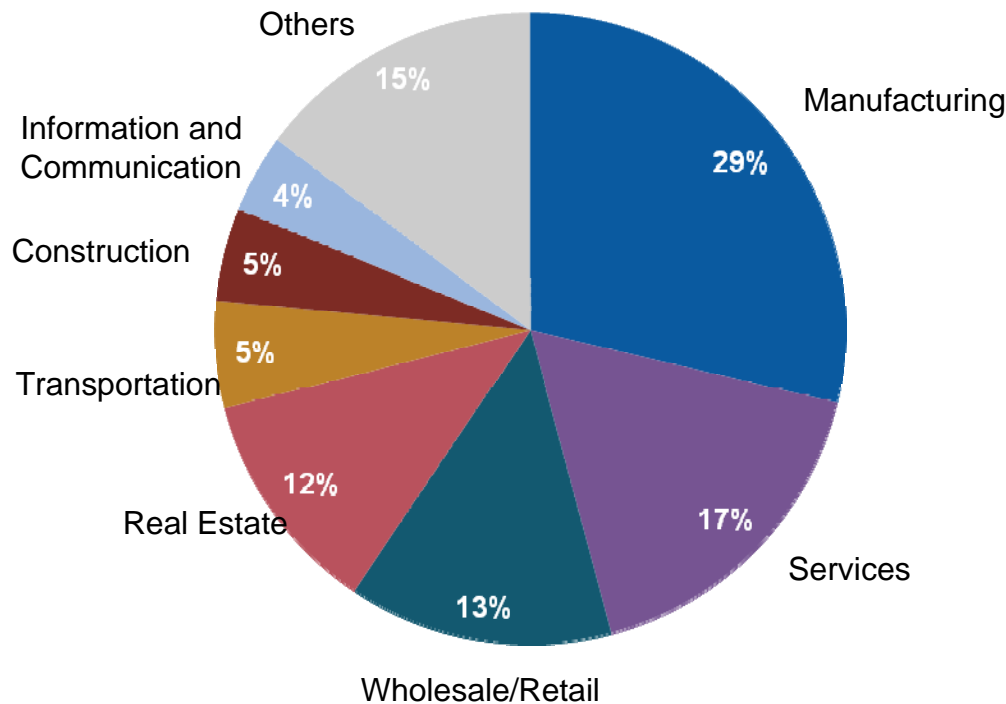
(1) Source: IMF, as of April 2013, converted at the rate of USD1 = JPY87.54.

(2) 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.
- With a dominant domestic share in manufacturing, placing Aichi in No. 1 position in total shipments of manufactured goods for 36 consecutive years, the Prefecture drives Japan's manufacturing sector particularly the automotive industry.

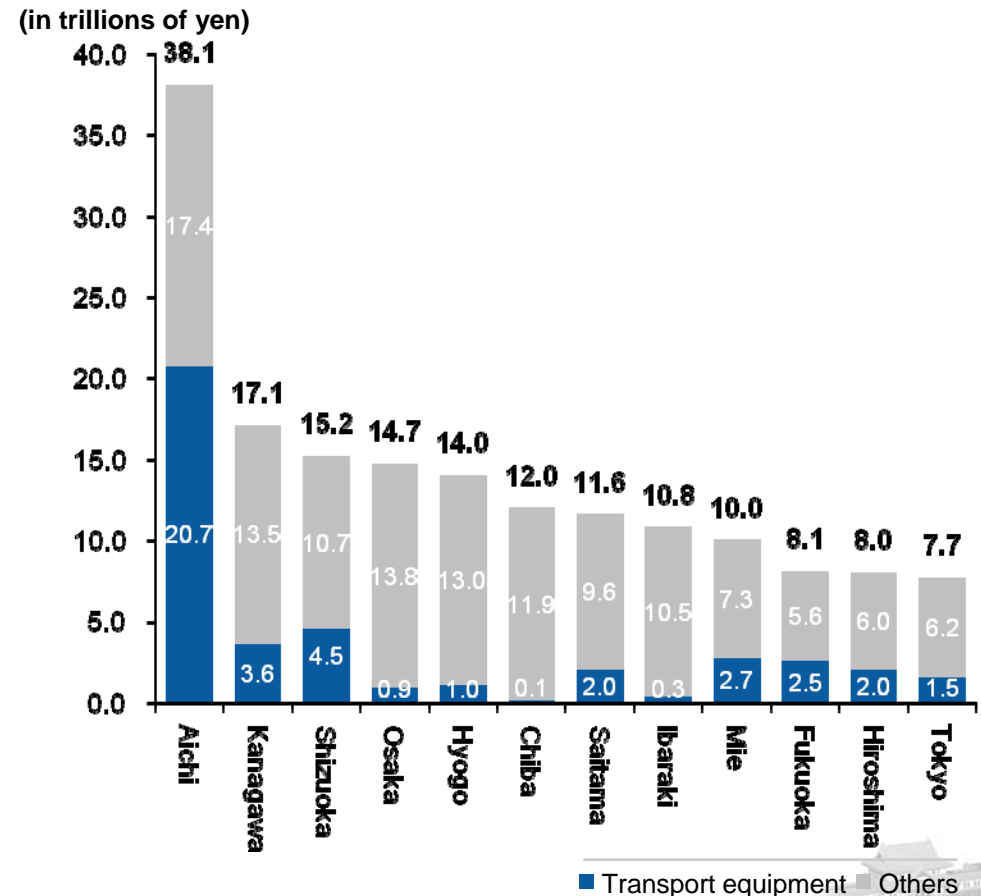
## GDP by Industry (FY2010)



