



MIC

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

**Ministry of Internal Affairs
and Communications**

October 2015

I JLGB as an alternative to JGB

II Safety of JLGB

Appendix

I JLGB as an alternative to JGB

The type and issue amount of the JLGBs and JFM's Bonds (FY2014)

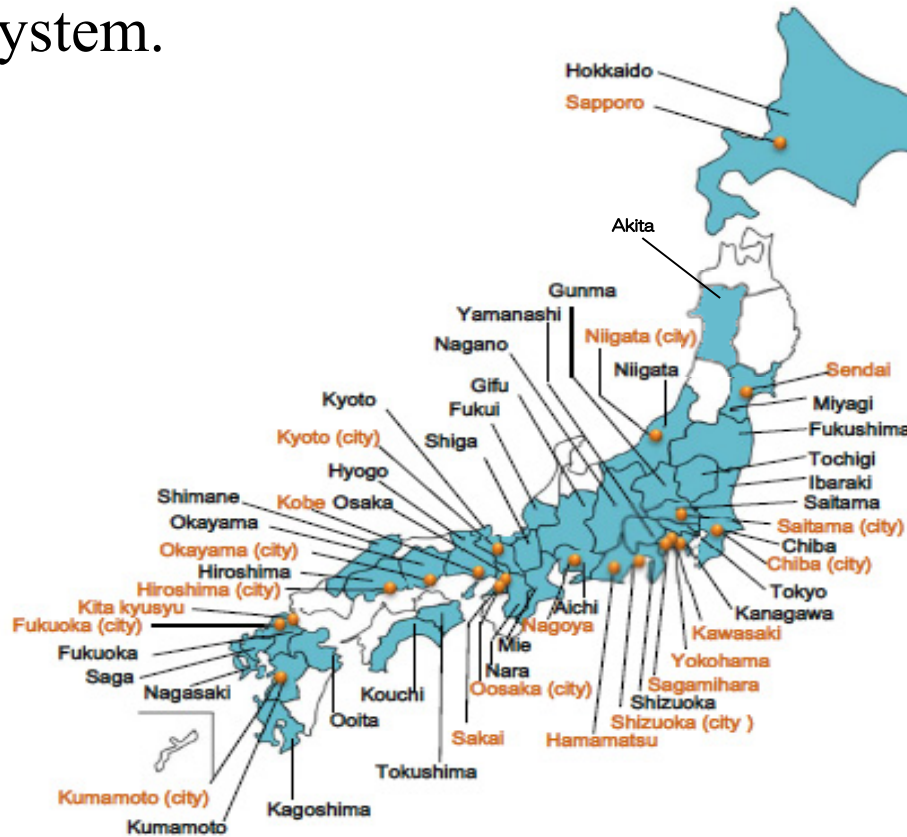
	Denominated in JPY	Denominated in foreign currency
JLGBs	LGB <JPY 5.3 trillion> ≒ USD 44.0 billion Joint local government bond <JPY 1.5 trillion> ≒ USD 12.2 billion	Tokyo Met. <USD 1 billion>
JFM's Bonds	<JPY 1.5 trillion> ≒ USD 12.4 billion	<USD 1 billion> <EUR 1 billion>
Total	<JPY 8.3 trillion> ≒ USD 68.6billion	<USD 2 billion> <EUR 1 billion>

※【Reference】 Issue amount of JGB (FY2014) : JPY 178 trillion ≒ USD 1,474.7 billion

Note : USD 1 = JPY 120.47 as of 6 October ,2015

I JLGB as an alternative to JGB (diversity of JLGB)

- ◆ A lot of LGs successfully issue public offering bonds underpinned by the solid creditworthiness supported by the local public finance system.



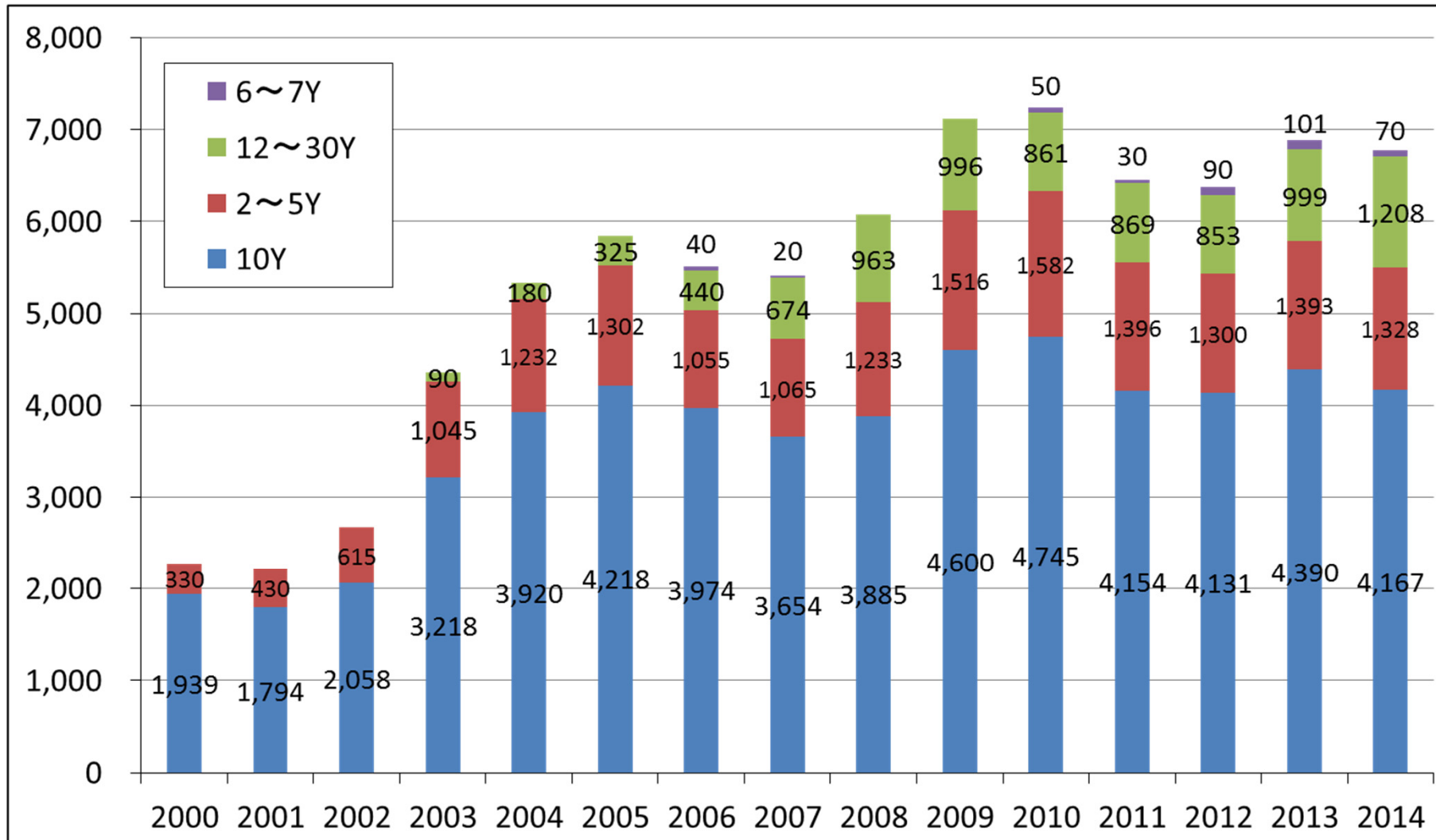
- ◆ 55 LGs issue public offering bonds in FY 2015.
 - ▶ 35 prefectures (shown in black)
 - ▶ 20 designated cities (shown in red)



I JLGB as an alternative to JGB (diversity of JLGB)

◆ Issue amount of public offering LGBs

(Unit: billions of JPY)



- 1. Solid support by the central government on redemption**
- 2. Check and control system by the central government**
- 3. Control of fiscal discipline**

