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# Financial Status of Aichi Prefecture

October, 2015



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# Highlights

## Outstanding Economic and Industrial Platforms

- One of the most highly populated prefectures in Japan
- An economy comparable to that of a country
- Focus on automobiles with an outstanding concentration of industries

## Maintenance of Fiscal Soundness

- One of the highest levels of tax revenue in Japan
- Firm and sound fiscal standing
- Ample provision of sinking funds

## Aichi Prefecture Bonds

- A leading bond issuer in Japan: JPY332.5bn issuance planned for FY2015
- Received the highest ratings among Japanese local government bonds



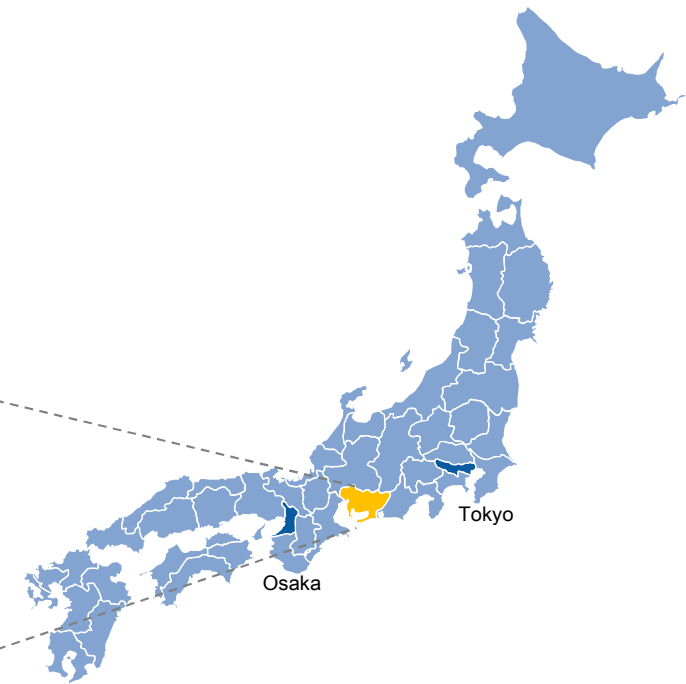
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# 1. Overview



# Overview of Aichi Prefecture

- Aichi Prefecture has the world's leading automotive cluster
- One of Japan's three biggest metropolitan areas.
- Nagoya City is the fourth largest in the country



	Japan	Tokyo	Ranking	Aichi	Ranking
Population (thou)	127,083	13,390	1	7,445	4
GDP (JPY tr)	500.2	91.9	1	34.4	3
Production (JPY tr)	292.1	7.9	13	42.0	1

\* Source: Toyota Motor Corporation

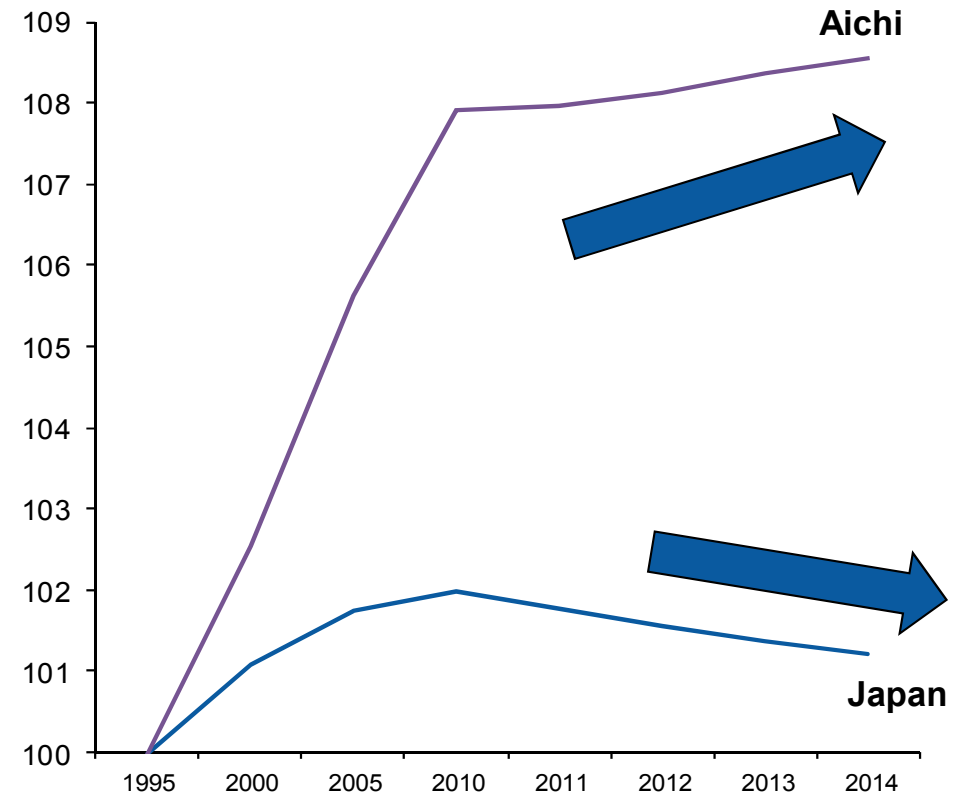
# Economic Size and Demographics of Aichi Prefecture

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

## 2012 GDP of OECD and ASEAN Countries

(USD bn)	
Country	GDP
U.S.A.	16,244.6
China	8,232.5
Japan	5,935.9
Germany	3,426.0
France	2,611.2
.....	
Poland	489.9
<b>Aichi<sup>(1)</sup></b>	<b>413.6</b>
Austria	394.5
Thailand	366.0

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



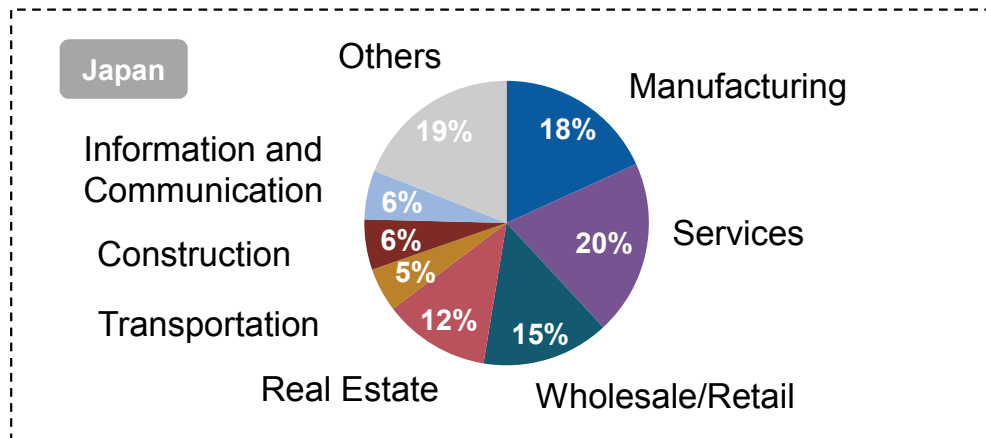
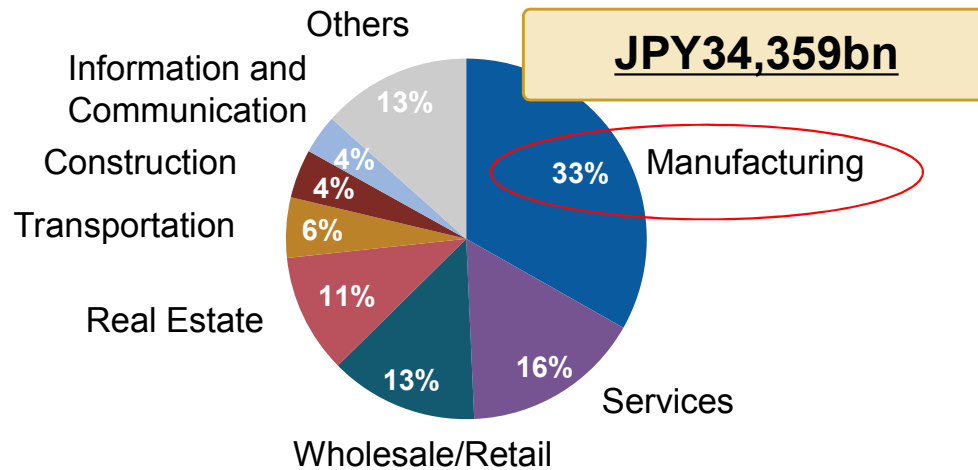
(1) Source: Aichi prefecture's economic accounts, converted at the rate of USD1 = JPY83.08, as of FY2012