**31,642.3 billion yen**

Source: Aichi prefecture's economic accounts (FY2010, actual and estimate)

## Total Shipments of Manufactured Goods (2012)



Source: "FY2012 Census of Manufacturers (summary)" issued by Ministry of Economy, Trade and Industry

# Major Corporations Located in Aichi Prefecture

- In the automotive sector, the major plants of Toyota Motor Corporation are located in Aichi, as are many component manufacturers including Denso — one of the world's top companies — as well as many small-and-midsized firms.
- World-class machine tool manufacturers, the aircraft manufacturer undertaking production of B787 wings, JR Tokai (*Shinkansen* bullet train operator) are also located in Aichi

## ● Machine tool



## ● Aircraft



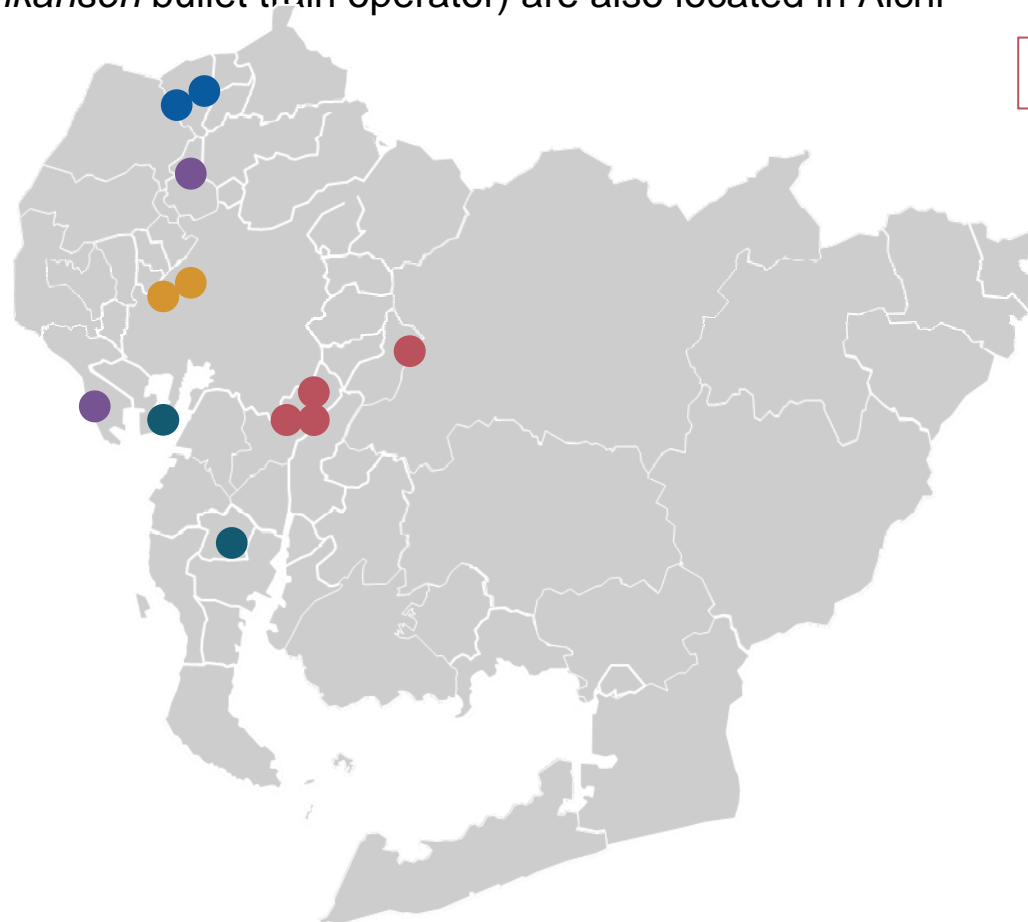
## ● Steel



## ● Automobile (parts)



## ● Utility





# Growth of Aerospace Industry

## Future Growth Industry — Center of Aerospace Industry

- Japanese leading airframe manufacturers are concentrated in the Chubu region, a center of aircraft industry, producing 50% of Japan's aircraft and related components
- The region seeks to be one of the world's top three centers for the aerospace industry, which is expected to grow steadily as a key industry over the medium- to long-term

### Concentration of Aerospace Industry

#### Production of Boeing 787

- 35% of the airframe parts, inc. primary/center wings and forward fuselage, are produced in the region



#### Development of Domestic Small Jet MRJ

- State-of-the-art aerodynamic design and cutting-edge engine developed by Mitsubishi Aircraft, dramatically reducing fuel consumption
- First delivery to start in 2015



### Creation of Aerospace Industrial Cluster

- The Chubu region, centering around Aichi Prefecture and including Gifu Prefecture and the City of Nagoya, is designated as a Comprehensive Special Zone for the aerospace industry by the government
  - Strongly promoting industry development as part of the country's "International Strategic Comprehensive Special Zone Plan"

**Aiming to be a world top 3 hub for the aerospace industry**

#### Target

Aerospace industry output in Chubu:  
700 billion yen (2010) ⇒ 900 billion yen (2015)

Aerospace industry employees in Chubu:  
15,000 (2010) ⇒ 20,000 (2015)