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



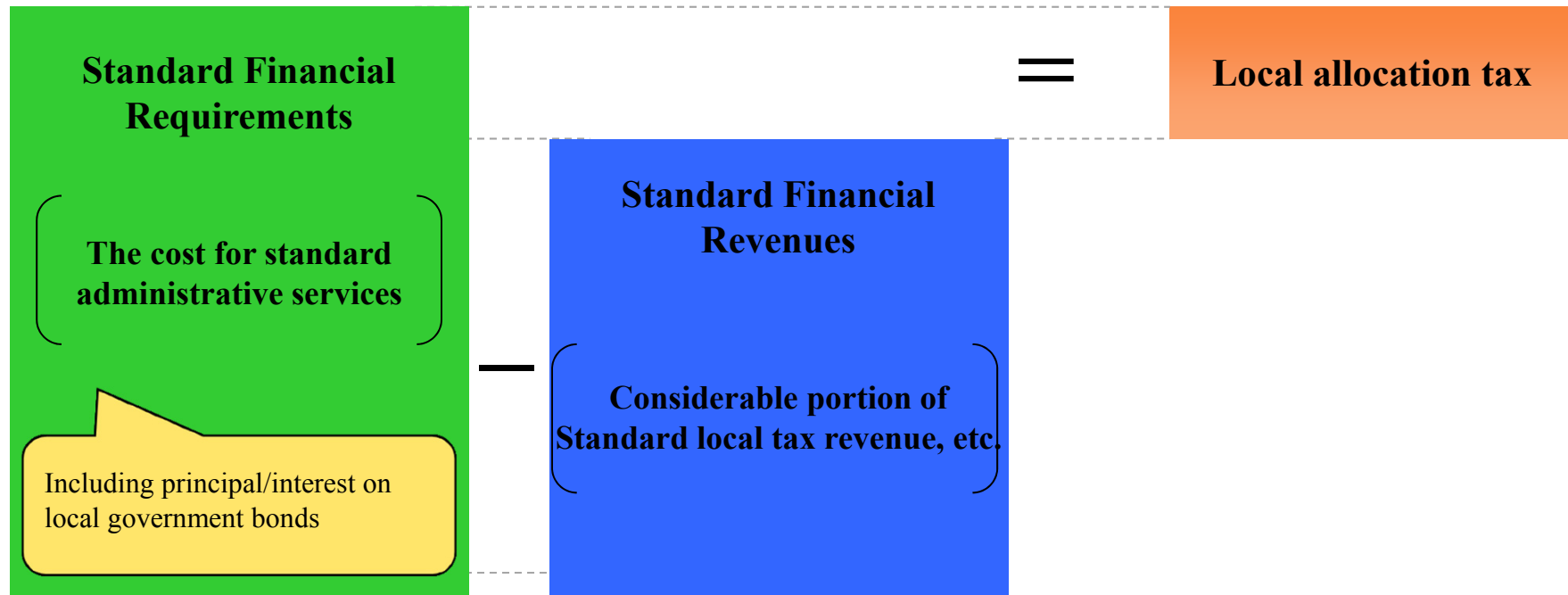
II -1 Solid support by the central government on redemption

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.

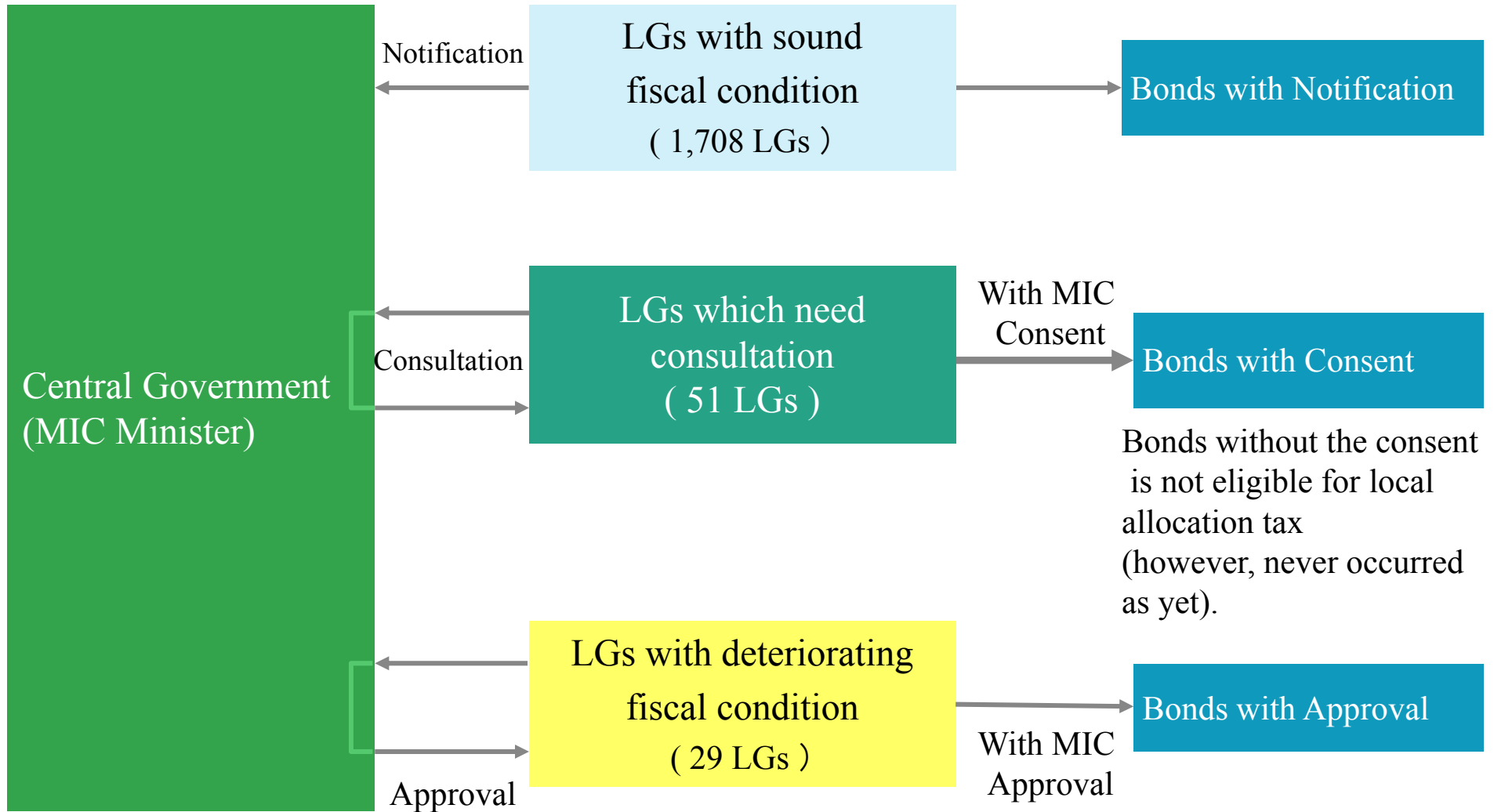
The principal / interest on JLGB is included in the standard fiscal demand amount when calculating local allocation tax.

The local allocation tax system has functioned for about 60 years since 1954. The amount of the local allocation tax is around 18 trillion yen.





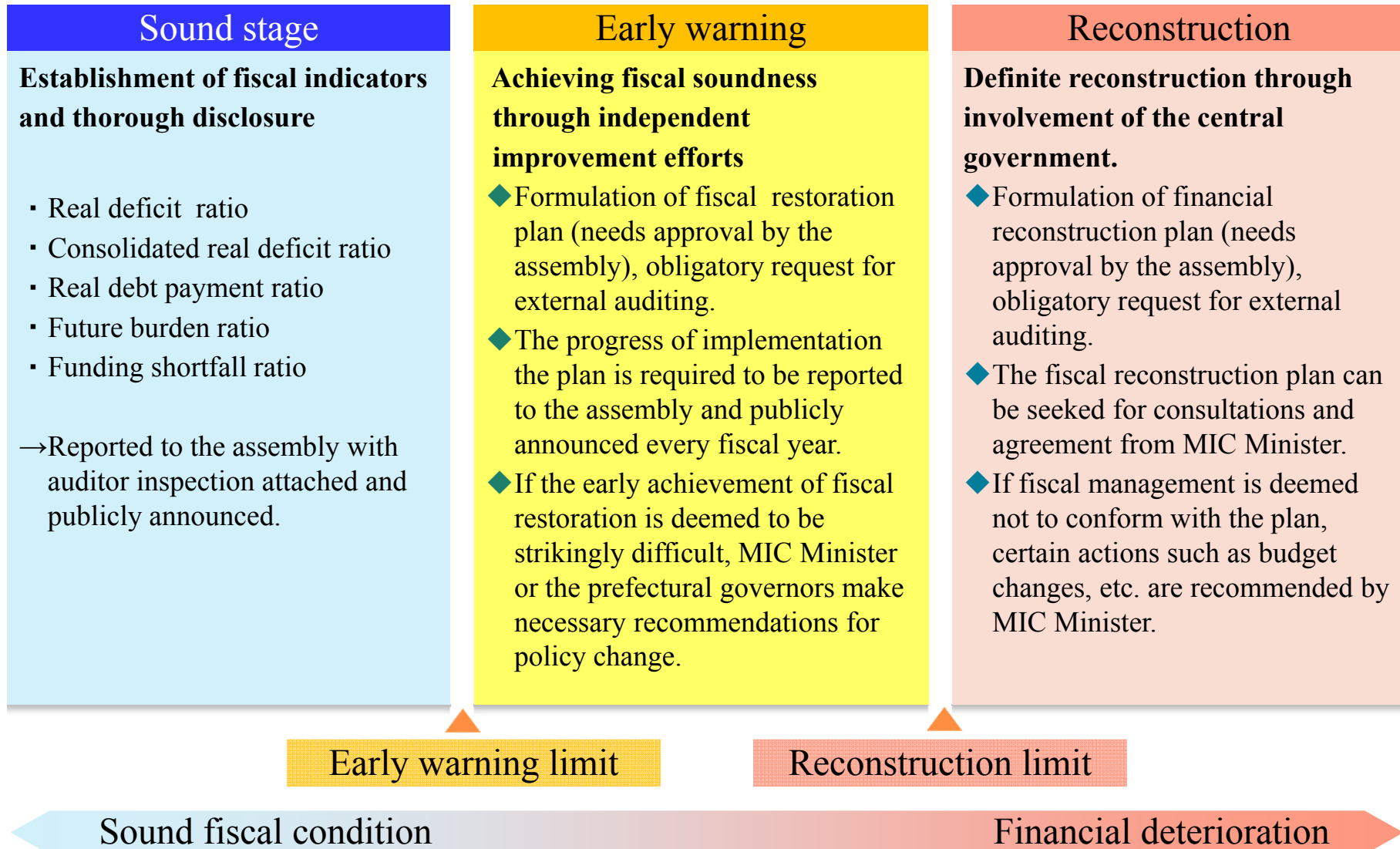
II-2 Check and control system by the central government



