



Local Government Finance System & Local Government Bond Market in Japan

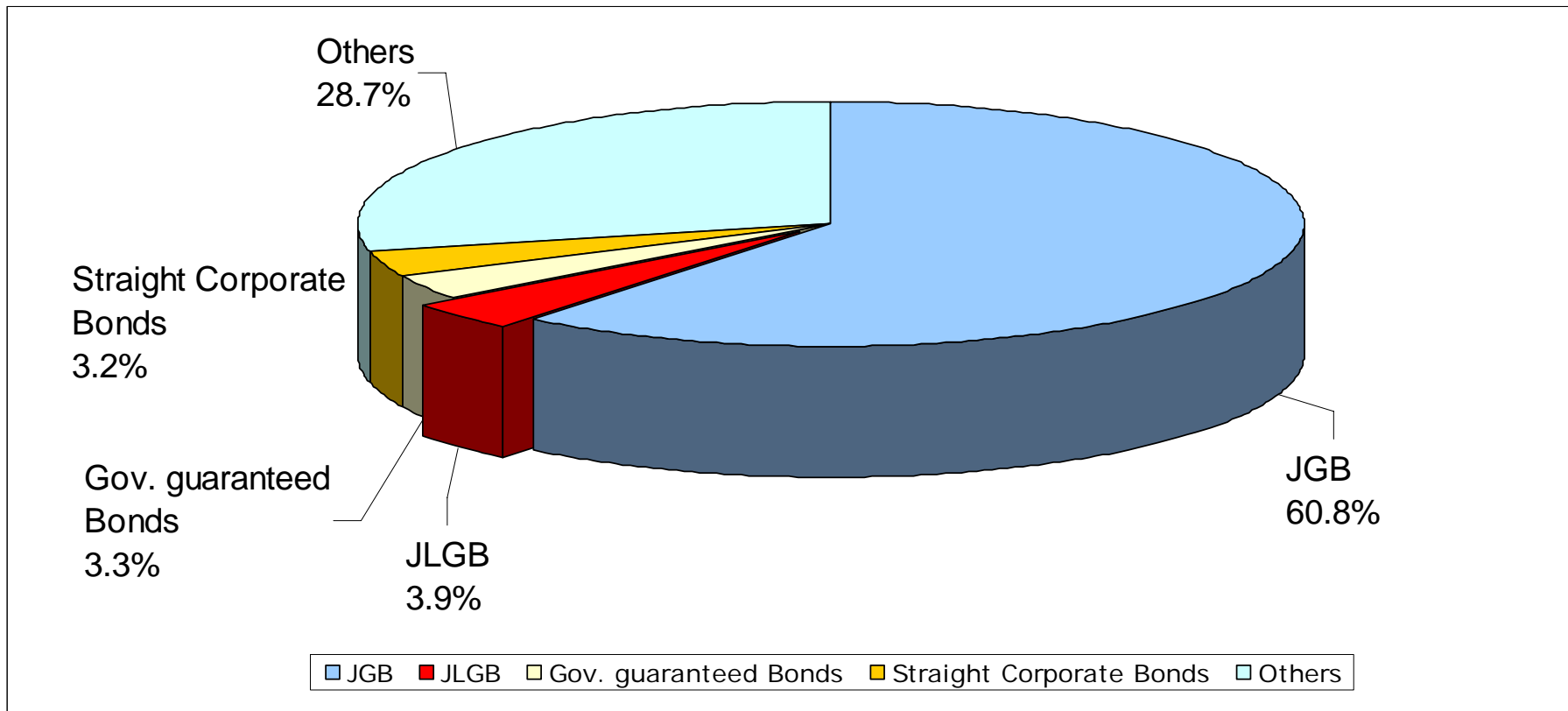
**Ministry of Internal Affairs
and Communications**

**Local Bond Division
Local Public Finance Bureau**

April 17, 2007

JLGB in Japanese Bond Market

Composition of Bond Issuance (FY 2005)



Source: Japan Local Bond Association Home Page and Japan Securities Dealers Association (JSDA) Home Page



Why not ? JLGB

Security : Considered almost as secure as JGB

- ✓ Yen-based JLGB's BIS risk weight is as low as JGB, 0%
- ✓ No default has been claimed in the past.
- ✓ Robust Japanese Local Gov. Finance System supports it.

Prices, Liquidity & Variety: Enjoy some Spreads over JGB

- ✓ Issued at the price with more than 10 bp spreads over JGB
- ✓ 10-year Joint JLGBs are issued monthly with an average size of ¥100 billion.
- ✓ 42 LGs are scheduled to issue publicly offered bonds with differing maturities of 5, 7, 10, 15, 20 or 30 years, the majority of which is in 10-year tenor.

Tax: Tax exemption measures for non-residents will start soon.

- ✓ JLGB Tax exemption measures for non-residents will start on January 1, 2008, which are currently applied only to JGB.

Why JLGs are so secure ?

Central Government Involvement in Local Government Bonds

LGs' Necessary Funds Assured by Gov.

- ✓ Macro-financially, the total standard financial needs including debt payments and the total standard revenues of LGs are estimated annually in the LGs Finance Program (LGFP) and if there is a certain level of gap between needs and revenues, necessary measures shall be taken by the central government.
- ✓ Micro-financially, the Local Allocation Tax System assures necessary general revenues for reasonable management of each LG. The amount allocated to LGs through the Local Allocation Tax System is determined based on the gap between Basic Financial Needs and Discounted Standard Revenues of each LG.

Gov. Control over LGs' bonds/loans with Early Warning

- ✓ Even though the approval system of LGs' bonds/loans was abolished and new "inform and consult" system started, early warning system is set to keep fiscal consolidation of LGs, by which LGs with deficits or debt payment ratio above the level provided must apply for approval for bond/loan issuance.

Financial Reconstruction System

- ✓ If a LG has deficit in a certain fiscal year over the ratio provided, they are virtually forced to decide and announce a Fiscal Reconstruction Plan and obtain the approval of MIC.
 - LGs Financial Reconstruction Promotion Law prohibits such LGs to issue bond/loans for any construction without setting out the Fiscal Reconstruction Plan.
- ✓ Neither insolvency law nor systems of equal distribution to creditors in the event of insolvency that applies to LGs exists.

An Outline of Local Autonomy in Japan

Working in close relationship with the Central Government

- 1) Unitary Country with sub-national government system based on local autonomy
 ⇔ Federal Country
- 2) Two-tier Local Government System with relatively large number of entities
 47 prefectures & more than 1800 municipalities
- 3) Each Local government has the Assembly as the highest decision making body of which members are directly elected by the residents. Assembly decides to establish ordinances and adopt budgets.
 The National Diet System is the two-chamber system
- 4) Local government operates according to the chief executive system.
 Administrative committees exist in the area of Education & Police.
 The National Government System is a Parliamentary cabinet system.
- 5) Local governments have relatively large responsibilities & functions.
 Although their activities are limited by the National Law and are under the control of the Ministries.



LGs: Providing Broad Public Services

Functions of Japanese Local Governments

- 1) Citizen Registrations
 - ◆ Resident Registration, Family Registration, Registration of Foreign National, Passports
- 2) Social Services, Social Insurance, Health & Hygiene
- 3) Education
 - ◆ Compulsory Education - Elementary & Junior high schools
 - ◆ Senior High School Education, Academy
- 4) Police, Fire Defense & Disaster Management
- 5) Land Planning & Infrastructure
 - ◆ Roads, Embankments, Forestry
- 6) Industry Promotion Services

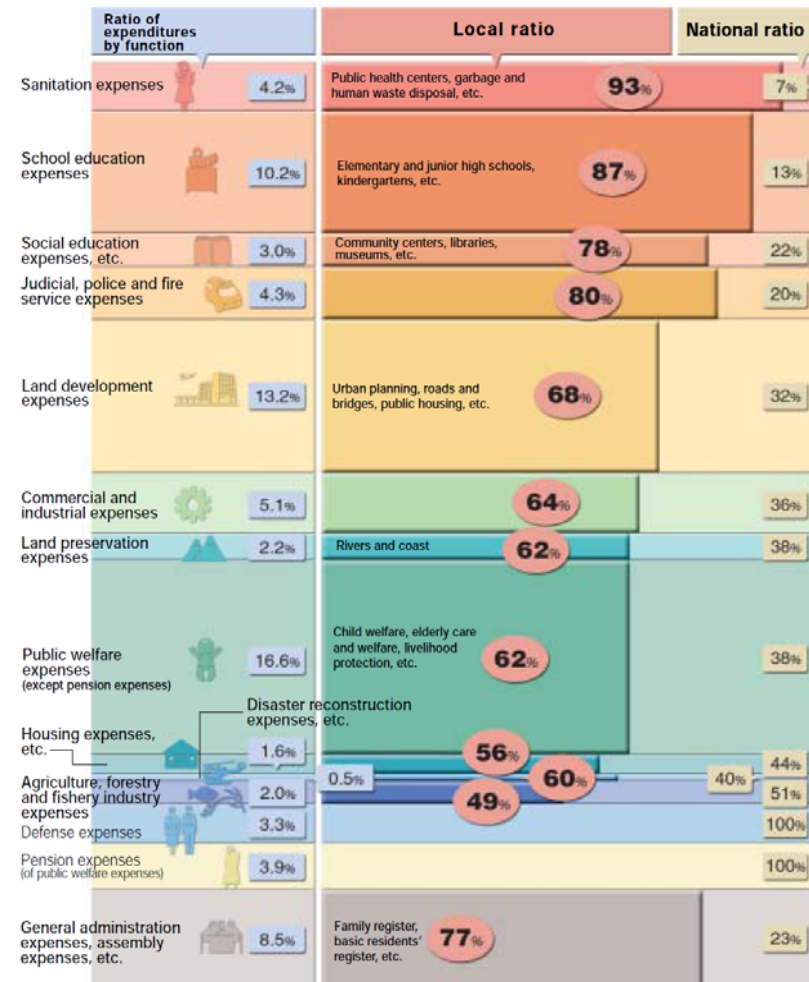
LGs: Providing Broad Public Services to Citizens

Functions of Japanese Local Governments

Q In which fields are local expenditure ratios high?