愛知県

## 2. Fiscal Profile

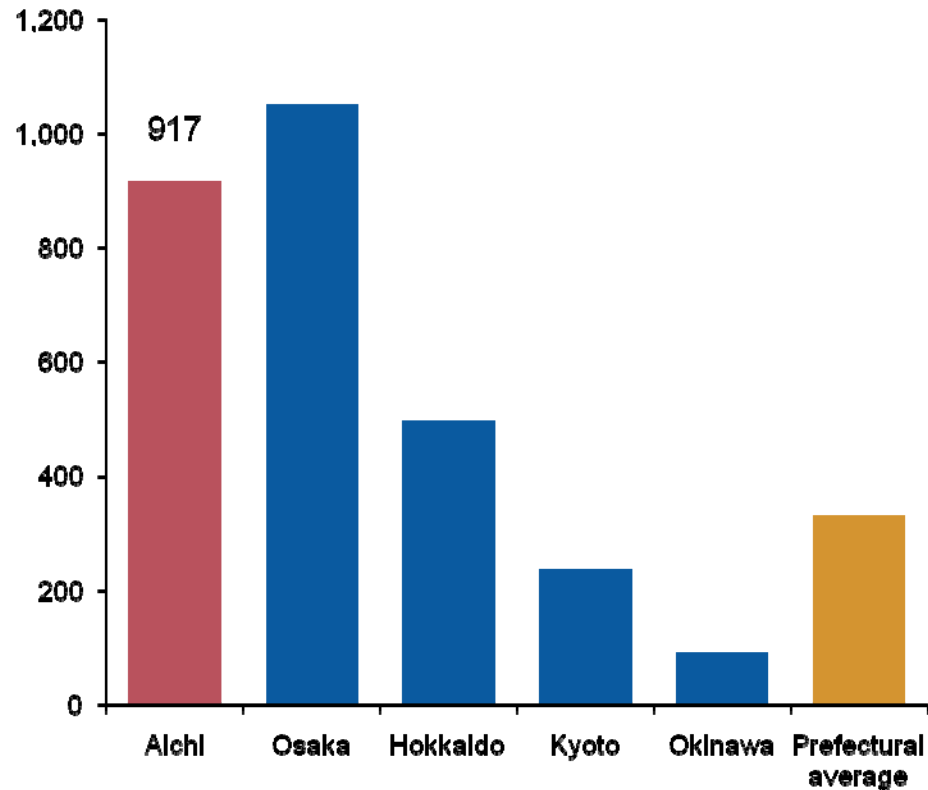


# Aichi Prefecture's Tax Revenue Base

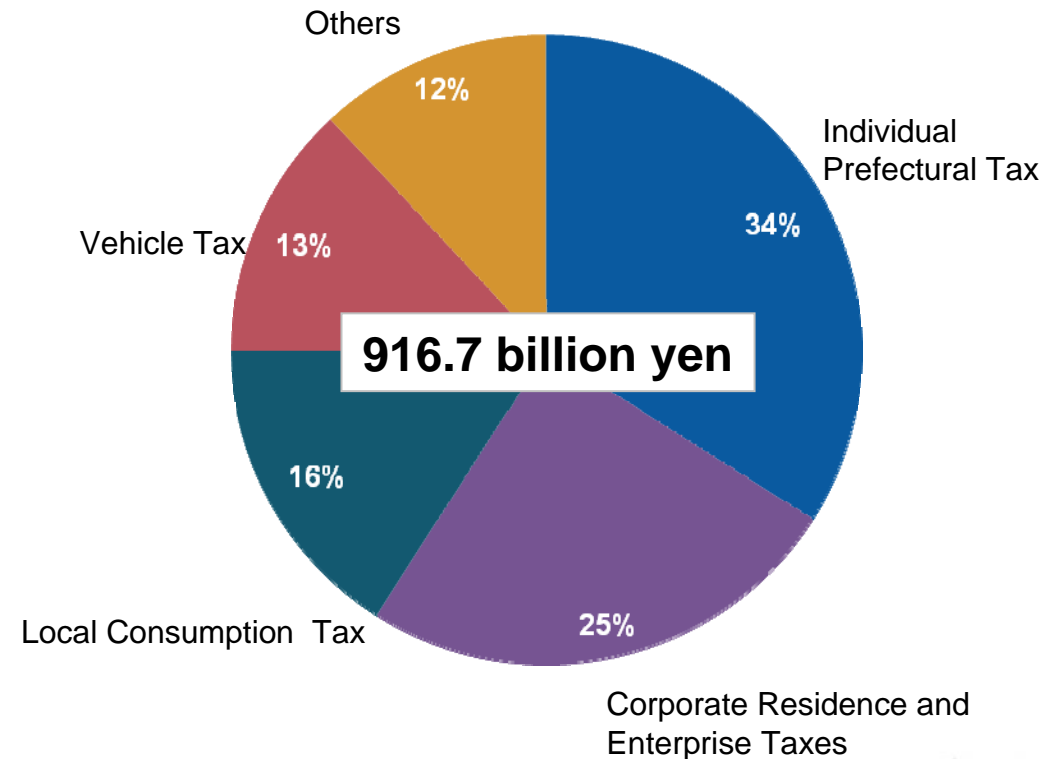
- Aichi has one of Japan's strongest tax revenue bases with corporate residence tax and corporate enterprise tax as the primary source, reflecting the economic strength of the region.
- Balanced prefectural taxation on income, production and consumption.

## FY2013 Local Tax Comparison (Initial Budget)

(in billions of yen)



## Aichi Tax Revenue Mix (FY2013 Initial Budget)



# Financial Ratios

- Aichi continues to rank second on the financial strength index that measures the autonomy of local governments.