Note: LGs are classified by the fiscal conditions etc.

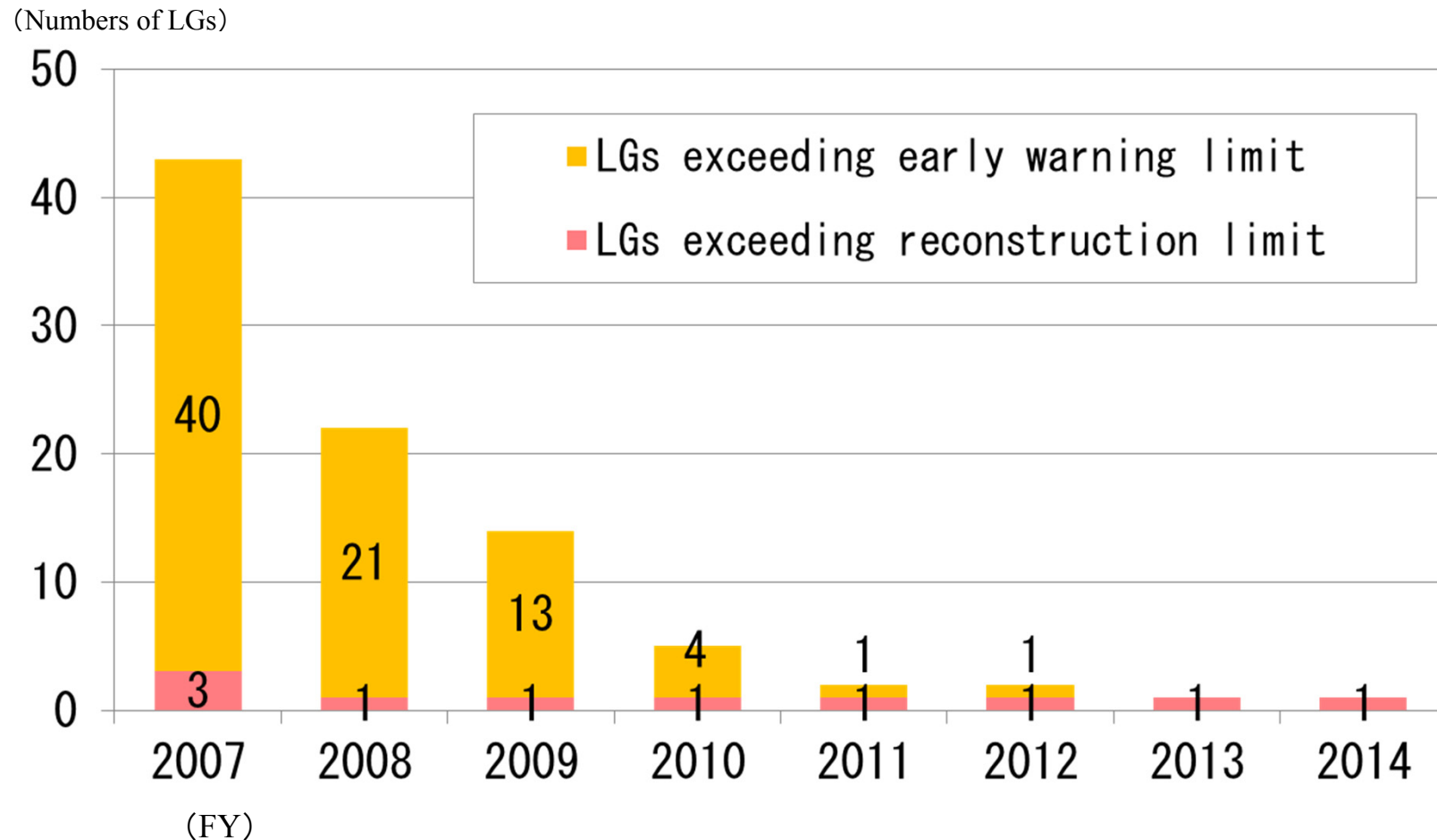
The numbers of LGs is FY2015

II-3 Control of fiscal discipline



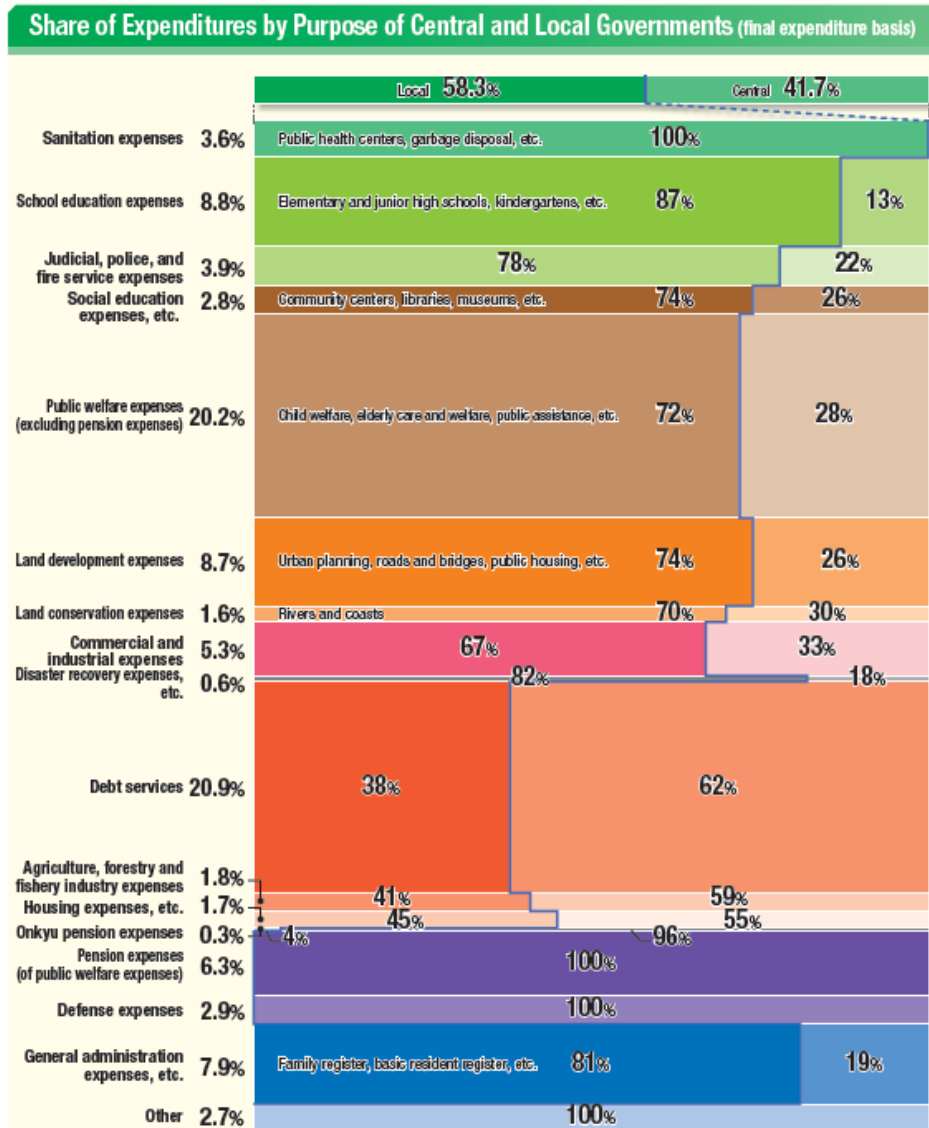
II -3 Numbers of LGs exceeding early warning limit

- ◆ In recent years, the numbers of LGs exceeding early warning limit have decreased.