A Local expenditure ratios are higher in the areas that have a close relationship with our daily lives, such as public health and sanitation, school education, social education, and police and fire services.

Shares of National and Local Governments in Main Expenditures by Function (final expenditure base)



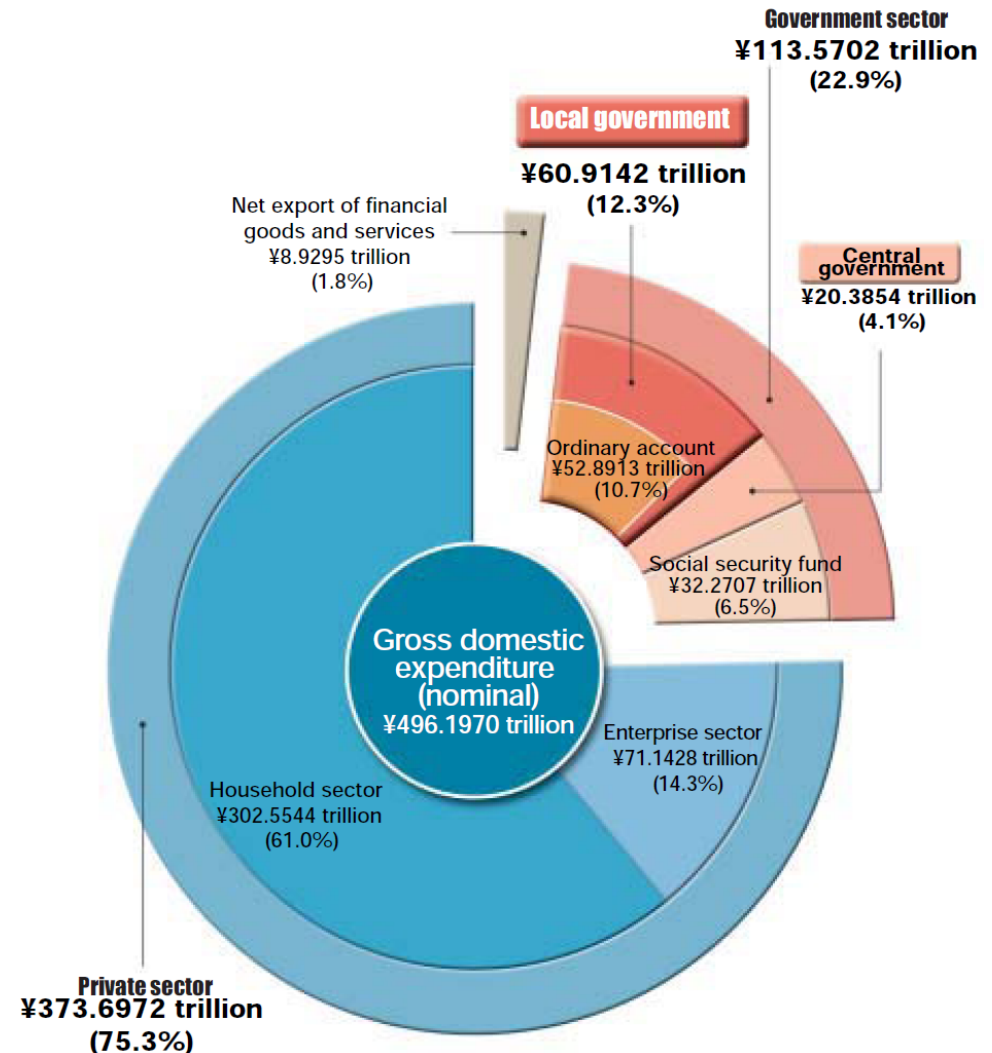
Source: White Paper on Local Public Finance, 2006 - Illustrated -, MIC

LGs: 3 times Larger than Gov. In GDP

Gross Domestic Expenditure and Local Public Finance

Q How does local public finance in Japan compare to that of the central government ?

A Looking at the scale of local public finance to gross domestic expenditure, we see that the ratio of the local government sector is 12.3%, which is about three times larger than the ratio of the central government.



Source: White Paper on Local Public Finance, 2006 - Illustrated -, MIC

LGs: Larger in GDP among OECD Countries

Gross Domestic Expenditure and Local Public Finance

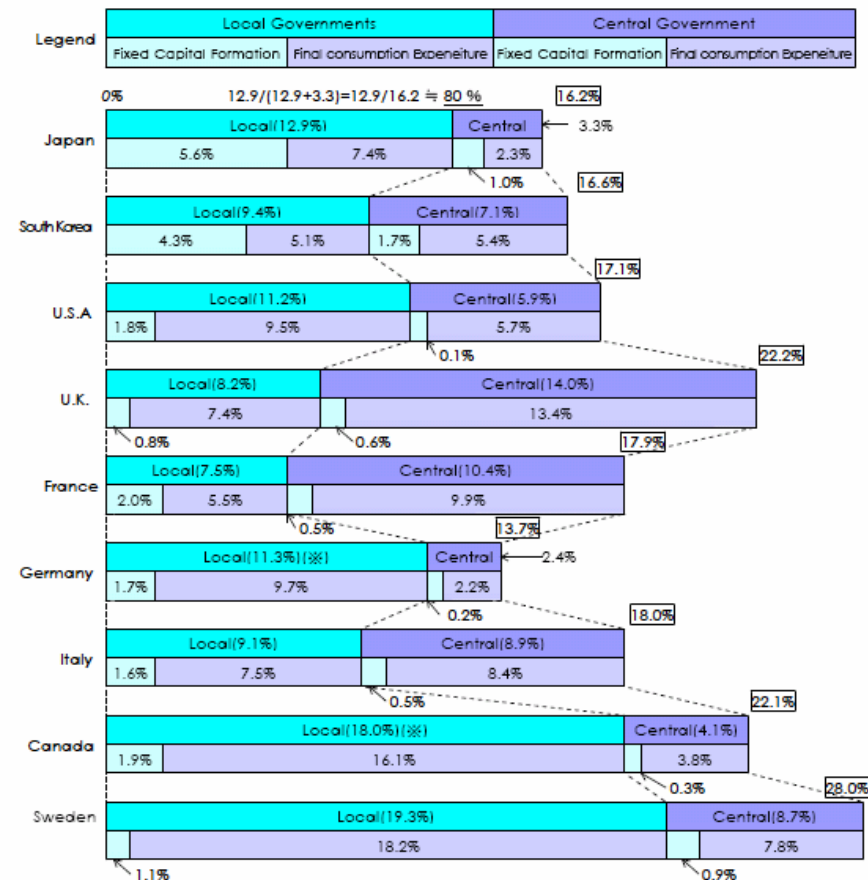
Q How does LGs finance compare to that of the OECD countries ?

A Compared with other OECD countries, LGs in Japan make up 12.9% of GDP and 80% of the overall government sector (excluding social security fund).

Japanese local government finance in the public sector is greater than that of federal countries, such as Canada, Germany.