## Financial Strength Index (FY2012 Initial Estimate)

Ranking	Prefecture	Financial Strength Index
1 <sup>st</sup>	Tokyo	-
<b>2<sup>nd</sup></b>	<b>Aichi</b>	<b>0.927</b>
3 <sup>rd</sup>	Kanagawa	0.902
4 <sup>th</sup>	Chiba	0.747
5 <sup>th</sup>	Saitama	0.739
6 <sup>th</sup>	Osaka	0.732
7 <sup>th</sup>	Shizuoka	0.679
8 <sup>th</sup>	Ibaraki	0.604
⋮	⋮	⋮
<b>Average</b>		<b>0.554</b>

No. 2 in Japan since 1992

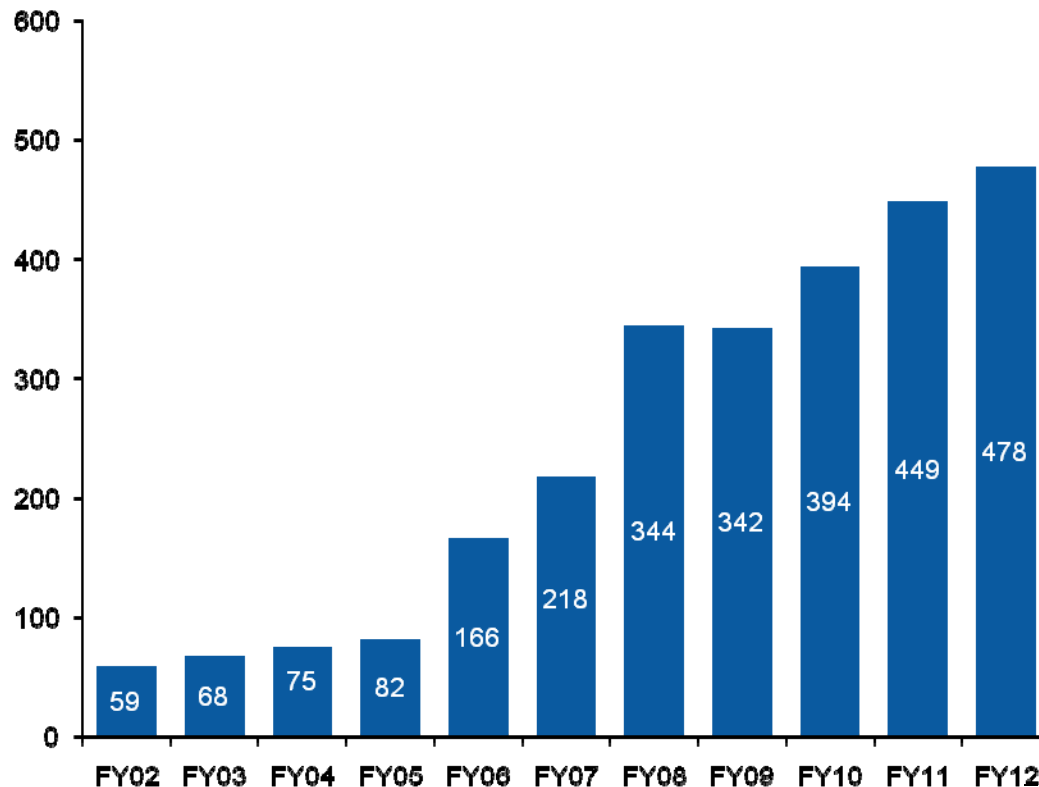
- The financial strength index is an index that reflects the financial strength of local governments. It is derived by dividing basic financial revenue by basic financial demand.
- A financial strength index score above 1 shows that financial resources exceed the amount of ordinary allocation tax and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

# Liquidity: Status of Sinking Funds

- To ensure ample liquidity, Japanese local governments hold deposits and marketable securities accounting for a certain percentage of outstanding bullet bonds, as sinking funds
- Aichi Prefecture sets aside more than required under the rule when it can secure financial resources. The level of its sinking fund is highly evaluated by rating agencies.

## Trends in Balance of Sinking Funds

(in billions of yen)



## S&P's Evaluation of Liquidity

- Aichi has very strong liquidity, in our opinion. We estimate the prefecture's internal cash holdings, measured by free cash and liquid assets, are about 155% of its annual debt service requirements.
- Also, in our view, the prefecture has strong access to external liquidity, reflecting its close relationship with Bank of Tokyo-Mitsubishi UFJ Ltd., a quasi-commitment line provider that ensures its short-term liquidity, and Aichi's established position in the bond market.