※The figures for 2014 are preliminary

Appendix

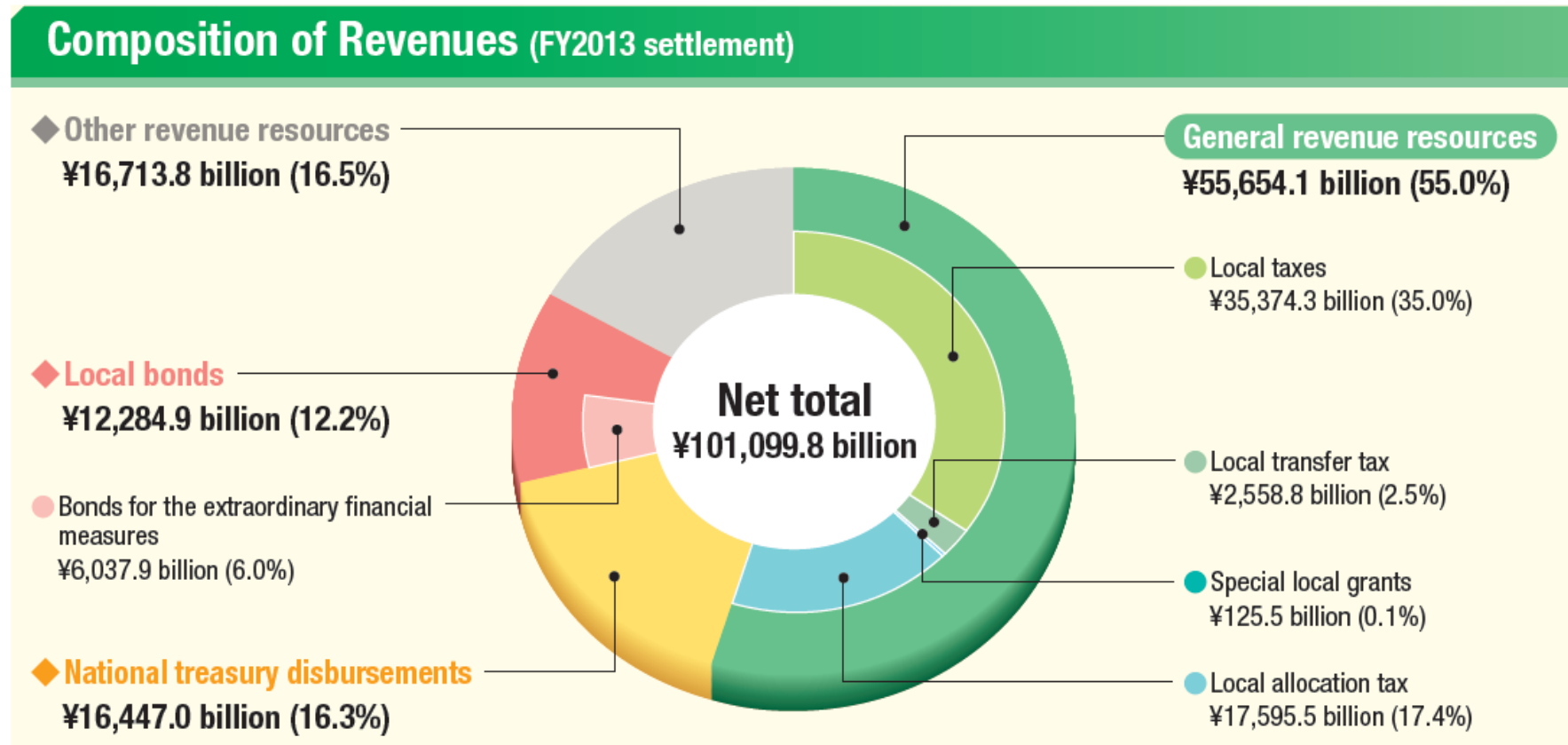


- ◆ LGs have relatively large responsibilities & functions.
- ◆ The greatest portion of local government annual expenditures is directed toward supporting everyday public services: public health and sanitation, education, social education, and police and fire prevention, etc.

Source: White Paper on Local Public Finance, 2015 “FY2013Settlement” by Ministry of Internal Affairs and Communications

The revenue of LGs

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



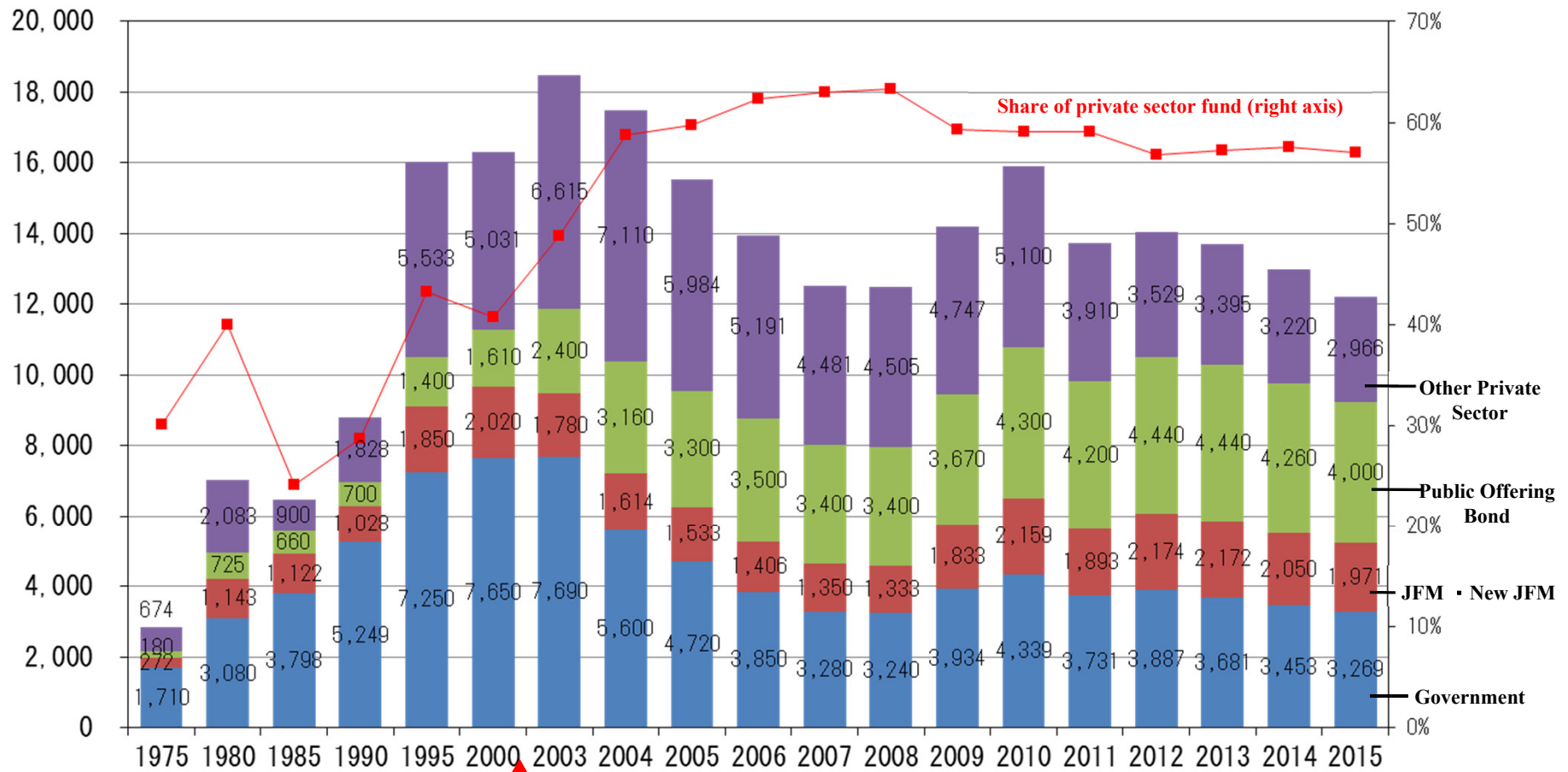
Source: White Paper on Local Public Finance, 2015 “FY2013 Settlement” by Ministry of Internal Affairs and Communications

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.