Central & Local Governmental Expenditures in SNA (1997)

※ Italy as of 1995, South Korea, U.K. & Sweden as of 1996



(Notes)

1 Based on the NATIONAL ACCOUNTS DETAILED TABLES 1980/1997 VOLUME II (OECD).

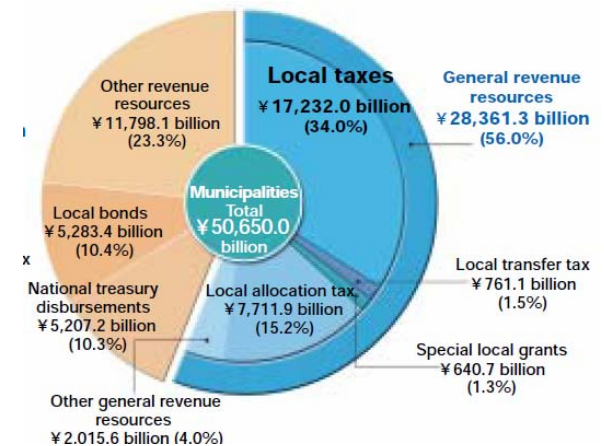
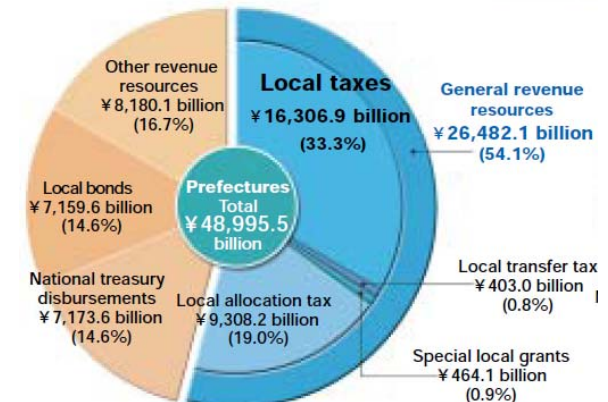
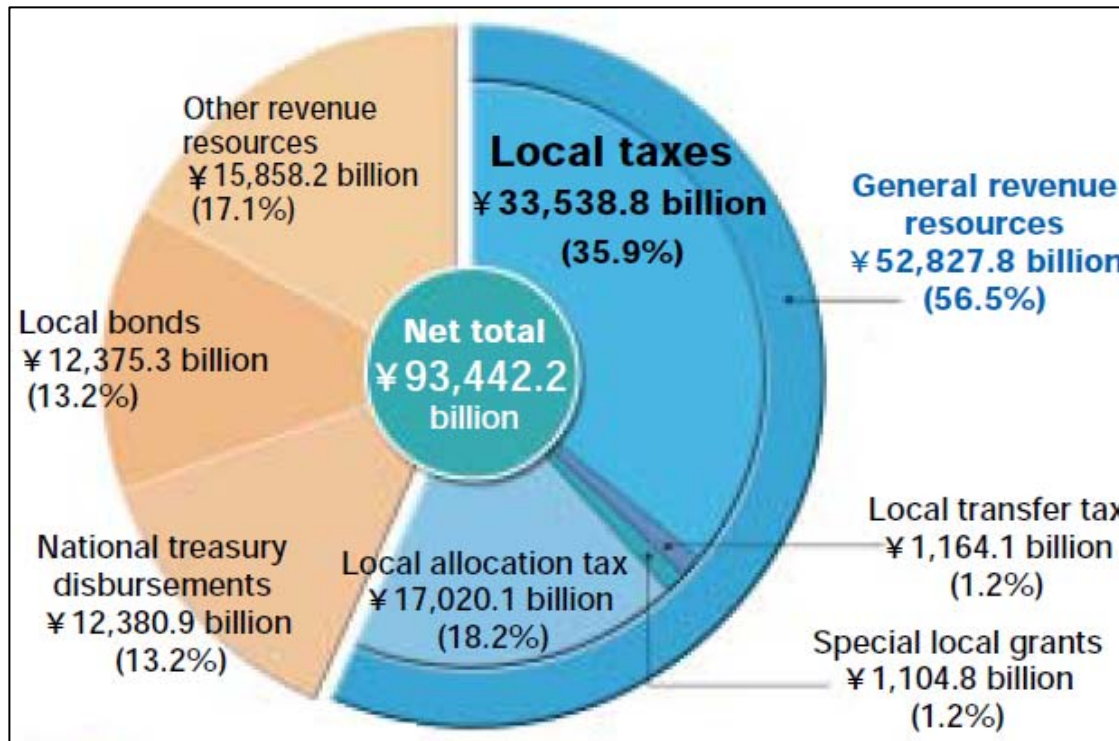
2 ※ are the total of State & Local Governments of each country.

Source: Local Public Finance Bureau, MIC

LGs' Revenues: Strong Tie with the Gov.

Revenue Breakdown (FY 2004 settlement)

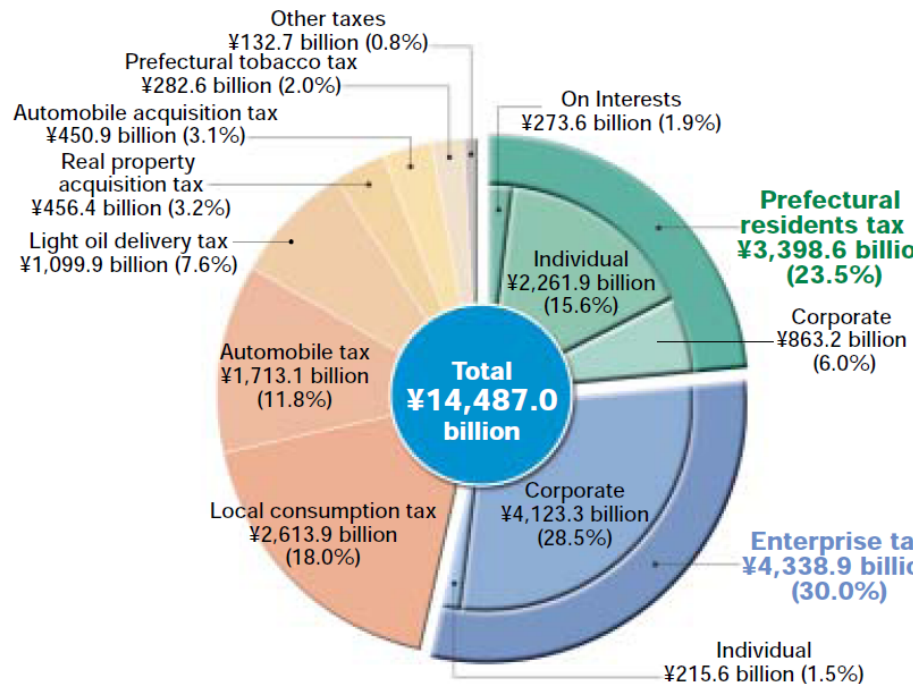
The Central Government supports LGs with unearmarked money of the Local Allocation Tax & Local Transfer Tax, and many earmarked grants. A certain part of redemption of bonds/loans of LGs is calculated as the basic needs of LGs in the LAT system.



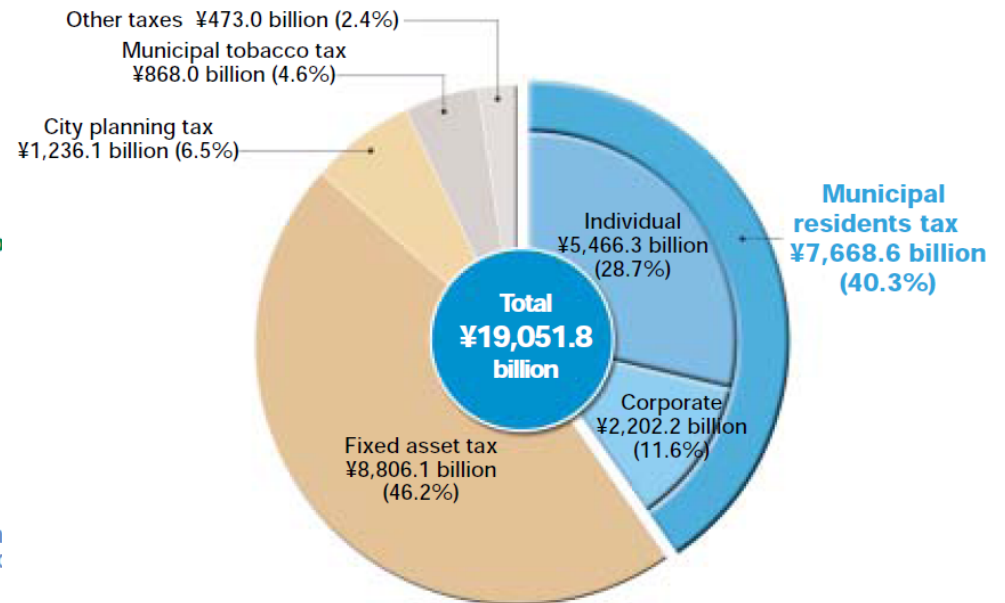
Source: White Paper on Local Public Finance, 2006 - Illustrated -, MIC

LGs' Tax: Robust enough to support Urban Cities

Prefectural Taxes (FY 2004 settlement)



Municipal Taxes (FY 2004 settlement)



Source: White Paper on Local Public Finance, 2006 - Illustrated -, MIC

LGs are allowed to levy the Local Tax within the limit of the Local Tax Law. Almost 40% of the total national taxes are levied by LGs, as the Resident Tax (income tax), Corporate Taxes, Fixed Asset Tax (Property Tax), Local Consumption Tax etc, which enable LGs in urban area to maintain high levels of public services with no or less support of LAT. Tokyo Metropolitan Government has never received LATs because of its enough tax revenues.



LAT system:

Securing Reasonable Management for All LGs

Local Allocation Tax System

Purpose

- ✓ To adjust imbalances in the tax revenue sources
- ✓ To ensure LGs' revenues to enable LGs to provide a standard level of public services for residents all over Japan.