*(Source: "S&P Report" dated June 4, 2013)*





愛知県

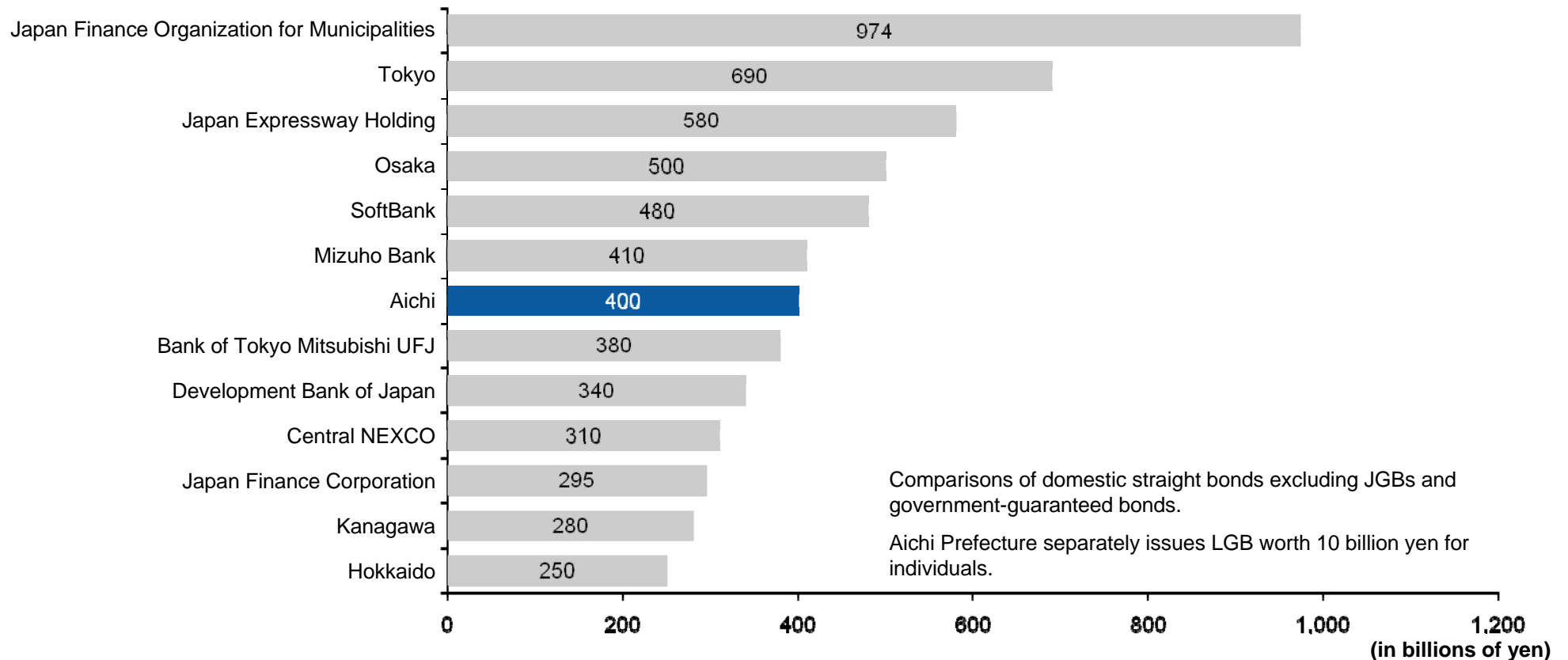
### 3. Aichi Prefecture Bonds (APB)



# Positioning of Aichi LGB in Japan

- Aichi is the third largest LGB issuer by volume after Tokyo and Osaka. It is one of Japan's leading bond issuers overall, even when compared with government-affiliated organizations, financial institutions and business companies.