(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

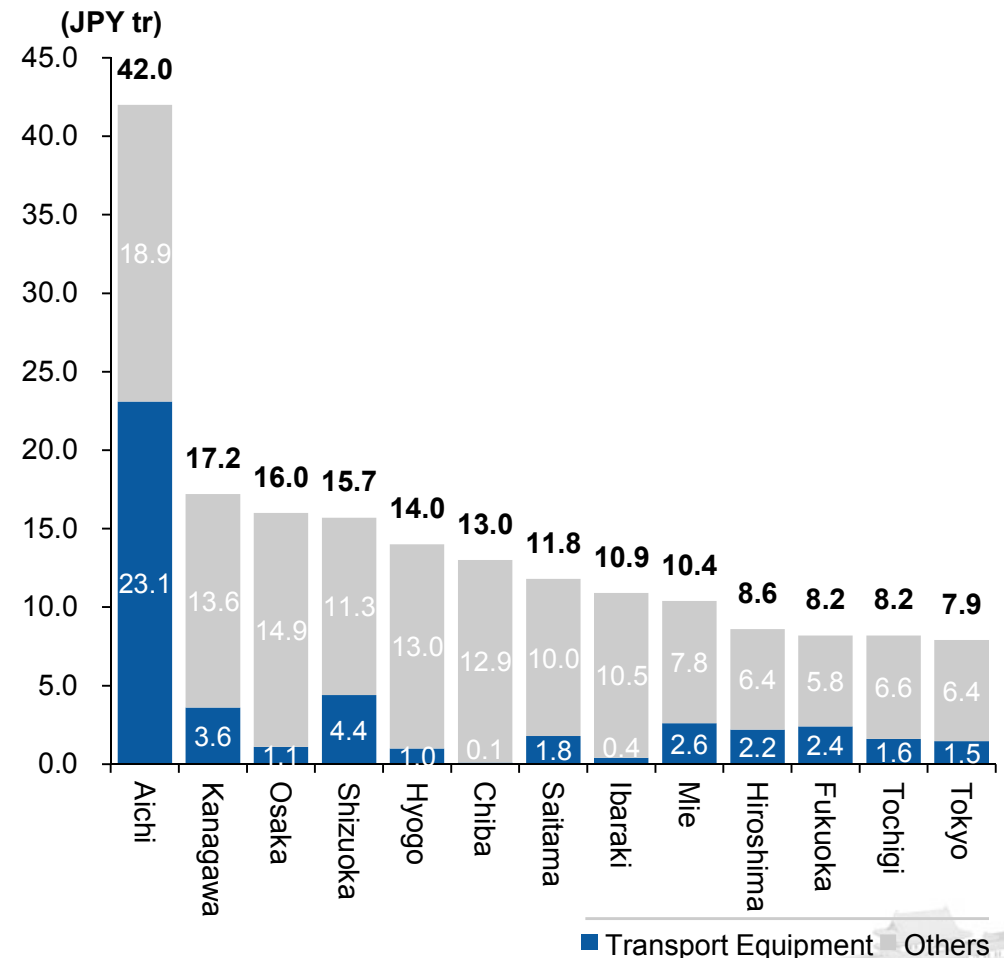
- Well-balanced industrial structure with manufacturing sector at the core
- Aichi drives Japan's manufacturing sector, particularly the automotive industry

## Breakdown of GDP (FY2012)



Source: Aichi prefecture's economic accounts (FY2012, actual and estimate)

## Total Shipments of Manufactured Goods (2013)



Source: "FY2013 Census of Manufacturers (summary)" issued by Ministry of Economy, Trade and Industry

# Major Corporations Located in Aichi Prefecture

- The major plants of Toyota Motor Corporation are located in Aichi
- World-class machine tool manufacturers, the aircraft manufacturers undertaking production of B787 and JR Central (*Shinkansen* bullet train operator) are also located here

● Machine tool

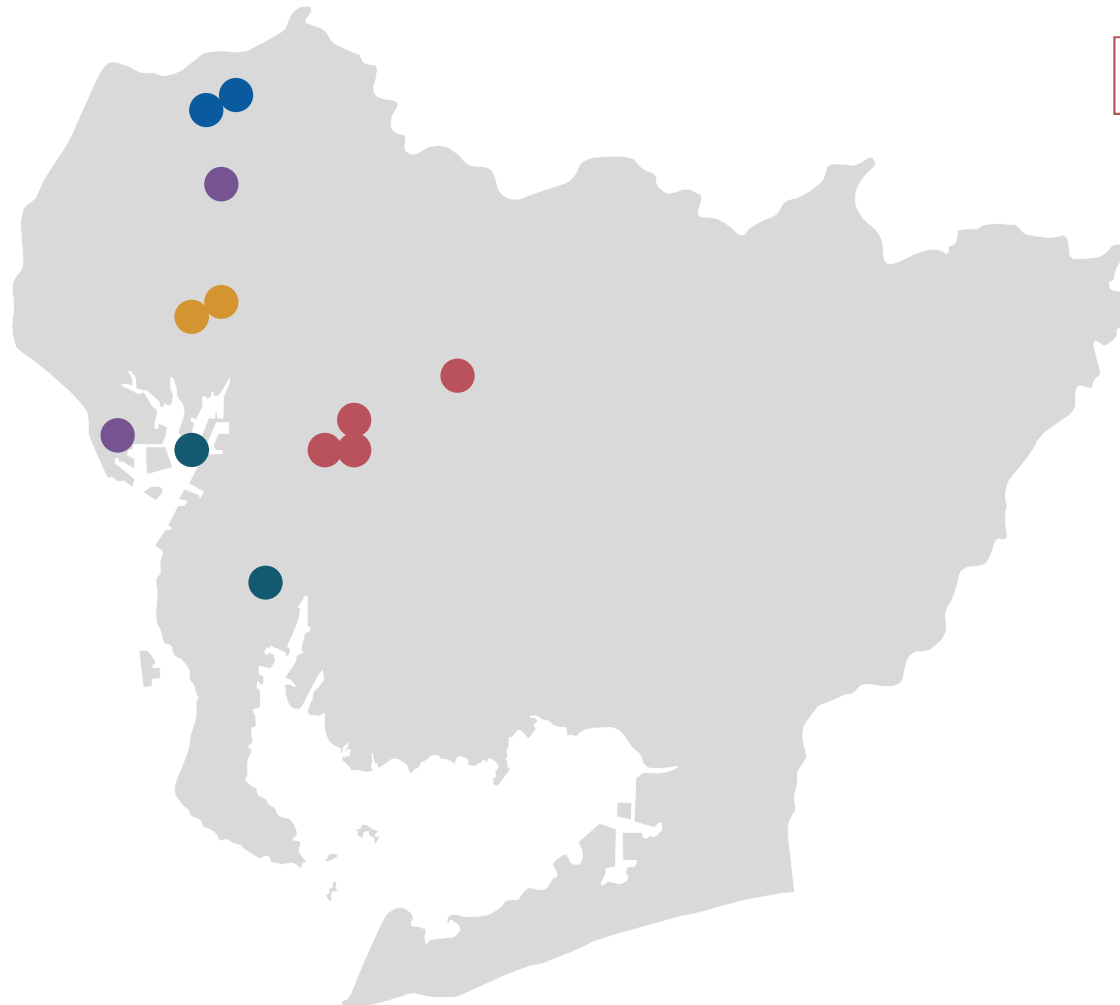
**Mazak**  
**LOKUMA**

● Aircraft

**MITSUBISHI**  
HEAVY INDUSTRIES, LTD.  
**Kawasaki**

● Steel

**Nippon Steel**  
JFE Steel Corporation  
JFE



● Automobile (parts)