Total Amount

- ✓ Basics: legally linked directly to the amount of five national taxes (32% of income tax and liquor tax, 34% of corporate tax, 29.5% of consumption tax, 25% of tobacco tax)
- ✓ Adjusted annually in the Government Budget process with the estimated total revenues and expenditures on the Local Government Finance Program (LGFP).
- ✓ The total amount of LAT in FY 2007 is approximately 15 trillion yen.



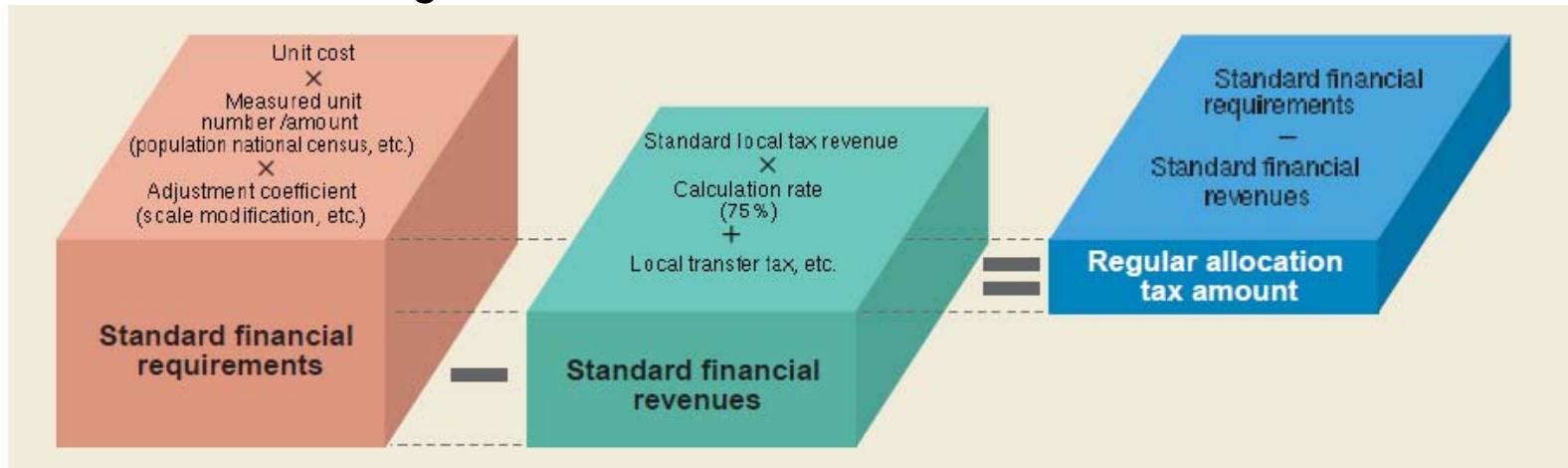
LAT distribution:

Calculating Basic Financial Needs & Revenues

Local Allocation Tax System

Calculation Formula

- ✓ 94% of the LAT is distributed to each LGs as the following mechanism:
[Basic Financial Needs](BFN) – [Discounted Standard Revenues] (DSR)
- ✓ BFN is calculated to ensure the basic financial needs including some redemptions as diagram below indicates;
- ✓ DSR accounts for 75% of estimated standard tax revenues to give incentive to collect taxes as diagram below indicates;



Source: White Paper on Local Public Finance, 2006 - Illustrated -, MIC



LGs' Bonds/Loans: Present & Past

Local Bond/Loan System before FY2006 & After

Objectives: Local Finance Law

- ✓ Basically similar to Musgrave's Golden Rule, objectives of Bonds/Loans are limited to following items;
 - Construction works, Land Acquisition, Public enterprises, Investment & loans, Post-Disaster Recovery
- ✓ Special National Law needs to be enacted to issue debt financing bonds/loans.

Authorization by the Assembly

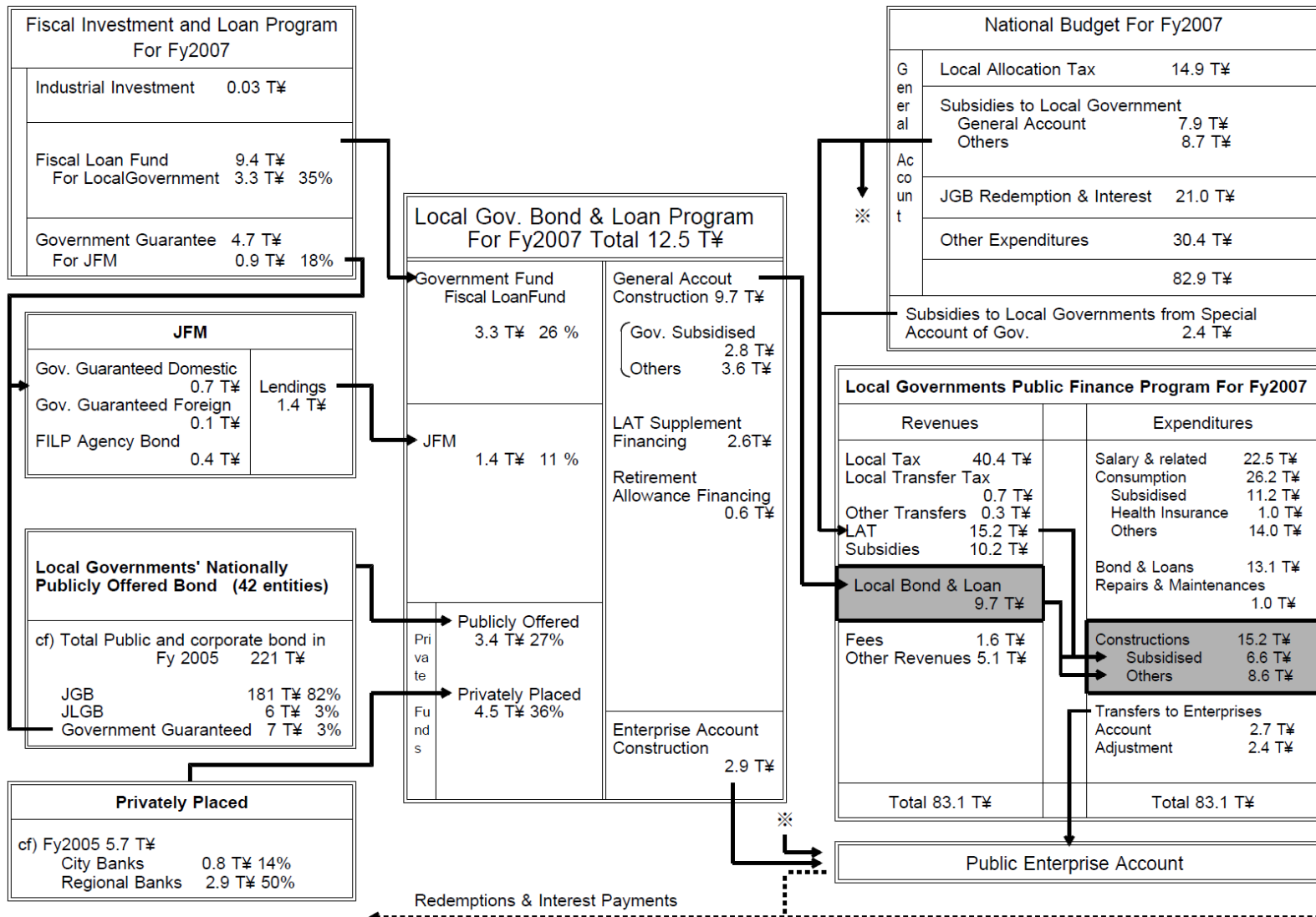
- ✓ Issuance of Bonds/Loans must be approved by the Assemblies with the budget of applicable fiscal year.
- ✓ Approval includes objectives, limits of amount, term and interest rates.

Control of the Gov.: Approval system to "Inform and Consult" system

- ✓ Before FY2006, LGs must have approval of MIC or the respective delegated governors to issue Bonds/Loans.
- ✓ In FY2006, New "Inform and Consult" system started.