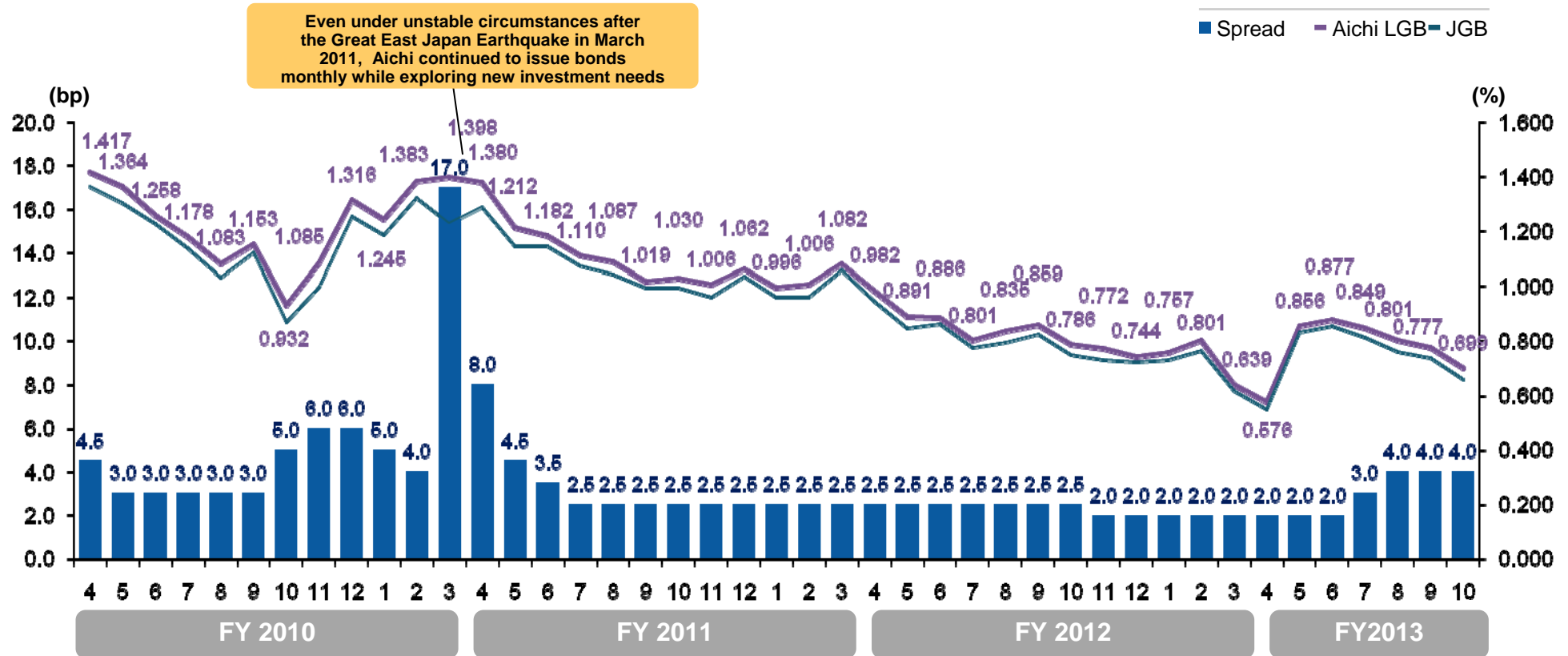
## Major Issuing Bodies with Large Issuing Volume in Japan (FY2012)



# Attractiveness Relative to JGB

- Aichi issues its core 10-year bonds monthly. In Japan, the only monthly issued bonds other than JGBs and government guaranteed bonds are Tokyo Metropolitan LGB, Joint LGB and Aichi LGB.
- Aichi LGB spread over JGB has remained stable.

## 10-Year Bond Spread Level





# 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\*) 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), Korea (Republic of, Seoul Metropolitan Government
A	Marseille (City of), Slovakia (City of)
A-	Malaysia

(as of September, 2013)

R&I AA+ (stable) Same as JGB

JCR AAA Same as JGB

\* On April 27, 2011, APB moved in line with JGB, to negative outlook.

# FY2013 Public Offering Bond Issuance Plan

- Aichi Prefecture plans to issue public offering bonds worth 465 billion yen in FY2013.