(Unit: Billions of yen)

(Unit: %)



FILP Reform from FY2001

Source: Ministry of Internal Affairs and Communications



Planned Issuance for Nationwide Public Offering LGBs in Fiscal-Year 2015

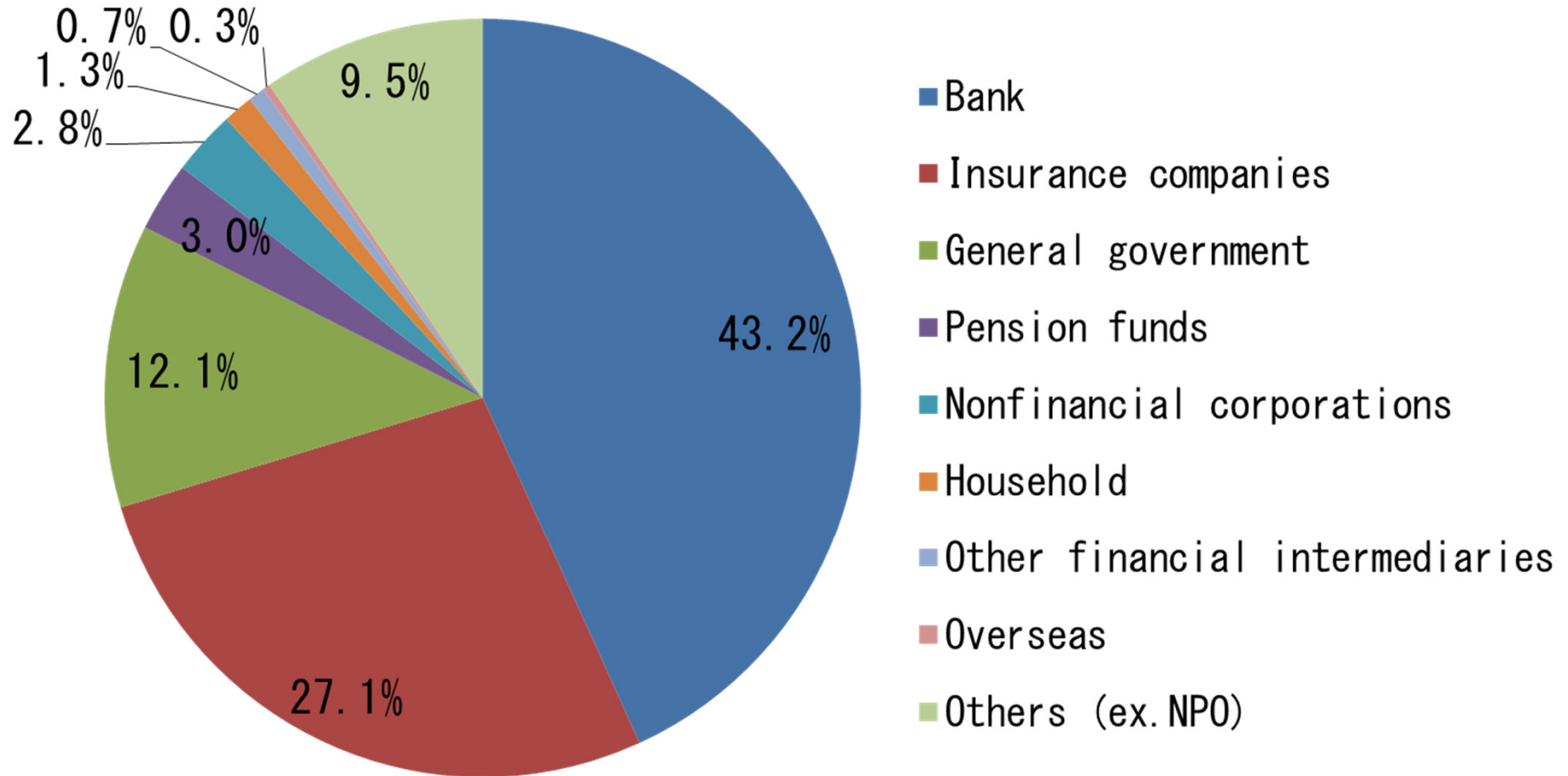
(Unit: Hundred Million Yen)

Local government	total	2y or 3y 5y or 7y	10y	15y or 20y or 30y	joint-LGB	other	Local government	total	2y or 3y 5y or 7y	10y	15y or 20y or 30y	joint-LGB	other
Hokkaido	3,100	800	1,200	-	800	300	Kochi	100	100	-	-	-	-
Miyagi	1,200	200	200	-	600	200	Fukuoka	750	150	-	200	100	300
Fukushima	600	100	200	-	300	-	Saga	100	100	-	-	-	-
Ibaraki	400	100	-	-	300	-	Nagasaki	100	100	-	-	-	-
Tochigi	100	-	100	-	-	-	Kumamoto	500	100	300	100	-	-
Gunma	400	100	200	100	-	-	Oita	300	100	200	-	-	-
Saitama	4,000	400	1,800	400	600	800	Kagoshima	800	-	700	100	-	-
Chiba	2,900	400	1,400	350	500	250	Sapporo City	1,100	300	300	200	-	300
Tokyo	7,400	-	4,600	1,200	-	1,600	Sendai City	560	-	410	150	-	-
Kanagawa	3,100	600	1,400	600	500	-	Saitama City	100	100	-	-	-	-
Niigata	1,200	-	600	-	600	-	Chiba City	500	200	300	-	-	-
Fukui	400	-	200	-	100	100	Yokohama City	1,740	800	-	200	200	540
Yamanashi	200	-	200	-	-	-	Kawasaki City	900	80	240	210	300	70
Nagano	710	200	-	-	510	-	Sagamihara City	100	100	-	-	-	-
Gifu	350	-	150	-	200	-	Niigata City	200	100	100	-	-	-
Shizuoka	3,100	400	1,400	600	300	400	Shizuoka City	300	200	100	-	-	-
Aichi	3,300	400	1,900	200	300	500	Hamamatsu City	100	100	-	-	-	-
Mie	200	-	100	-	100	-	Nagoya City	1,350	600	-	100	200	450
Shiga	100	-	100	-	-	-	Kyoto City	1,200	200	400	200	100	300
Kyoto	2,000	400	400	200	600	400	Osaka City	2,700	400	600	600	300	800
Osaka	7,500	3,000	2,400	-	800	1,300	Sakai City	200	100	-	-	100	-
Hyogo	3,100	400	900	200	800	800	Kobe City	1,100	200	300	200	200	200
Nara	300	100	-	-	200	-	Okayama City	100	100	-	-	-	-
Shimane	200	100	-	100	-	-	Hiroshima City	600	200	300	100	-	-
Okayama	300	-	200	-	100	-	Kita-Kyusyu City	1,500	150	600	250	200	300
Hiroshima	1,700	100	900	100	600	-	Fukuoka City	1,400	200	300	500	100	300
Tokushima	350	-	100	-	250	-	Kumamoto City	100	100	-	-	-	-
							Total	66,710	25,530	14,210	10,910	5,850	10,210

※This is based on the figures of domestic bonds announced by Ministry of Internal Affairs and Communications in Apr 2015.