Fund Sources; Government used to be dominant

Flow of Funds of Local Gov. Bonds/Loans



Source: Local Public Finance Bureau, MIC

Japanese LG Bonds: Challenging 3 Major issues

Deregulation with Decentralization

- ✓ Authorization system was abolished from FY2006
- ✓ New system has been introduced to keep the security of LGB

Funds: Government Fund to Private Sector

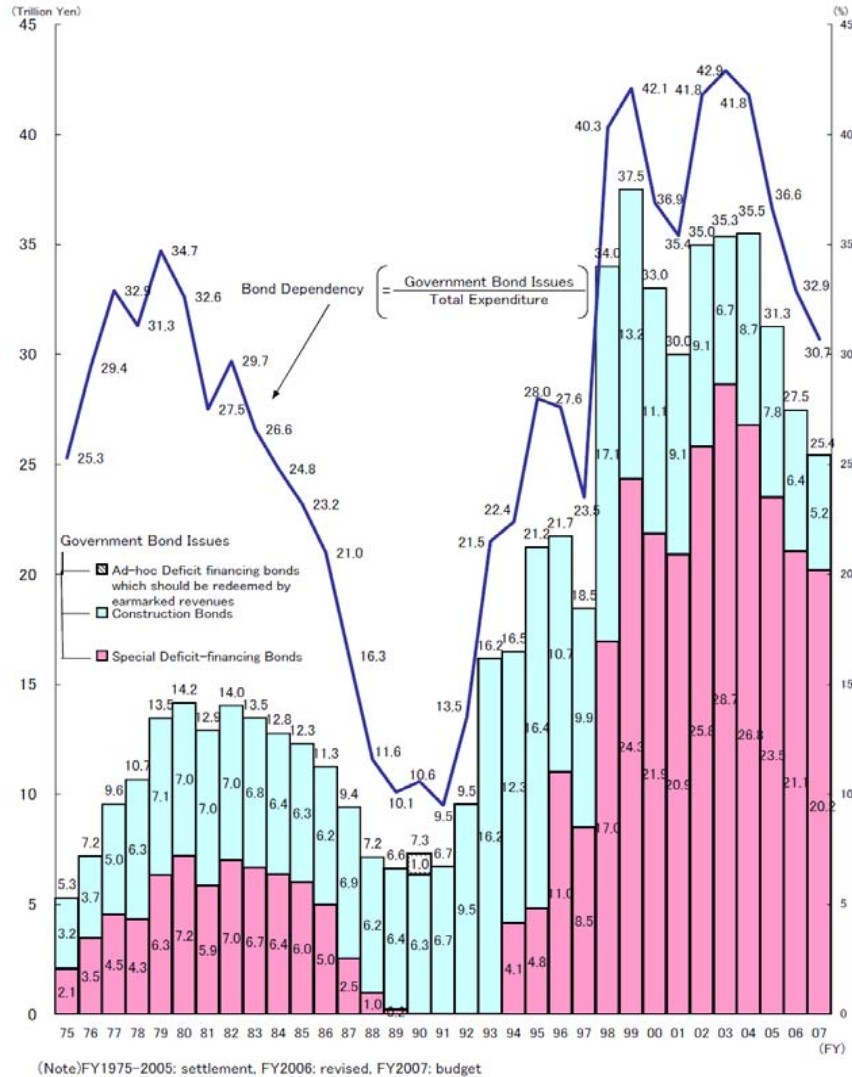
- ✓ FILP Reform continues since FY2001, and is scheduled to reduce businesses gradually
- ✓ Postal Privatization will start on October 1, 2007
- ✓ JFM will succeed its business to New-JFM on October 1, 2008
- ✓ Book-Entry Transfer System started on January 5, 2006
- ✓ Tax exemption measures for non-residents will start on January 1, 2008

Quantity: Gradually Decreasing but still at High Level

- ✓ Financial situation of LGs is improving as economy recovers.
- ✓ But expected to rely on bonds/loans to fill financial gap for a while

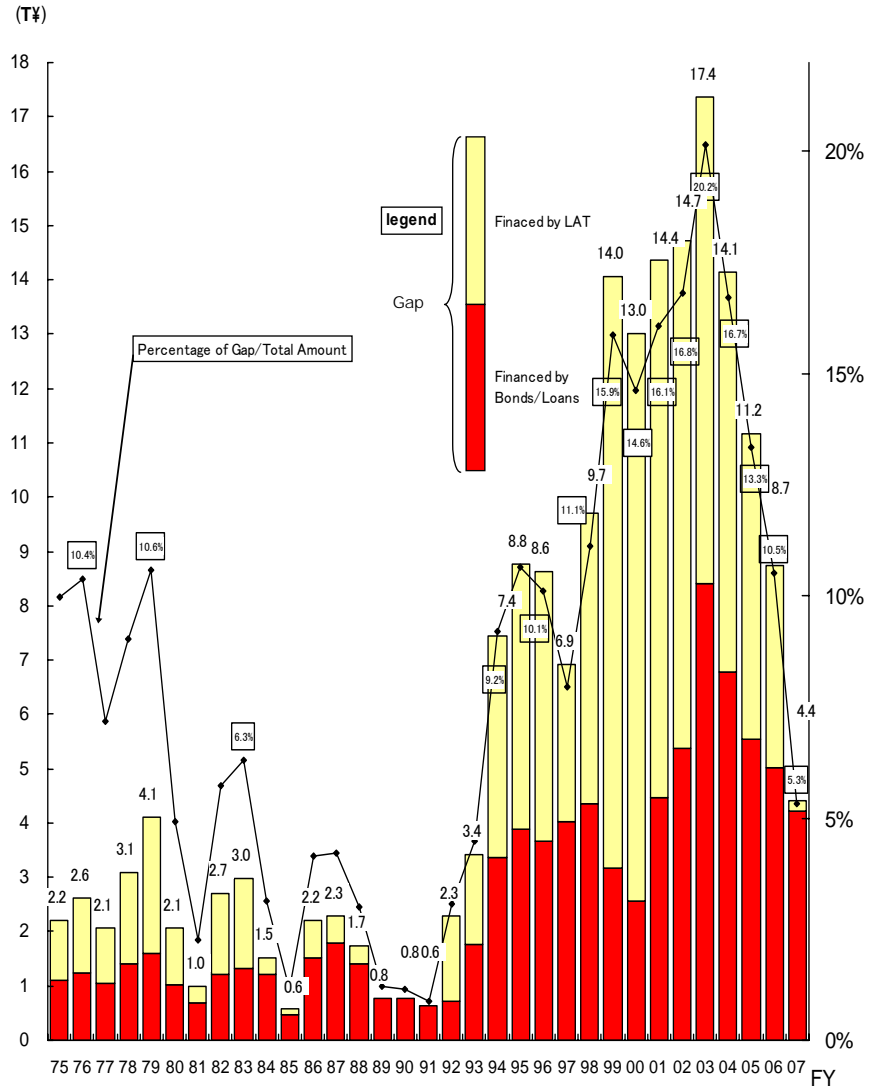
Financial Situation: Bottomed out and Improving