## FY2013 Public Offering Bond Issuance Plan

(Yen in billions)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	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	20	20	20	20	20	20	20	20	20	20	240
20-year LGB			10						10				20
Flex term						80							80
Prefectural resident bond				2.5							2.5		5
<b>Total</b>													<b>465</b>

## Concepts Underlying the Issuance Plan

- Continue monthly issue of 10-year bonds as benchmark.
- Issue a variety of bonds including 5-year and 20-year bonds. and bonds for prefectural residents.
- Offer flex term bonds that do not have an initial fixed term, in order to secure flexibility in bond issuance and respond to investor needs.
  - Respond to requests for increased issuance during marketing period.
  - Respond to needs for diversifying maturities (Aichi has issued 2, 7, 15 and 30-year bonds in the past).





愛知県

## 4. Appendix



# Characteristics of Japanese Local Government Bonds

- Japanese local government bonds (LGBs) 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 LGBs is 0% as with Japanese government bonds.

## No Past Default of Japanese LGBs

### 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

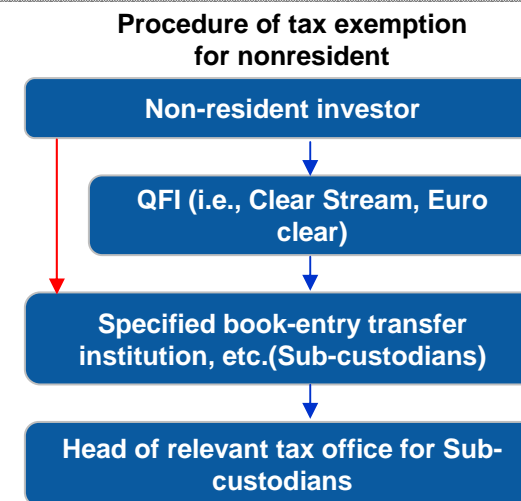
- The Act on Assurance of Sound Financial Status of Local Governments was established in 2007 based on which local governments are required to compute and disclose four indicators.
- Early warning system: Local government is required to develop a fiscal restoration plan if one of the indicators deteriorates and exceeds a certain threshold.
- Reconstruction system: Local government is placed under the state’s supervision and required to take strict measures to cut expenditure if these indicators further deteriorate and exceed a certain threshold

## Risk Weight under BIS Standards

JGBs	0%
Aichi LGBs	<b>0%</b>
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.



# FY2012A Ordinary Account Settlement

- 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 providing police service, operating high schools and bearing the costs of elementary and junior high schools.
- Aichi Prefecture's expenditures for FY2012 amounted to over 2.1 trillion yen. Aichi has been in the black for 13 consecutive years despite a decline in tax revenue.

(in millions of yen)

	FY2012	FY2011	Changes		FY2012	FY2011	Changes
Local Tax	938,569	906,211	32,358	Mandatory Expenditures	1,080,271	1,095,170	△14,899
Local Transfer Tax	102,212	98,815	3,397	Personnel Expenditures	680,571	698,732	△18,161
Local Allocation Tax	59,125	57,789	1,336	Debt Servicing	359,252	356,573	2,679
National Government Disbursements	209,579	213,009	△3,430	Social Assistance Expenditures	40,448	39,865	583
Local Government Borrowing	436,118	422,641	13,477	Investment Expenditures	217,351	206,309	11,042
Other Revenues	400,661	462,321	△61,660	Other Expenditures	831,415	843,173	△11,758
<b>Total Revenues</b>	<b>2,146,264</b>	<b>2,160,786</b>	<b>△14,522</b>	<b>Total Expenditures</b>	<b>2,129,037</b>	<b>2,144,652</b>	<b>△15,615</b>
				Gross Balance	17,227	16,134	1,093
				Real Balance	6,018	6,541	△523

# Financial Ratios

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

## Fiscal Health Indicators

	FY2010 Results	FY2011 Results	FY2012 Results	Early warning limit
(1) Real Deficit Ratio	- (not applicable to APB)			3.75%
(2) Consolidated Real Deficit Ratio	- (not applicable to APB)			8.75%
(3) Real Debt Payment Ratio	13.4%	14.9%	15.5%	25%
(4) Future Burden Ratio	264.3%	256.7%	244.5%	400%

### Details

- (1) The ratio of "real deficit within the General Account" to "standard financial scale".
- (2) The ratio of "all account-based real deficit" to the "standard financial scale".
- (3) The ratio of the "general revenue resources appropriated to pay off bonds" to the "standard financial scale".
- (4) 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".



# Contact

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