Distribution of JLGB holders (2014/March end)

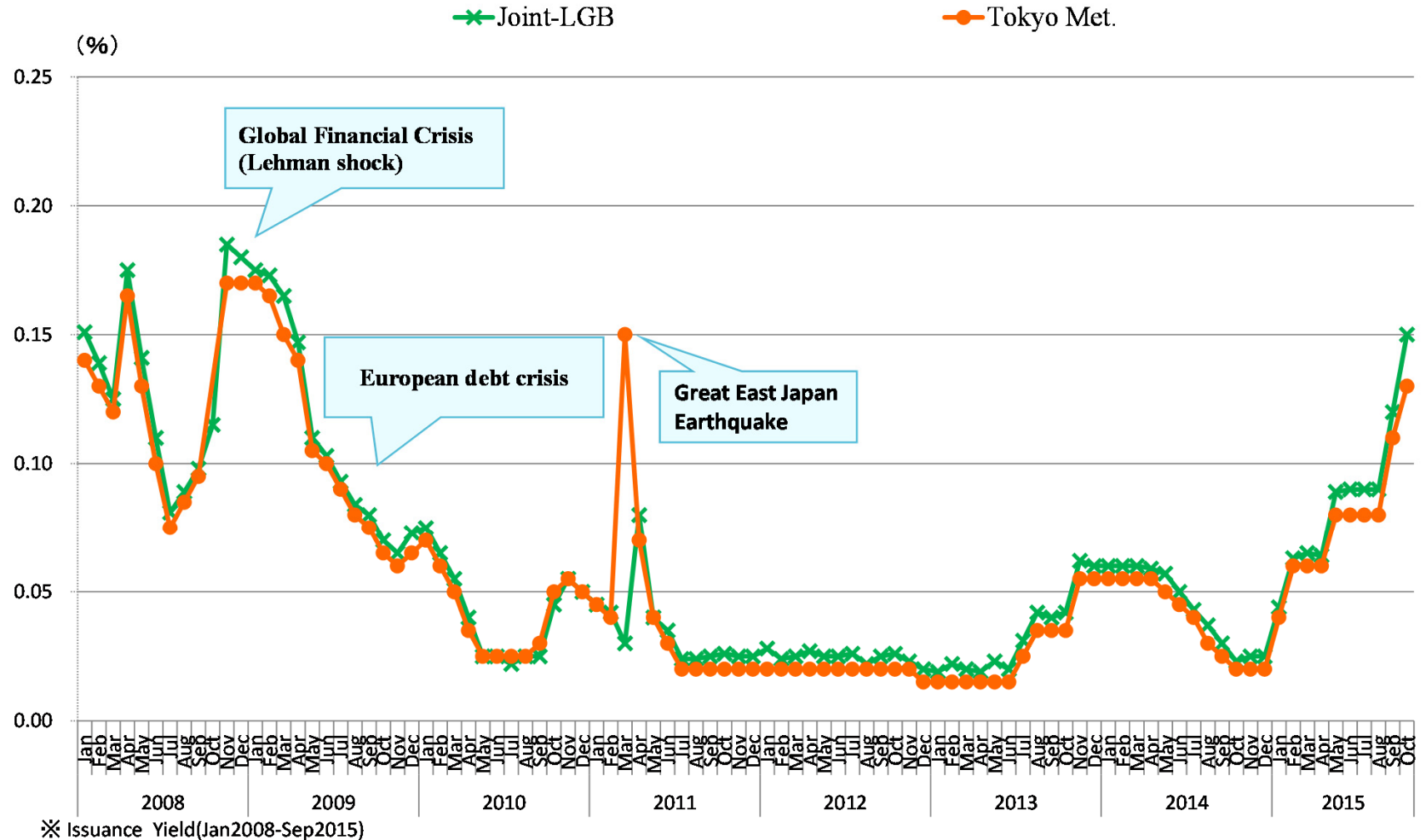


Source: Bank of Japan “Flow of funds accounts”



Spread for public offering JLGB over JGB

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





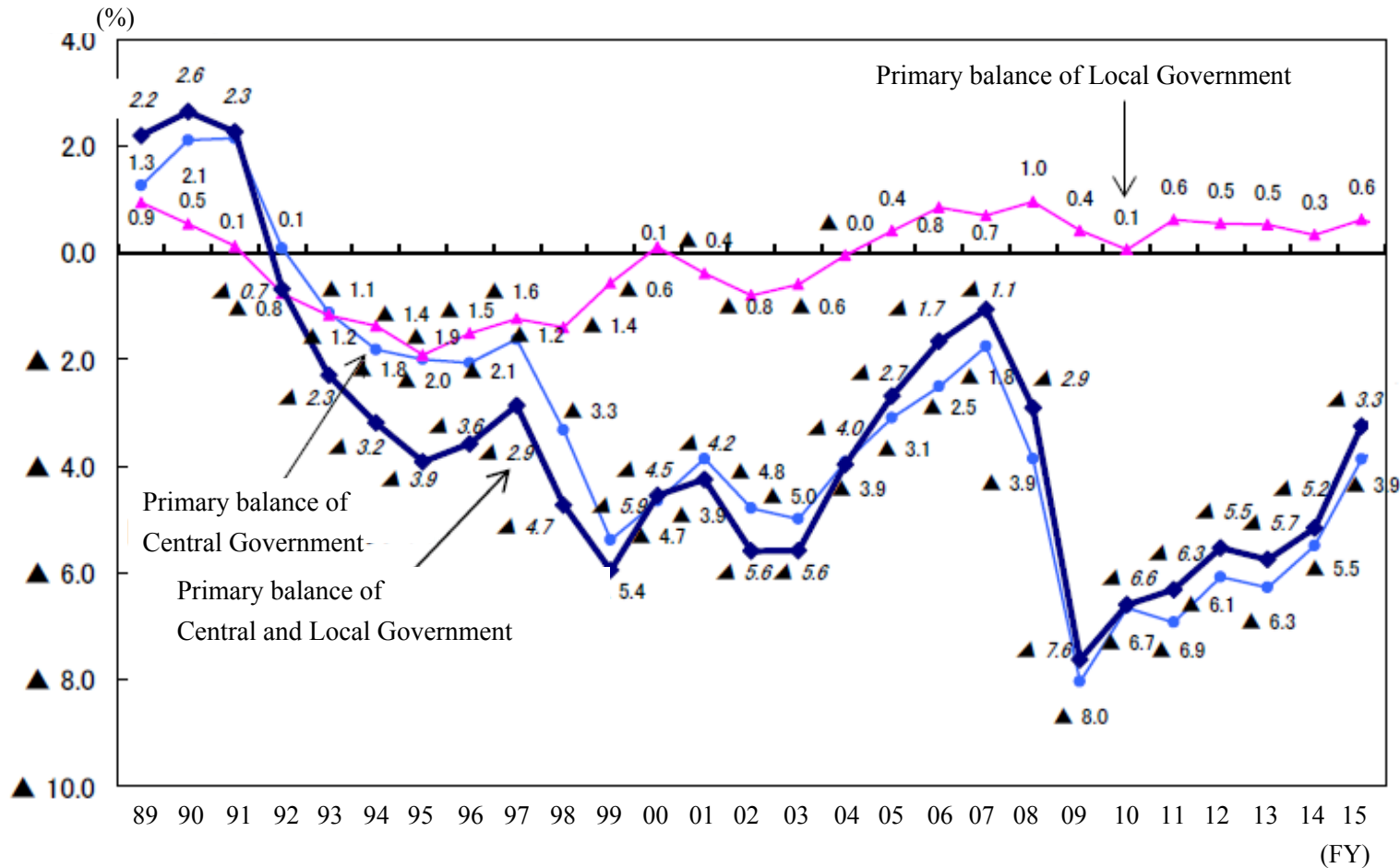
Credit rating of JLGB

Local Government	Ratings	
	Moody's	S&P
JGB(Central Government)	A1/Stable	A+/Stable
Tokyo	-	A+/Stable
Niigata Prefecture*	A1/Stable	-
Shizuoka Prefecture*	A1/Stable	-
Aichi Prefecture*	-	A+/Stable
Hiroshima Prefecture*	A1/Stable	-
Fukuoka Prefecture	A1/Stable	-
Sapporo City*	A1/Stable	-
Yokohama City	-	A+/Stable
Shizuoka City*	A1/Stable	-
Hamamatsu City	A1/Stable	-
Nagoya City	A1/Stable	-
Kyoto City*	A1/Stable	-
Osaka City*	A1/Stable	A+/Stable
Sakai City	A1/Stable	-
Fukuoka City*	A1/Stable	-
JFM	A1/Stable	A+/Stable

*Issuers for Joint-LGB *Notice As of 1 Oct,2015

Trends in Primary Balance of Central and Local Governments to GDP Ratio

- ◆ In recent years, Primary Balance of LGs has achieved surplus.