Trends of Government Bond Issues



Source: Highlights of the Budget for FY2007, MOF, December 2006

Trends of Fiscal Gap of LGs

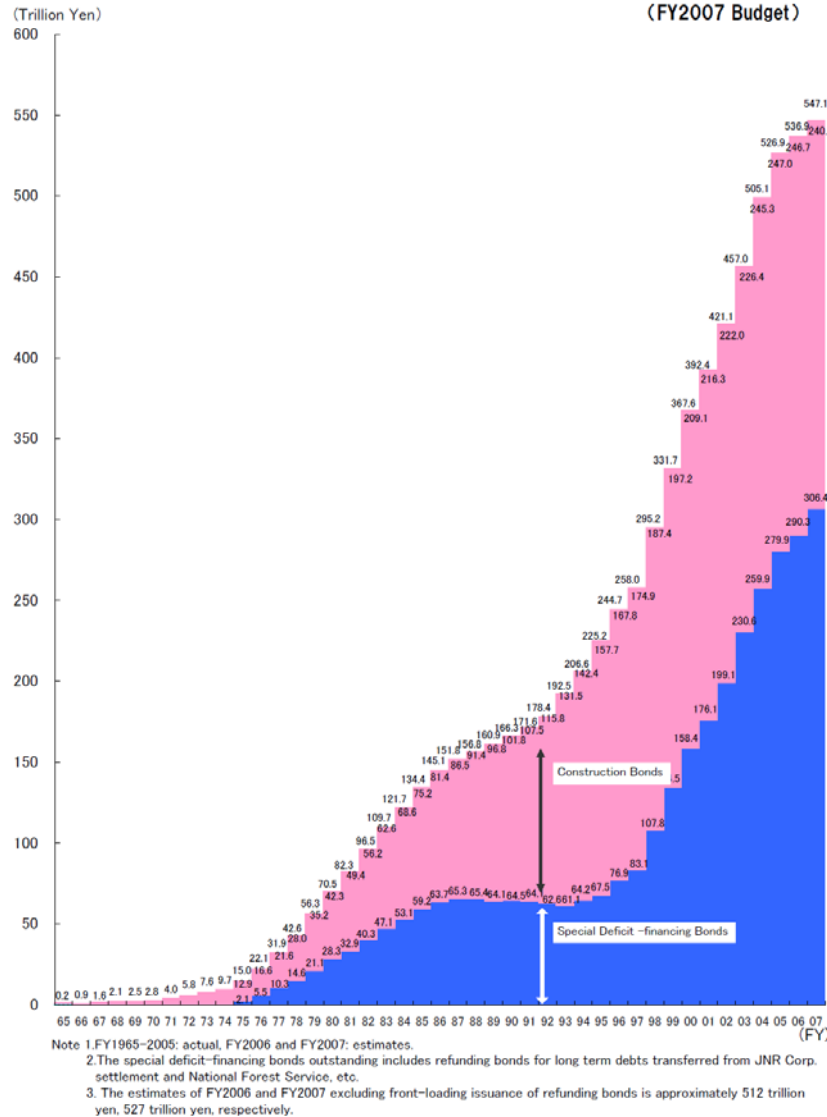


Source: Local Public Finance Bureau, MIC



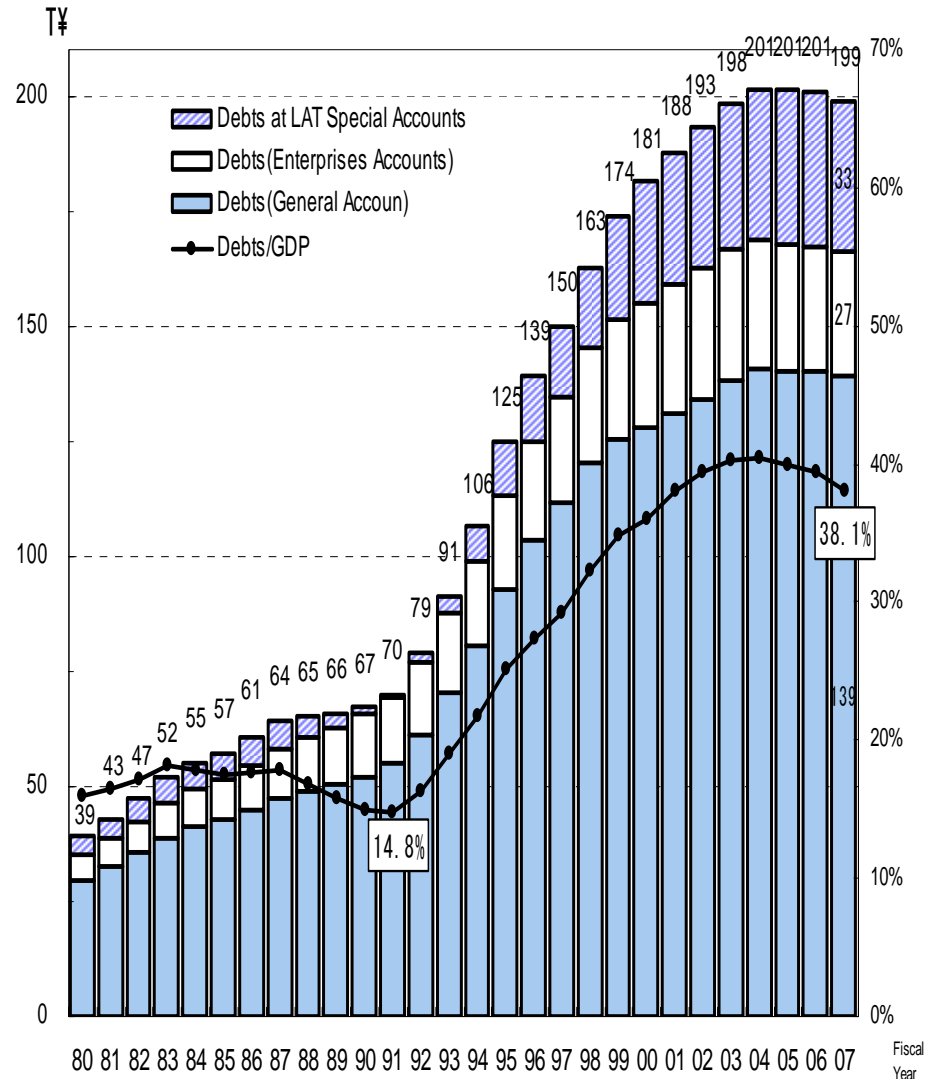
Financial Situation: Debts Outstanding Peaked out but Still at High Level

Trends of Accumulated Government Bonds Outstanding



Source: Highlights of the Budget for FY2007, MOF, December 2006

Trends of LGs' Debts Outstanding



Source: Local Public Finance Bureau, MIC



"Basic Policies 2006": Roadmap and Targets for Fiscal Consolidation

Phase I (FY2001 – FY2006)

LGs' fiscal gap: ¥14 Trillion (FY2001) ➔ ¥ 4 Trillion (FY 2007)

JGB issued: ¥30 Trillion (FY2001) ➔ ¥25 Trillion (FY 2007)

Phase II (FY2007 – early 2010s)

✓ Achieve surplus in the primary balance as the first step toward fiscal consolidation.

- ▶ Continue fiscal consolidation as in the first period and ensure a surplus in the primary balance of the central and local governments combined by FY2011.

Phase III (early 2010s – mid-2010s)

✓ Decrease the debt-GDP ratio at a steady pace.

- ▶ Ensure surplus in the primary balance of the central and local governments.
- ▶ Aim at a steady reduction of the central government's debt-GDP ratio.

Fiscal Consolidation Strategy

Aspects of the FY2007 Government Budget

New Government bonds [25,4 trillion yen (▲4.5 trillion yen)]

Realize the largest reduction of new bond issuances

- Three straight years of reduction of the amount of new bond issuances

FY2003		FY2004		FY2005		FY2006		FY2007
36.4	⇒	36.6	⇒	34.4	⇒	29.97	⇒	25.4
	+0.1		▲2.2		▲4.4		▲4.5	

Primary Balance [▲4.4 trillion yen in the general account]

Exceed the pace of improvement of the previous fiscal year

- Four straight years of improvement since FY2004 Budget

FY2003		FY2004		FY2005		FY2006		FY2007
▲19.6	⇒	▲19.0	⇒	▲15.9	⇒	▲11.2	⇒	▲4.4
	+0.6		+3.1		+4.7		+6.8	



Intensive Structural Reform Plan of LGs

MIC & Intensive Structural Reform Plans of LGs

- ✓ Upon the Cabinet Decision of "Policy for Administrative Reform to be advanced", MIC has officially advised and requested LGs to make a 5-years plan , "Intensive Structural Reform Plan", following the Cabinet Decision on Mach 29, 2005.

Status of LGs' Policy

Decided and announced the Plan: (as of July 31, 2006)	45 of 47	Prefectures
	15 of 15	Designated Cities
	1542 of 1828	Municipalities

Contents of the Plan announced (aggregated)

- ✓ Scheduled to reduce 6% of total public personnel
 - Public employees of baby boomers are expected to retire in a few years.
- ✓ Almost all LGs plan to review salary system
 - Law states LGs salary system shall be balanced with Gov. and private sector.
- ✓ Almost all LGs plan to delegate some businesses to private sector

Municipal Mergers

1) Numbers of Municipalities and Promotion of Municipal Mergers

Municipal Merger Promotion in Meiji Era

71,314 as of 1889 → 15,859 as of 1890 (→ 10,520 as of 1945)

Municipal Merger Promotion in Showa Era

9,868 as of 1953 → 3,472 as of 1961

Municipal Merger Promotion in Heisei Era

3,229 as of 1999 → 1,801 as of October 1, 2007

2) Purpose of the present municipal merger promotion

- 1 Promotion of Decentralization
- 2 Policy for aging
- 3 Policy for diversifying needs of citizens
- 4 Policy for expansion of residential area
- 5 Streamlining of municipal administration

New Issues: Peaked out but still at High Level

Trends of LGs Bond & Loan Program



Source: Local Public Finance Bureau, MIC

New Issues: Including still high level of Gap financing

LGs Bond & Loan Program for FY 2007

		Billions of Yen					
Purpose of Bond or Loan		FY 2007	FY 2006	Change	Change	Change	Change
		(A)	(B)	(A)-(B)	(C)	(C)/(B)×100	
I	General Account Construction	6,318	7,070	-	752	-	11%
II	Enterprise Account Construction	2,772	3,058	-	285	-	9%
III	Refunding of JFM Loans	200	200		0		0%
IV	Tax Measures Financing	-	452	-	452	-	100%
V	LAT Supplement Financing	2,630	2,907	-	277	-	10%
VI	Retirement Allowance	590	260		330		127%
Total		12,511	13,947	-	1,436	-	10%

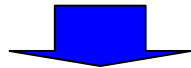
Sources

Government Related Lendings		4,630	5,256	-	626		12%
Government		3,280	3,850	-	570	-	15%
Fiscal Loan Fund		3,280	3,370	-	90	-	3%
Japan Post		-	480	-	480	-	100%
Postal Savings			170				
Postal	Life Insurance		310				
JFM		1,350	1,406	-	56	-	4%
Private Sector		7,881	8,691	-	810	-	9%
Publicly Offered		3,400	3,500	-	100	-	3%
Privately Placed		4,481	5,191	-	710	-	14%

Decentralization Reform & Local Bond/Loan System

First Step 1993-2001

1993 The Diet resolution of decentralization
1995 Decentralization Promotion Law enacted
Decentralization Promotion Committee (DPC) was established.
1997 DPC's 4 recommendations submitted to the Prime Minister.
1998 The Cabinet decided the Decentralization Promotion Plan
1999 The Decentralization Package Law was promulgated.



Many reforms were conducted aiming to change the relationship between the central and local governments to a new more equal and cooperative one.

As a part of the first step of decentralization reform, Gov. control of LGs' Bond/Loan was reformed. It took effect on April 1, 2006.

Second Step 2001-2006

Tax and financial system between the central and local governments are considered and "Three-Part Reform Package" has been decided to promote decentralization.

- ¥4 tr. earmarked grants abolished.
- ¥3 tr. Income Tax has decided to be transferred to LGs as Local Taxes
- LAT system has been reviewed and reformed

Also new legal scheme to assure sustainable finance of LGs is submitted to the Diet.