**TOYOTA**  
**DENSO**  
**AISIN**  
**TOYOTA**

● Utility

**JR** Central Japan  
Railway Company  
JR-CENTRAL

**CHUBU**  
Electric Power





# Growth of Aerospace Industry

## Future Growth Industry — Center of Aerospace Industry

### Concentration of Aerospace Industry

#### Production of Boeing 787

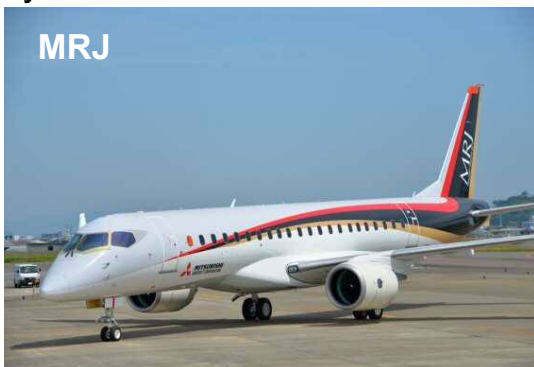
- 35% of the airframe structure, incl. main/center wing boxes and forward fuselage, are produced in the region



Source: Boeing

#### Development of Domestic Small Jet MRJ

- First test flight scheduled in late October 2015
- First delivery in 2017



Source: Mitsubishi Aircraft Corporation

### Creation of Aerospace Industrial Cluster

- The Chubu region was designated as a Comprehensive Special Zone for the aerospace industry in December 2011

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

#### Target

Aerospace industry output in Chubu:  
JPY700bn (2010) ⇒ JPY900bn (2015)

Aerospace industry employees in Chubu:  
15,000 (2010) ⇒ 20,500 (2015)



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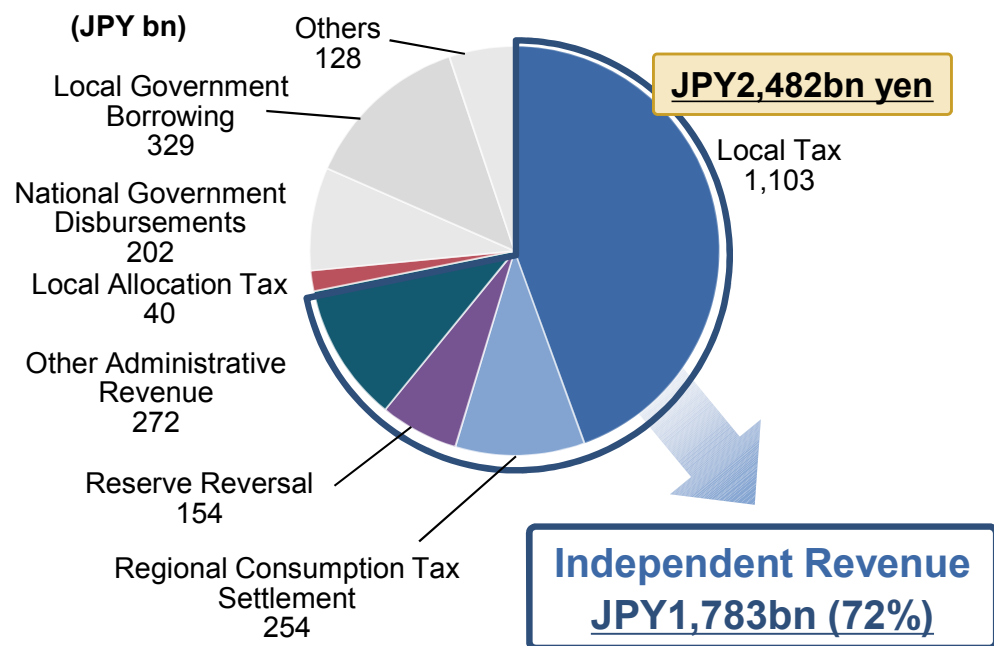
## 2. Fiscal Profile



# Aichi Prefecture's Revenue

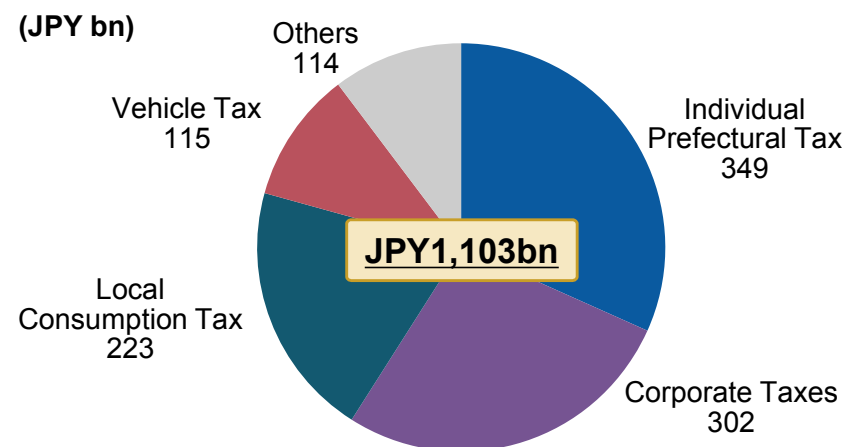
- Independent Revenue records one of the highest among Japanese local governments

## Breakdown of Revenue (FY2015 Initial Budget)



**FY 2013 Result**  
**Aichi Prefecture 62.5%**  
**National Average 51.1%**

## Breakdown of Local Tax Revenue (FY2015 Initial Budget)

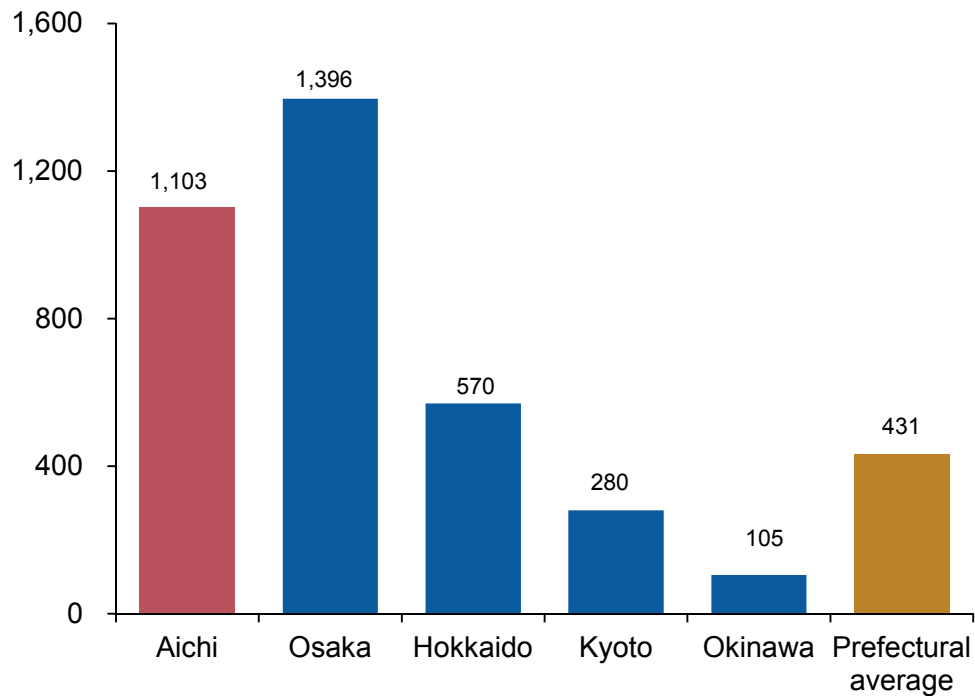


# Aichi Prefecture's Revenue

- Aichi has one of Japan's strongest tax revenue bases reflecting the economic strength of the region