(Source) FY1989-2013:Cabinet Office "Annual Report on National Accounts"

FY2014-2015:Cabinet Office "Economic and Fiscal Projections for Medium to Long Term Analysis"

Effects of Abenomics

The first "arrow"

Aggressive Monetary Policy

- The price stability target of 2%
- The quantitative and qualitative monetary Easing

The second "arrow"

Flexible Fiscal Policy

- The Emergency Economic Measures for the Revitalization of the Japanese Economy (the supplementary budget for fiscal 2012 at JPY13 trillion)

The third "arrow"

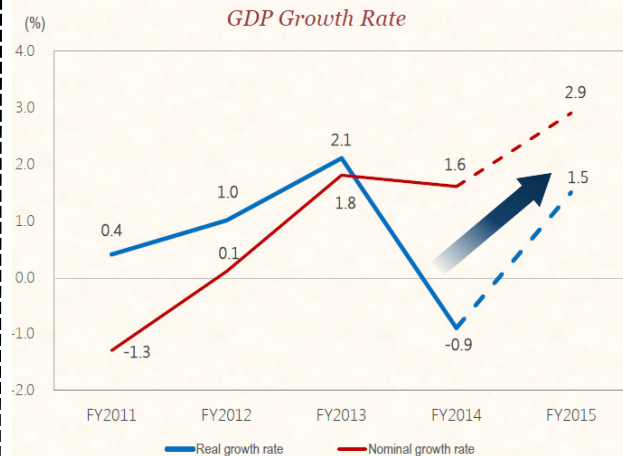
The Growth Strategy that encourages private sector

- Japan Revitalization Strategy - Revised in 2015

[Targets] • Ending deflation
• Revival of Economy

The government aims to achieve economic growth over the medium to long term surpassing approximately 2% for real GDP and 3% nominal GDP.

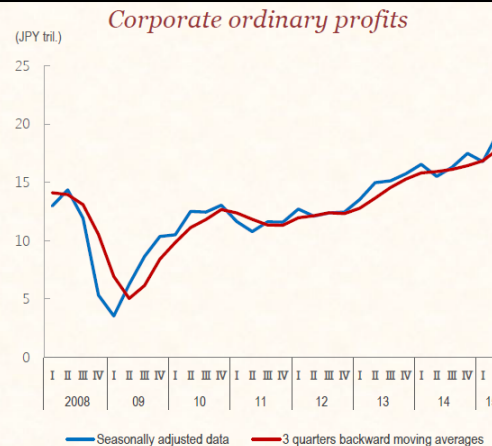
Abenomics has put the economy on the path to escape deflation and make a steady recovery



- Growth over first half 2015*:
Nominal GDP growth rate +2.2%
- Real GDP growth rate +0.8%
- (* : Change between Q4 2014 and Q2 2015)

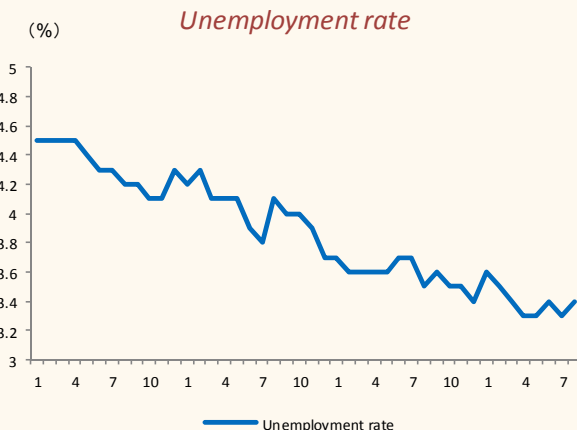
Although the real GDP decreased by 0.9% in FY2014 due to the effect of the consumption tax hike, it is expected to grow steadily from this point forward.

Corporate profits has increased significantly



- Corporate profits at their highest levels
 - FY2012 48.5 trillion yen
 - FY2013 59.6 trillion yen
 - FY2014 64.6 trillion yen

Corporate recovery is driving improvement of employment conditions



- Unemployment rate: 3.4%
- Increase in number of employees:
1 million in two and a half years
(Dec. 2012: 62.52 million → Jul. 2015: 63.78 million)
- Jobs to applicants ratio:
1.23 (highest in 23 years)
- Average wage increase for FY2015:
2.20% (highest in 17 years)



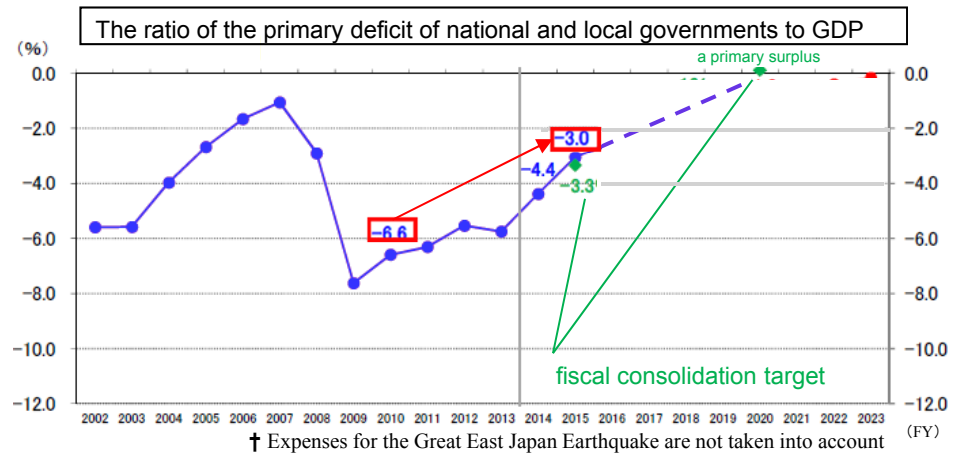
MIC Basic Policy on Economic and Fiscal Management and Reform 2015

1 Current economic and fiscal situation

- ① increased tax revenues under Abenomics
- ② the hike of the consumption tax rate to 8% (2014)
- ③ efforts for more efficient expenditures etc.



The ratio of the primary deficit of national and local governments to GDP is extended to fall by half in FY2015 compared to FY2010 (from -6.6% to -3.3%)



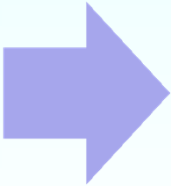
2 “The Plan to Advance Economic and Fiscal Revitalization”

- Period : FY2016 – FY2020
- Target : Achieve a primary surplus by FY2020
- ◇ Overcoming deflation and revitalizing the economy
 - Regulatory reforms, Strengthening economic partnerships with other countries etc.
- ◇ Reforms of expenditure
 - (i) Industrialization in public-related services,(ii) Incentive reform,(iii) Innovation in public services etc.
- ◇ Reforms of revenue
 - A hike of the consumption tax rate to 10% will be implemented in April 2017 etc.



Check and control system by the central government

- 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 nor for local allocation tax system (Although LGs can issue LGBs without the consent, there are no such case.).
- In addition, LGs with deteriorating fiscal conditions are required to obtain an 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.

- 
- The central government(or prefectures) check all the LGBs.
 - The central government secures the redemption of LGBs as a form of a consent after a consultation.
 - Issuance of LGBs by LGs with deteriorating fiscal conditions is restricted.
(the number of LGs necessary to obtain the approval FY2014: 29(total LGs : 1,788))



Consultation system for the issuance of JLGB

- ◆ JLGB system changed from approval system to consultation system in FY2006 due to decentralization. Moreover, notification system was introduced in FY2012 limited to Private Fund from the perspective of enhancement of LGs' autonomy.

1. Consultation

LGs are required to consult with the Minister of MIC(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 the Minister of MIC 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 the Minister of MIC 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 LGBs without the consent, the head of the LG is required to report issuance of the bond without the consent to the assembly.

5. Standard for consent

The Minister of MIC 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 JLGB (2)

- ◆ In order to secure fiscal soundness, LGs 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 under 18% must consult the MIC minister (or the prefectural governor) before debt issue.
- ◆ 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.

LGs of “Inform & Consult” Status

Bonds are expected to obtain the consent on the general rule announced in advance.

Even if their bonds are not consented, they may issue bonds if they report it to the assembly

LGs of Issuance with Approval

Bonds are expected to be approved on the general rule announced in advance if their debt management plans are proper.

LGs of Issuance with Approval

Bonds are expected to be approved on the general rule announced in advance if their financial soundness plans required by law are proper.

LGs of Limited Issuance with Approval

Bonds may be limited excluding disaster rehabilitation projects, etc.


18%

25%

35%

Control of fiscal discipline

- In Japan, there is a system of maintaining fiscal discipline by checking the fiscal conditions of LGs through the disclosure of relevant information, and taking measures for early-stage improvement of fiscal conditions before they seriously deteriorate.
- Under this system, local residents, local assemblies and auditors are to examine latent risks of relevant local public corporations and third-sector companies in addition to LGs.
- 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 LGs on their own is deemed difficult, the central government will play a role to ensure their rehabilitation.

- 
- The fiscal conditions of local governments are checked in detail in terms of both flow and stock.
 - The fiscal conditions of related entities are also checked in order to prevent unforeseen liabilities.
 - As of the end of FY2014, only 1 LG exceeds the early warning limit, and this LG exceeds the reconstruction limit(out of a total of 1,788 LGs).