Third Step 2007-2009

2006 Decentralization Reform Promotion Law enacted
2007 Decentralization Reform Promotion Committee (DRPC) started on April 1.
2008 DRPC will submit the recommendation.



Decentralization Reform:

Reform of Gov. control of Bond/Loan

Second Recommendation of DPC (July 29, 1998)

- The approval system of LGs' bond/loan shall be abolished to increase LGs' discretion of autonomy.
- Instead of the approval system, LGs shall inform and consult their bond/loan issuance for the purpose to ensure LGs' fund raising through bond/loan, to keep securing reasonable management for all LGs and to keep consolidation of LGs' finance.

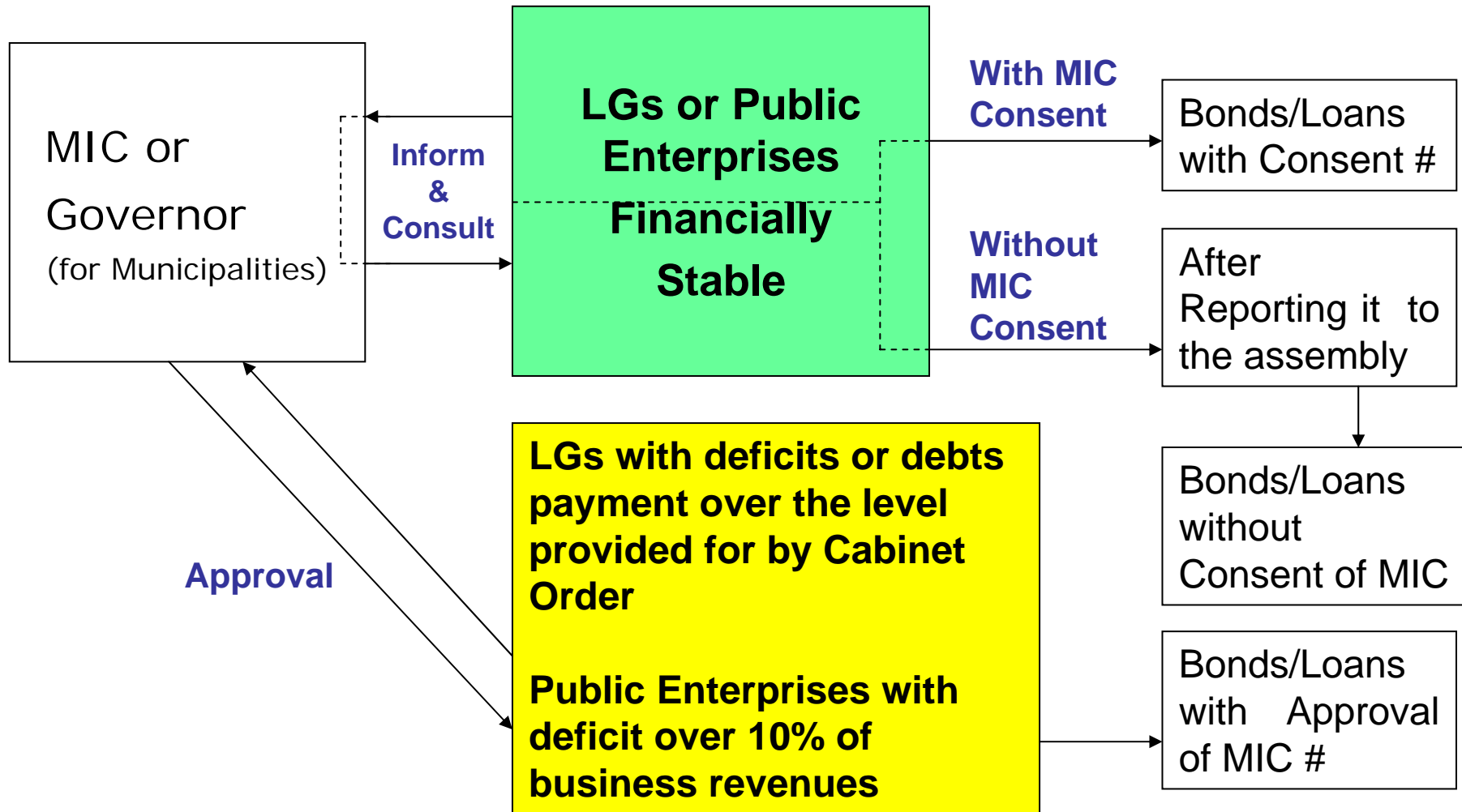
Decentralization Promotion Plan (Cabinet Decision on May 29, 1998)

- For the purpose of
 - ▶ ensuring the standard services to residents in all region
 - ▶ keeping the security of all LGs bonds /loans and **maintaining BIS Risk weight of LGs' yen denominated Bonds at 0%**
- LGs must have approval to issue bonds/loans from MIC or in the case of municipalities from their respective delegated governors in one of the following situations;
 - ▶ Delay in interest or redemption payment,
 - ▶ Deficit over the level provided for by the Cabinet Order,
 - ▶ Interest and redemption payment over the level provided for by the Cabinet Order.



Respecting LGs' Autonomy:

New "Inform and Consult" system



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



Early Warning System in the “Inform & Consult” System

LG's Debt Payments in General Accounts

- LGs with debt payments over 18% of the Standard General Revenues, which is provided for in the Cabinet Order, must have approval from MIC or the respective governors.
 - ▶ The level is set out strict enough to keep the LGs' yen denominated bonds BIS Risk Weight at 0%. Due to such strictness, even among 47 Prefectures and 14 Designated Cities, 12 entities were under the early warning of the criteria in FY2006.
 - ▶ Regarding Municipalities, 404 of more than 1800 municipalities were under the early warning in FY2006.
 - ▶ They need to set and submit MIC the debts management plan to get approval from MIC.

LG's Deficit in General Accounts

- LGs with deficit over the level provided for by the Cabinet Order with proportion of the amount of the Standard General Revenues, must have approval from MIC or the respective governors.
 - ▶ The Cabinet Order provides the level ranging gradually from 2.5% in the case of Prefectures and the Designated Cities to 10% in the case of small municipalities.
 - ▶ 11 Municipalities were under the early warning in FY2006.



Early Warning System in the “Inform & Consult” System

LG's Debt Payments in General Accounts

- The new ratio indicating the level of debts payment burden of LGs, the Real Debt Payment Ratio (RDP-ratio), has been introduced after revising the index used for measuring the ratio of debt service expenses.
 - ▶ The ratio is calculated as the percentage of the Real Debt Payments to the Standard General Revenue. Real Debt Payments include debt payments and equivalent payments. Standard General Revenue mainly consists of Local Taxes calculated based on the standard rate, Local Transfer Tax and Local Allocation Tax.
- LGs with RDP-rate of 18% or higher must compile a debt management plan to obtain the approval of MIC to issue bonds/loans.
- For LGs with RDP-rate of 25% or higher, local bonds/loans for a certain type of projects may be limited or not approved.

LGs of Limited Issuance with Approval

Bonds/Loans may be limited or not approved for certain types of projects.

◀ 25%

LGs of Issuance with Approval

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

◀ 18%

LGs of “Inform & Consult” Status

Bonds/Loans are expected to obtain consent on the general rules announced in advance. Even if their bonds/loans are not consented, they may issue bonds loans if they report it to the Assembly.

RDP-Ratio



Changing the flow of funds: Basic Policies 2005

Gov. Policies of Government funds to Private Sector

FILP Reform in FY2001 & Its Comprehensive Review thereafter

- ✓ The Compulsory deposit of Postal Savings and Pension Reserves was abolished.
 - ▶ Fiscal Loan Funds (FLF) started to provide loans to LGs with the funds raised by FILP Bonds (JGB).
 - ▶ Postal Savings & Postal Life Insurance started providing loans to LGs as Gov. Funds.
- ✓ FILP has decreased funding since FY2005 based on the comprehensive review of FILP.

Privatization of the Japan Post will Start on October 1, 2007

- ✓ Postal Savings Bank/Postal Insurance Company will be given a Bank/Insurance business license and start bank/insurance business as a private bank/insurance company.
 - ▶ Postal Funds as Gov. Fund ended providing loans to LGs after FY2006.