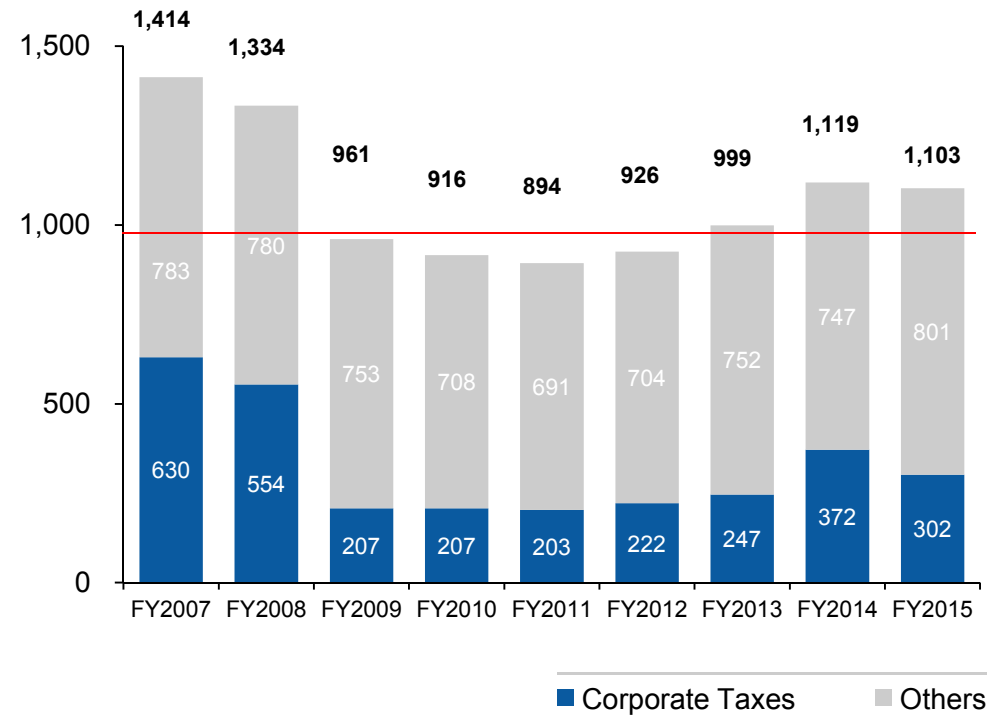
## FY2015 Local Tax Comparison (Initial Budget)

(JPY bn)



## Trends in Local Tax Revenue

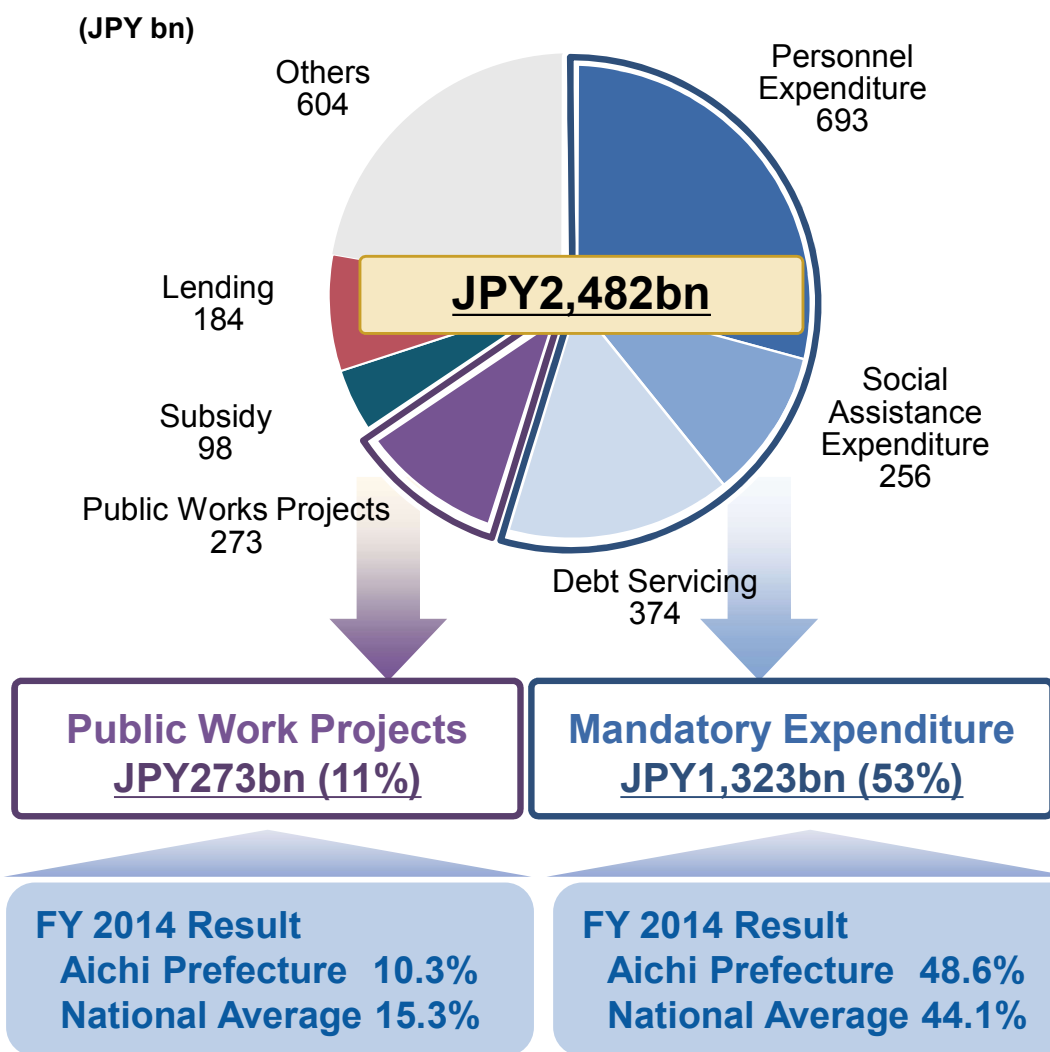
(JPY bn)