Control of fiscal discipline

- ◆ LGs are required to report the following ratios to the local assembly every fiscal year after receiving an assessment by the auditor, and to 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 of the previous fiscal year's shortfall in funds for each public enterprise to the previous fiscal year's business scale.

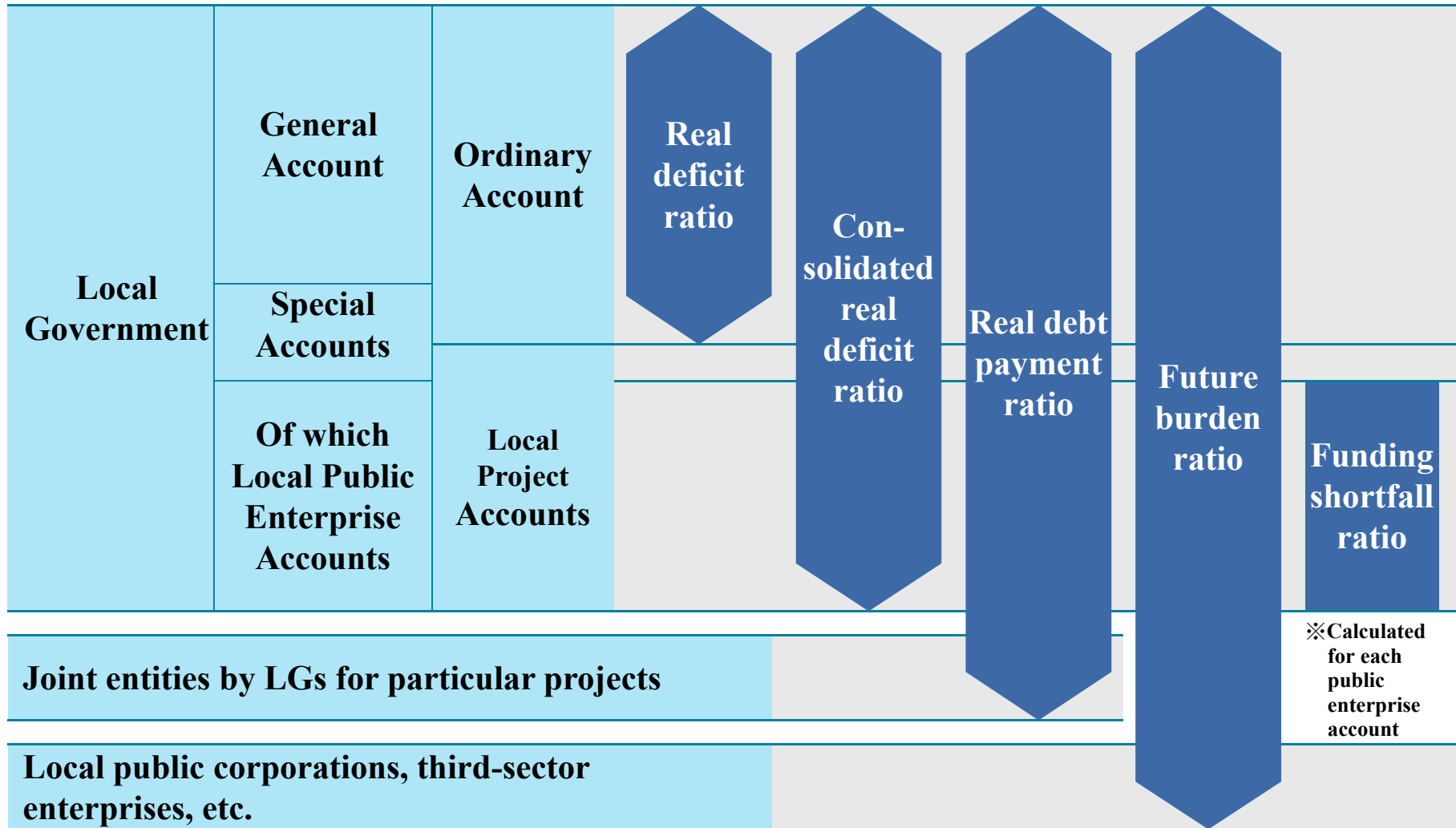


Limits for Early warning and reconstruction

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

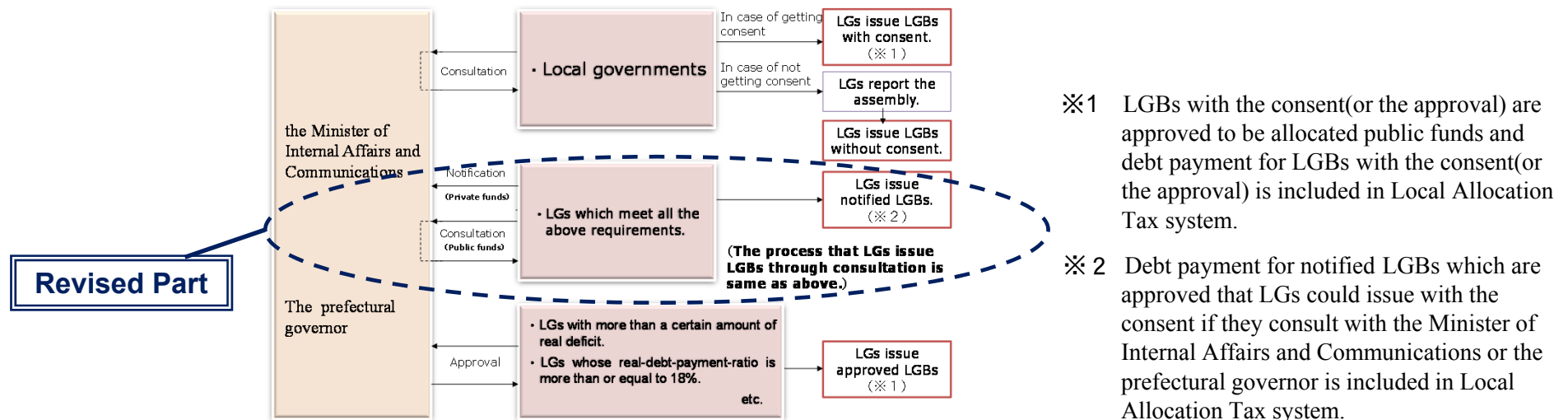
If they meet the following requirements, LGs can issue LGBs[※] without the consultation with the Minister of Internal Affairs and Communications or the prefectural governor. [※]LGBs by private funds only.

- ① Real-debt-payment-ratio is less than 16%.
- 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.





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
	Kawasaki City
Other issuers	Tokyo Metropolitan Government (TMG), Chiba Prefecture, Shizuoka Prefecture, , Aichi Prefecture, Kyoto Prefecture, Sapporo City, Yokohama City, Kyoto City, Kobe City, Fukuoka City
White Paper	FY2013 Settlement White Paper on Local Public Finance, 2015
Laws and Ordinances	Law on the Fiscal Consolidation of Local Governments
	Local Autonomy Law
	Local Finance Law
	Local Allocation Tax Law

* Available in PDF and Excel file



For further information

- **Japan Local Government Bond Association**

Website <http://www.chihousai.or.jp/english>

(This includes most comprehensive information in English)

8F, Zenkoku Choson Giin Kaikan, 25 Ichibancho, Chiyodaku, Tokyo, 102-0082, Japan

TEL +81-(0)3-5211-5291 FAX +81-(0)3-5211-5294

- **Local Government Bond Division, Local Public Finance Bureau, Ministry of Internal Affairs and Communications**

<Ministry of Internal Affairs and Communications (MIC)>

Website <http://www.soumu.go.jp/english>

<Local Public Finance Bureau, MIC>

Website <http://www.soumu.go.jp/english/lpfb/index.html>

Address) 2-1-2, Kasumigaseki, Chiyoda-ku, Tokyo 100-8926, Japan

TEL +81-(0)3-5253-5630 FAX +81-(0)3-5253-5631



Disclaimer

This is the presentation material made by Ministry of Internal Affairs and Communications in use of a seminar in Europe October 2015.

The purpose of this material is to explain the local government finance system, etc. of Japan to investors who are interested in local government bonds, and not to offer the sale or solicit of the purchase of any specific bonds.

The Government of Japan assumes no responsibility for any action taken based on the information contained herein.

In addition, the translation provided in this presentation material is unofficial. Only the original Japanese texts of laws and regulations have legal effect, and translations are to be used solely as reference material to aid in the understanding of Japanese laws and regulations. For all purposes of interpreting and applying the law to any legal issue or dispute, users should consult the original Japanese texts.