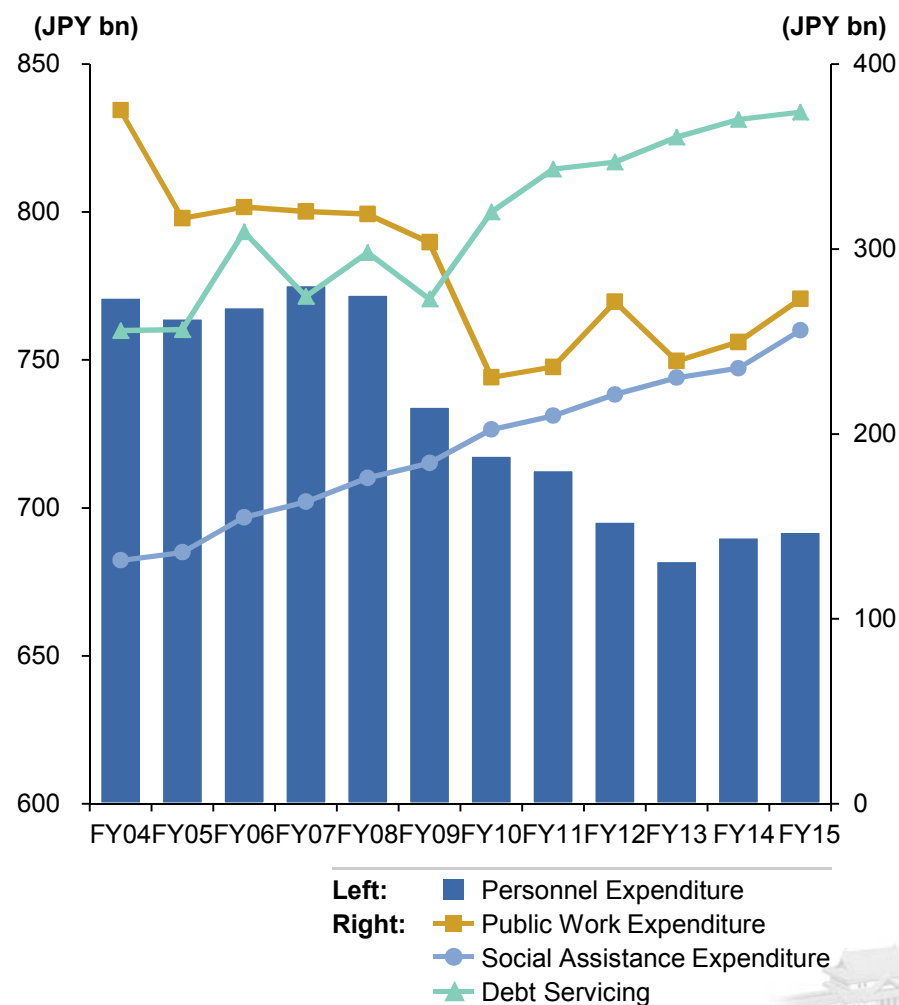
# Aichi Prefecture's Expenditure

- Control personnel expenditure and public work projects to maintain sound fiscal management

## Breakdown of Expenditure (FY2015 Initial Budget)



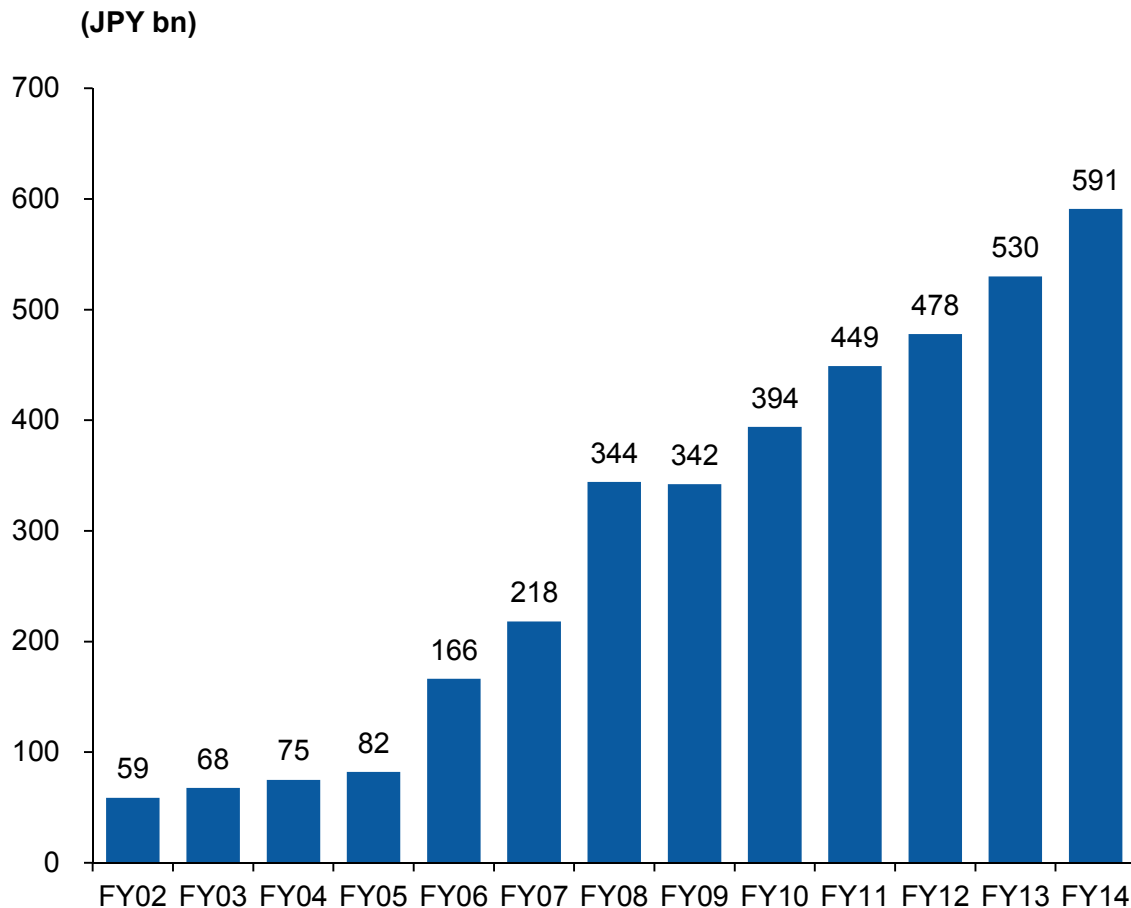
## Trends in key items of Expenditure



# Liquidity: Status of Sinking Fund

- Japanese local governments hold deposits and marketable securities accounting for a certain percentage of outstanding debt of bullet bonds as a sinking fund

## Trends in Balance of Sinking Funds



## S&P's Evaluation of Liquidity

- “Aichi has exceptional liquidity, in our opinion. We estimate the prefecture’s internal cash holdings, measured by free cash and liquid assets, exceeded **150% of its annual debt service requirements** (including contributions to its debt payment fund) as of March 31, 2014, which we expect the prefecture to maintain.”
- 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 also Aichi’s established position in the bond market.”

(Source: “S&P Report” dated April 22, 2015)



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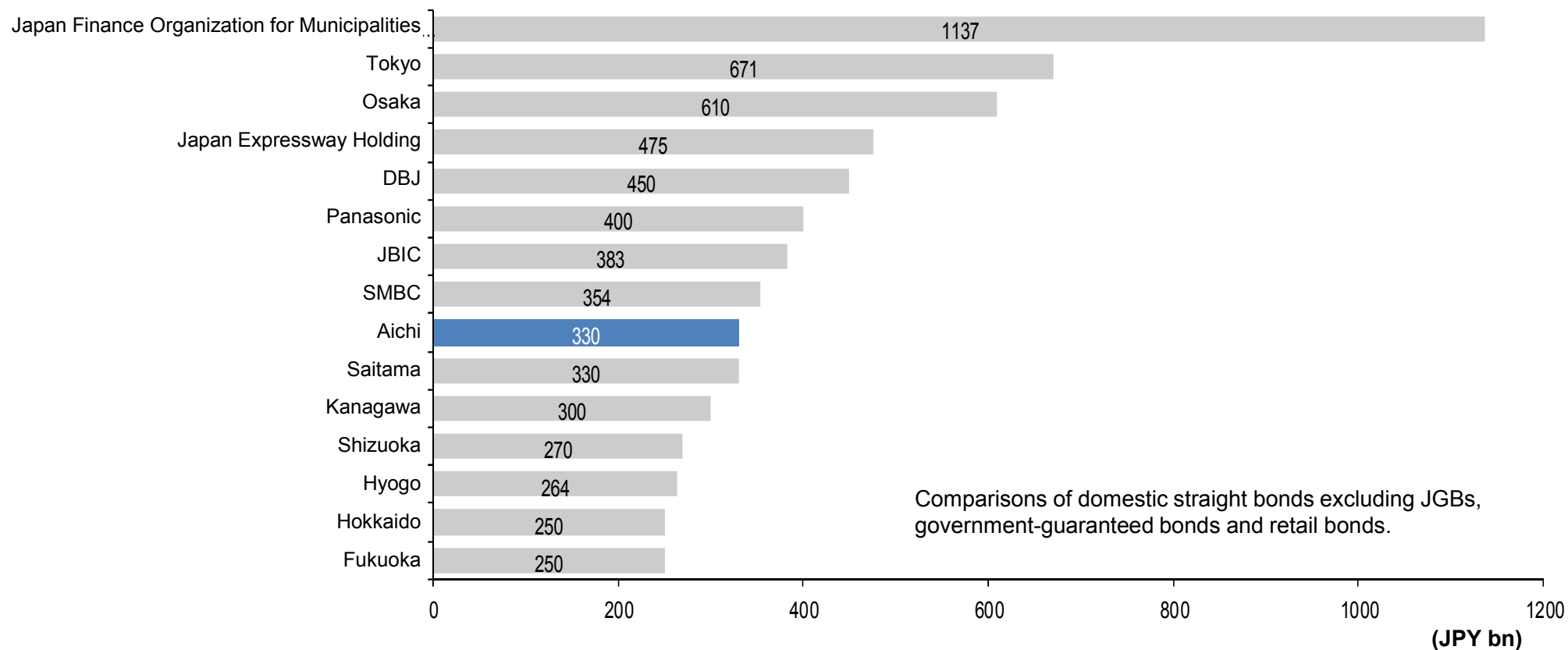
### 3. Aichi Prefecture Bonds (APB)



# Positioning of Aichi LGBs in Japan

- Aichi is one of the leading bond issuers in Japan and the third largest Local Government Bonds (LGBs) issuer after Tokyo and Osaka

## Top Bond issuers in Japan (FY2014)

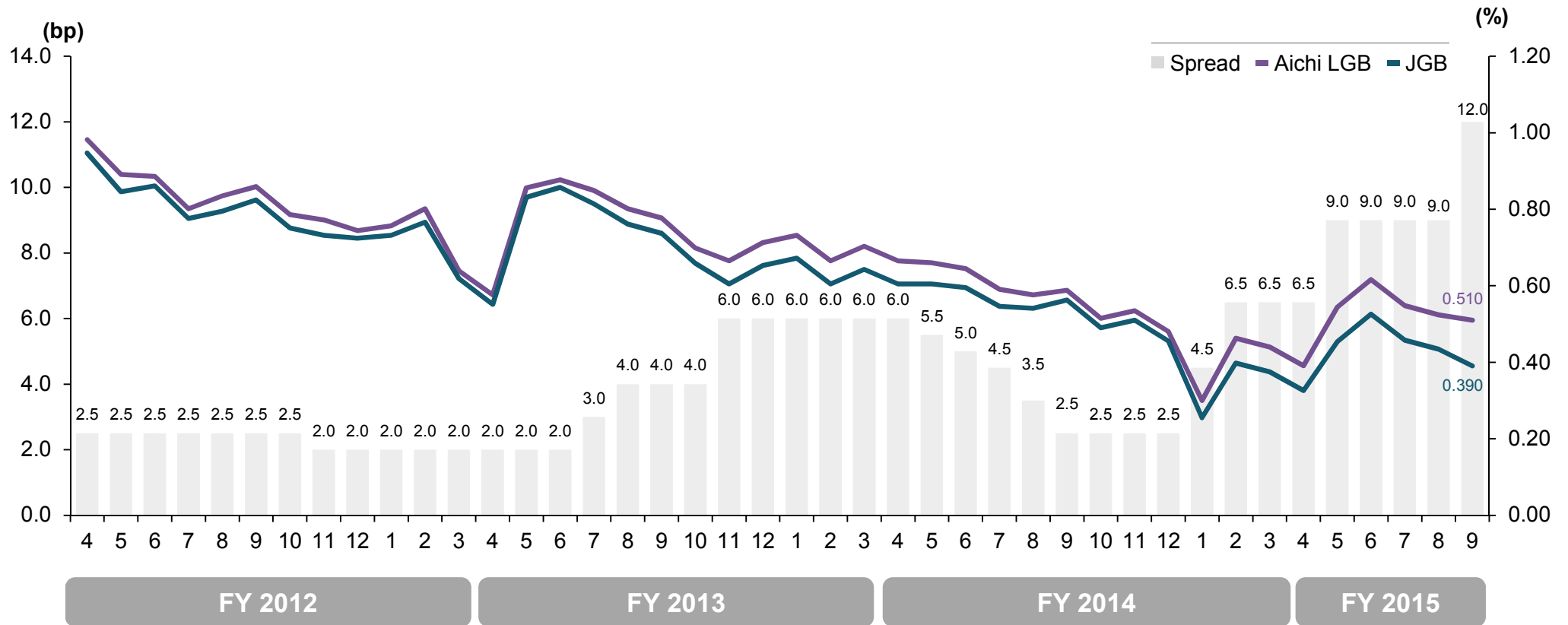




# Attractiveness Relative to JGBs

- Aichi issues its core 10-year bonds on monthly basis
- Aichi's spreads over JGBs have been stable

## 10-Year Bond Spread Levels



# Ratings and BIS Risk Weights

- Aichi obtained credit ratings from 3 rating agencies
- Its ratings are the highest among Japanese LGBs and the same as those of JGBs

## Credit ratings of Aichi Prefecture

**S&P A+ (stable)**

- Stable independent revenue sources and steady financial administration results
- The same as JGBs and Tokyo Metropolitan

**R&I AA+ (stable)\***

**JCR AAA\***

(as of September, 2015)

\*Japanese domestic rating agencies

## Risk Weights under BIS Standards

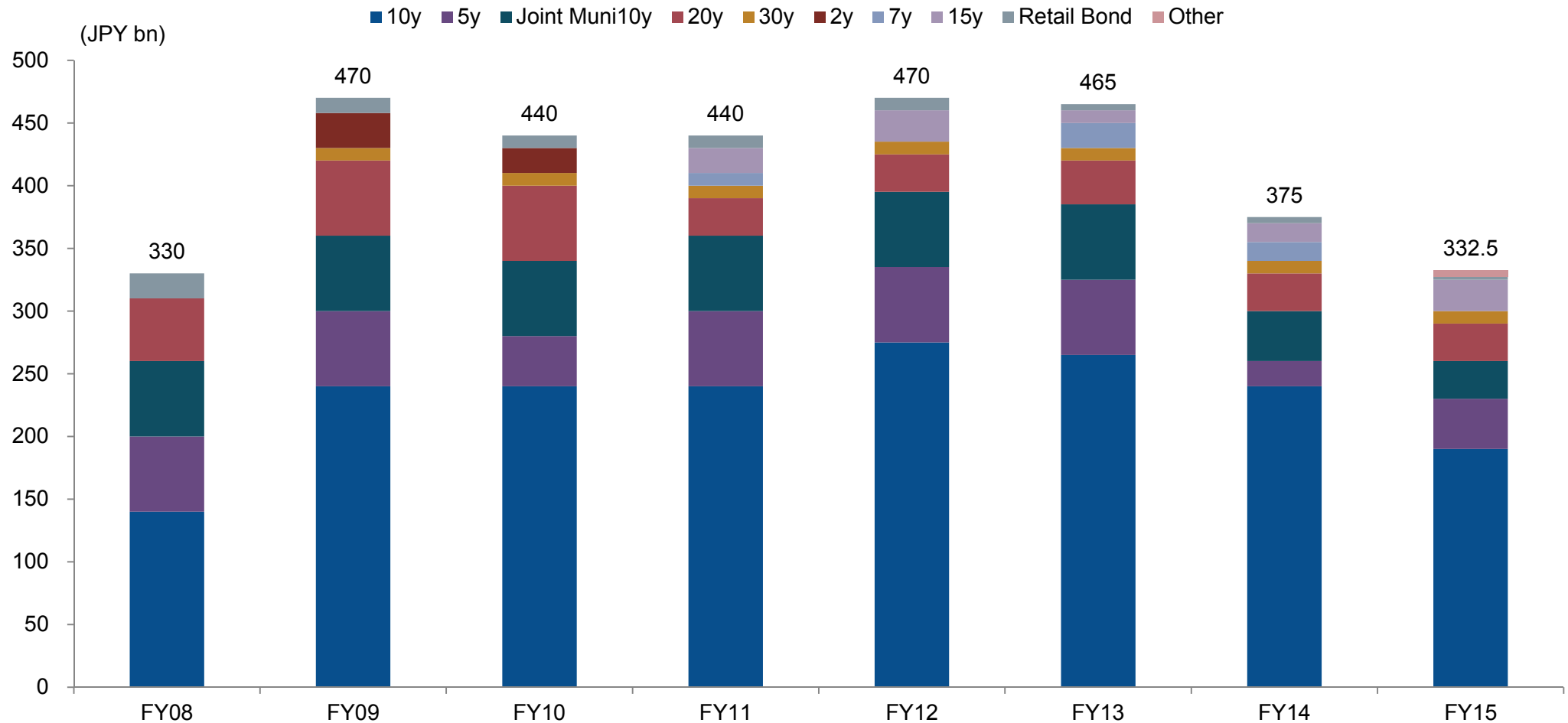
JGBs	0%
Aichi LGBs	<b>0%</b>
Government agency bonds	10%~20%
Bank debenture bonds	20%
Straight bonds	20% or more

- Zero risk weight for domestic investors in Japan
- Local government bonds are assigned from 10% to 20% risk weights depending on each regulator

# Historical Issuance Volume(FY2008~)

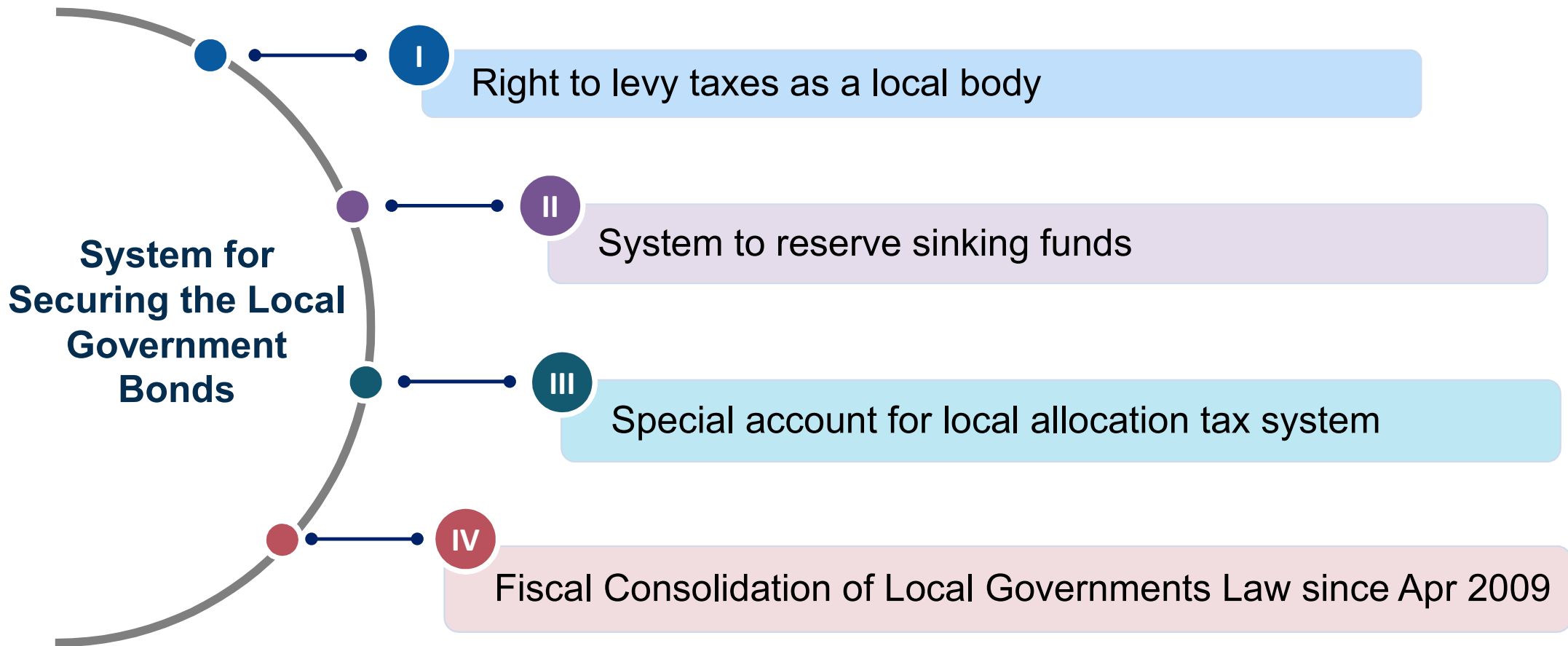
■ Aichi continuously issues JPY300 to 500bn per fiscal year

## Historical Issuance Volume from FY 2008



# Safety of Local Government Bonds

- The level of credit risk associated with Japan's LGBs is considerably low



- Secures the reliability of local government bond redemptions
- There has been no default on local government bond payments to date

# FY2015 Public Offering Bond Issuance Plan

- Plans to issue public offering bonds of JPY332.5bn (≒US\$2.8bn\*) in FY2015.

## FY2015 Public Offering Bond Issuance Plan

(JPY bn)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Joint-LGBs	10	10					10						30
5-year LGBs		20					20						20
10-year LGBs	15	15	15	15	15	20	15	15	15	15	20	15	190
20-year LGBs		10							20				20
Flex term	15y: 15	20y: 10			30y: 10		15y: 10			5			50
Prefectural resident bonds											2.5		2.5
<b>Total</b>													<b>332.5</b>

## Concepts for the Plan

- Continues monthly issue of 10-year bonds as benchmark.
- Issues a variety of bonds including 5-year and 20-year bonds and the ones for prefectural retail investors.
- Offers flex term bonds for flexible funding to respond to investor needs.
  - Upsize requests
  - Needs for diversified maturities\*\*

\* 1USD=119.88JPY as of 30 Sep 2015

\*\* Aichi has issued 2, 7, 15 and 30-year bonds in the past





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## 4. Appendix



# Local Government System in Japan

## National Government

- Foreign affairs
- National defense
- Monetary policy

## 47 Prefectures\*

Serving broader areas and responsible for administrative projects within the prefecture  
e.g., Aichi, Tokyo, and Osaka

## Local Governments

## 1,718 Cities, Towns, Villages and Special Wards\*

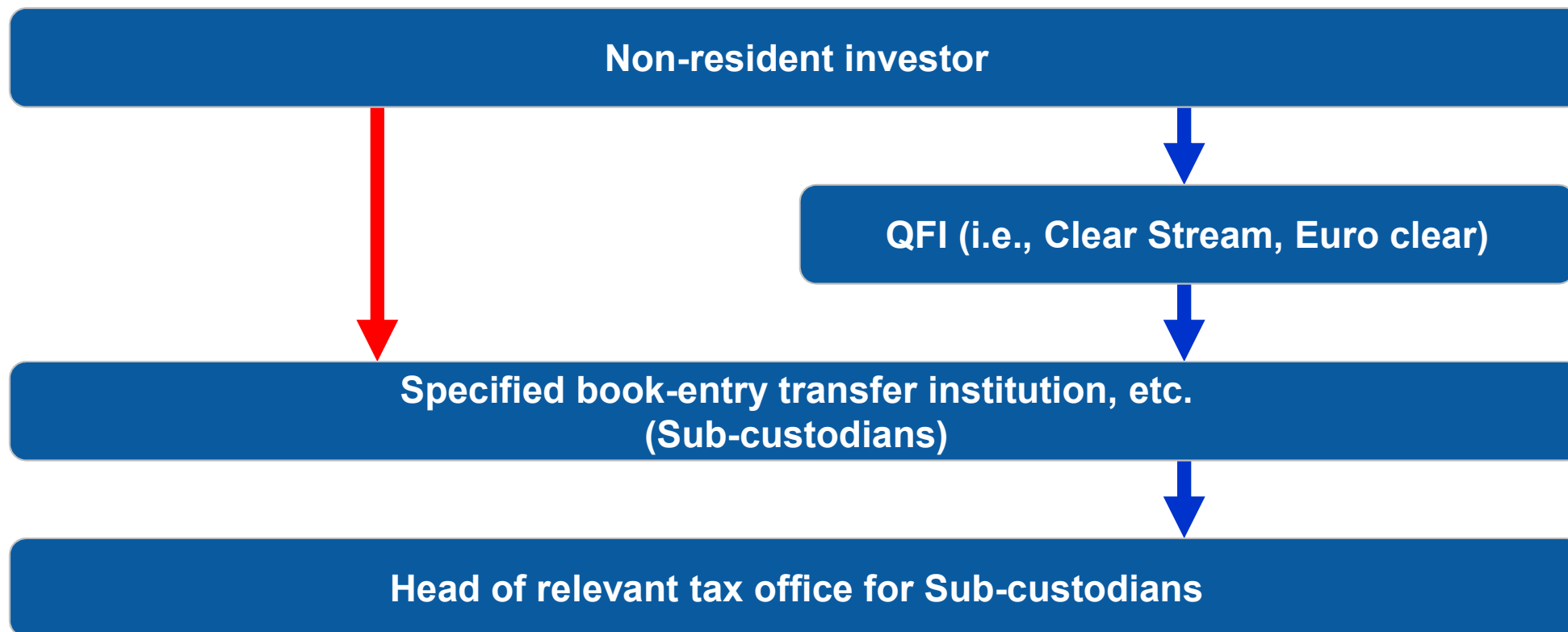
Serving respective governmental units within the prefecture and responsible for resident level projects  
e.g., Yokohama, Nagoya, and Kyoto

- Local governments are responsible for a wide range of services closely related to the daily lives of citizens such as:
  - Public health
  - Social welfare
  - Education
  - Policing
  - Fire fighting
  - Social infrastructures

\* as of April, 2015

# Outline of Tax Exemption for Non-Residents

## Procedure of tax exemption for nonresident



- 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 expenditure for FY2014 amounted to over JPY2.2tr. Aichi has been in the black for 15 consecutive years despite a decline in tax revenue.

	(JPY mn)		
	FY2014	FY2013	Changes
Local Tax	1,139,935	997,618	142,317
Local Transfer Tax	146,083	122,310	23,773
Local Allocation Tax	79,310	66,483	12,827
National Government Disbursements	201,386	227,009	△ 25,623
Local Government Borrowing	337,223	393,266	△ 56,043
Other Revenues	364,407	368,132	△ 3,725
<b>Total Revenues</b>	<b>2,268,344</b>	<b>2,174,818</b>	<b>93,526</b>
Mandatory Expenditures	1,091,441	1,077,941	13,500
Personnel Expenditures	677,140	663,046	14,094
Debt Servicing	371,848	373,870	△ 2,022
Social Assistance Expenditures	42,453	41,025	1,428
Investment Expenditures	230,583	228,073	2,510
Other Expenditures	925,479	851,656	73,823
<b>Total Expenditures</b>	<b>2,247,503</b>	<b>2,157,670</b>	<b>89,833</b>
Gross Balance	20,841	17,148	3,693
Real Balance	11,743	6,171	5,572

# Financial Ratios

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

## Fiscal Health Indicators

	FY2012 Results	FY2013 Results	FY2014 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	15.5%	15.5%	15.1%	25%
(4) Future Burden Ratio	244.5%	232.7%	212.7%	400%

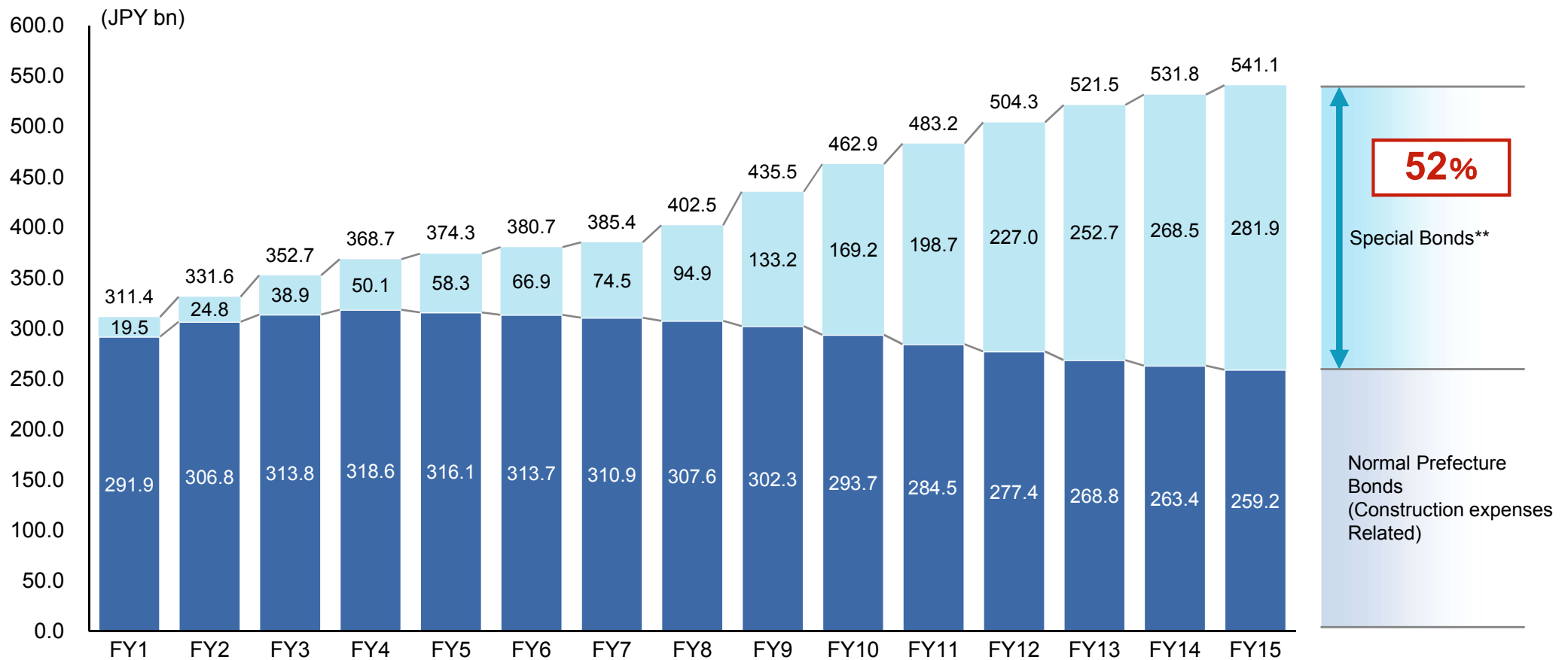
### Details

- (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".



# Historical Outstanding Volume(FY2001~)

## Historical Outstanding Volume from FY 2001\*



\*Based on ~FY14: results / FY15 : budget

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





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