Policy-Based Finance Reform will be executed on October 1, 2008

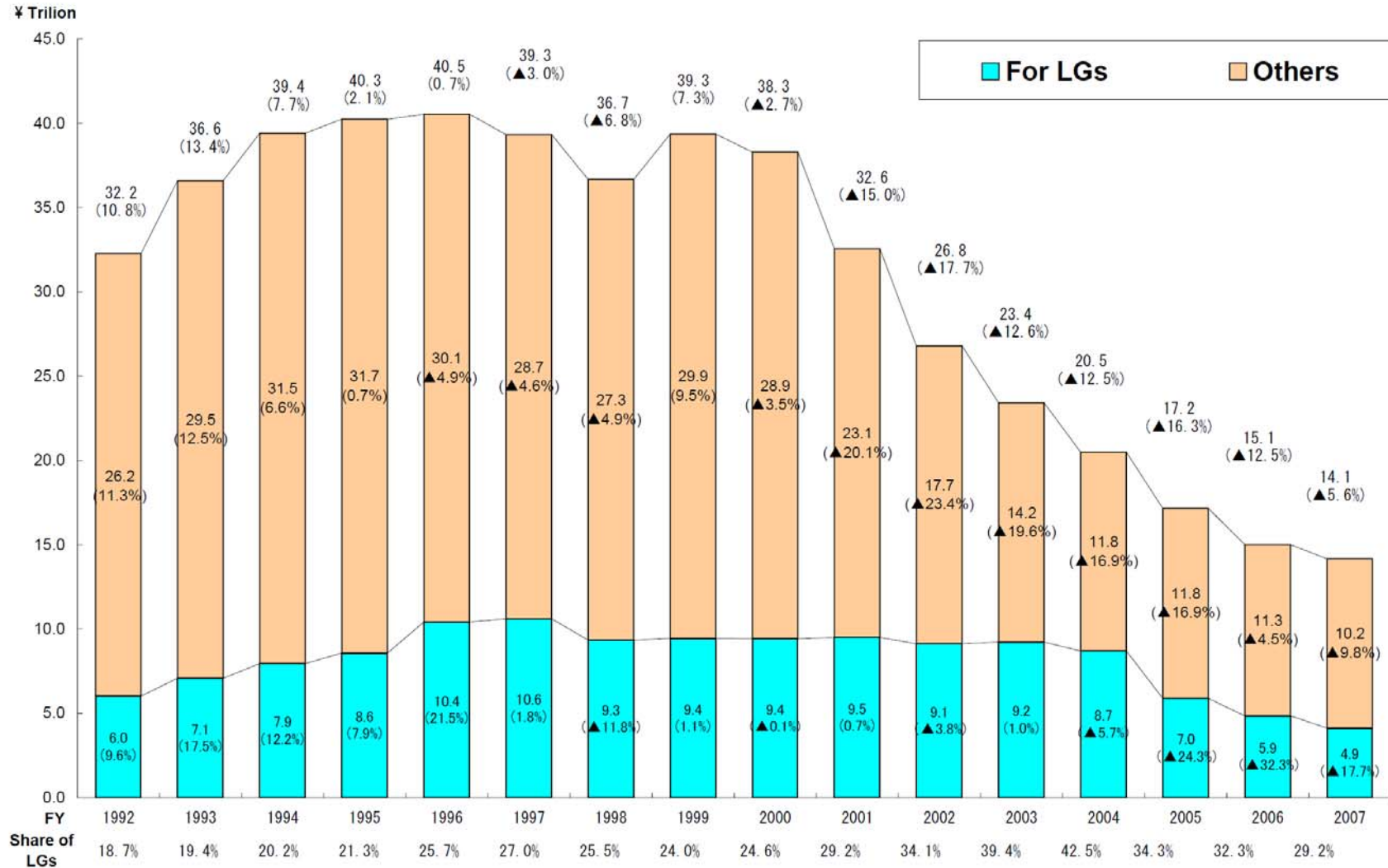
- ✓ The Policy-based finance will be drastically reformed and shifted over to a new system from FY2008 by halving the ratio of the lending outstanding policy-based finance to GDP.
 - ▶ The Development Bank of Japan (DBJ) and the Shoko Chukin Bank will be fully privatized after a minimum level of transaction measures has been completed.
 - ▶ JFM will be abolished and succeed its business to New-JFM on October 1, 2008.
 - ▶ The other policy-based institutions will be integrated into one institution.

Reform of Gov. Assets and Debts

- ✓ The Gov. will streamline the assets keeping in mind the long term goal such as roughly halving the ratio of the amount of government assets to nominal GDP in the next decade.
 - ▶ FILP shall gradually decrease its lending to LGs viewing the development of policy-based finance reform of JFM.

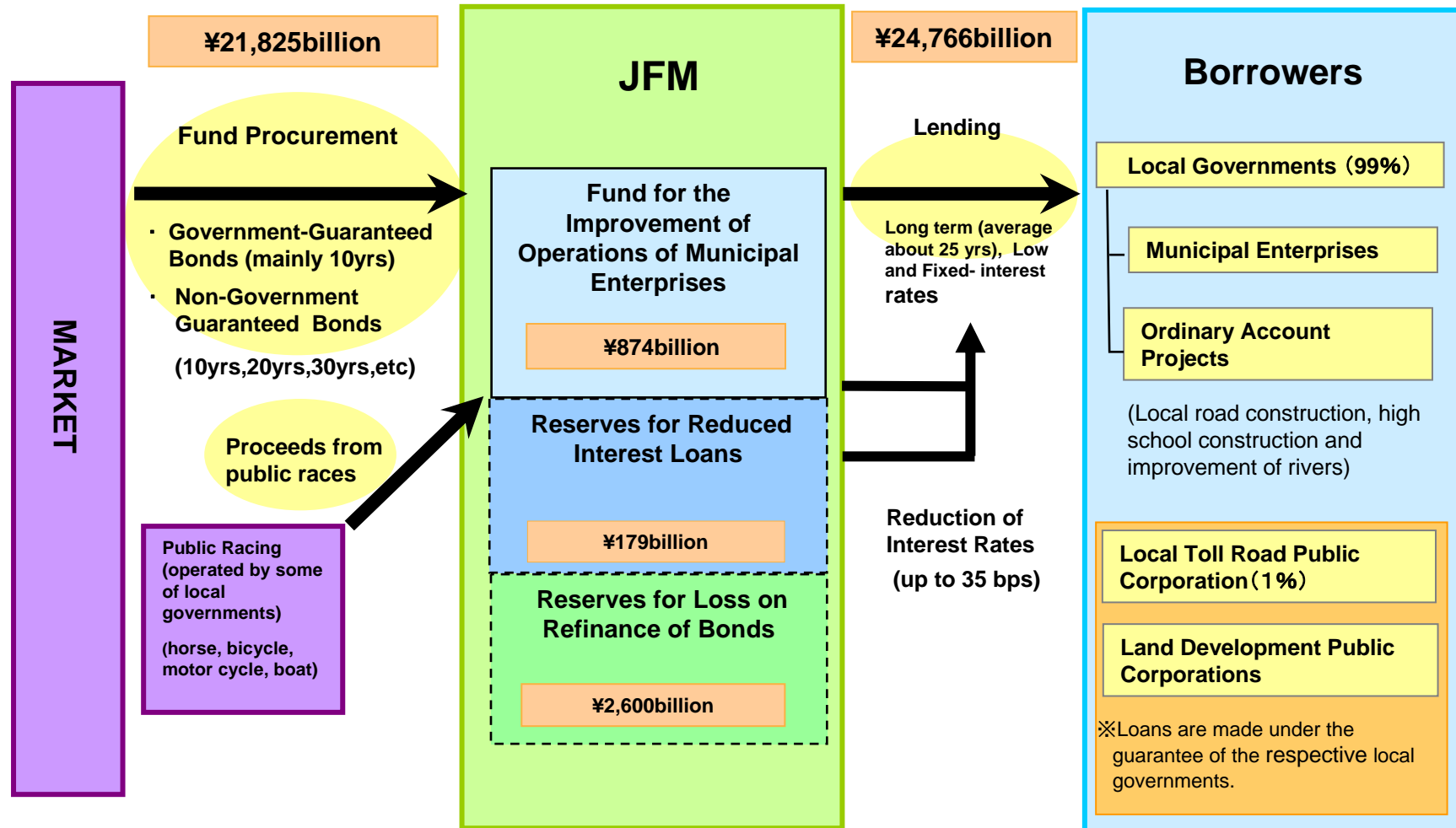
FILP Reform & Reform of Gov. Assets and Debts

Trends of FILP, Total and Lending to LGs



Source: Local Public Finance Bureau, MIC

Overview of the business of the current JFM



Administrative Reform Promotion Law (ARP Law) (May 26, 2006)

- ✓ The Law states that JFM in its current form will be abolished in fiscal year 2008, and the current structure whereby JFM raises funds for local governments will be transformed into a new structure.
- ✓ The interests of the beneficiaries of lending or other operations of governmental financial institutions or the interests of the holders of outstanding bonds issued by such financial institutions will not be unjustly violated.

Plan for a System for the Reform of Policy-Based Finance (June 27, 2006)

- ✓ Taking into consideration the importance of decentralization, the new structure will be based on transforming the structure, which is currently managed by the central government, into a structure which will be managed by local governments.
- ✓ Local governments will jointly establish a new institution for fund raising.
- ✓ The institution will, when required, raise funds through the issuance of bonds and provide loans to individual local governments. In such case, the central government will not contribute new capital investments and guarantees or personnel, financial or other resources to the institution.
- ✓ The existing assets and liabilities of JFM will be transferred to and managed by the institution, upon conducting due diligence.

The new JFM Bill submitted to the Diet on Feb. 23, 2007

- ✓ The contents of the Bill were made based on the initiative of LGs, as well as following the ARP Law and the Plan.
 - ▶ All the assets of JFM shall be succeeded by New-JFM on October 1, 2008.

Fund Sources: Government funds to Private Sector

Local Gov. Bonds - FILP Reform & Postal Privatization

Trillions of Yen

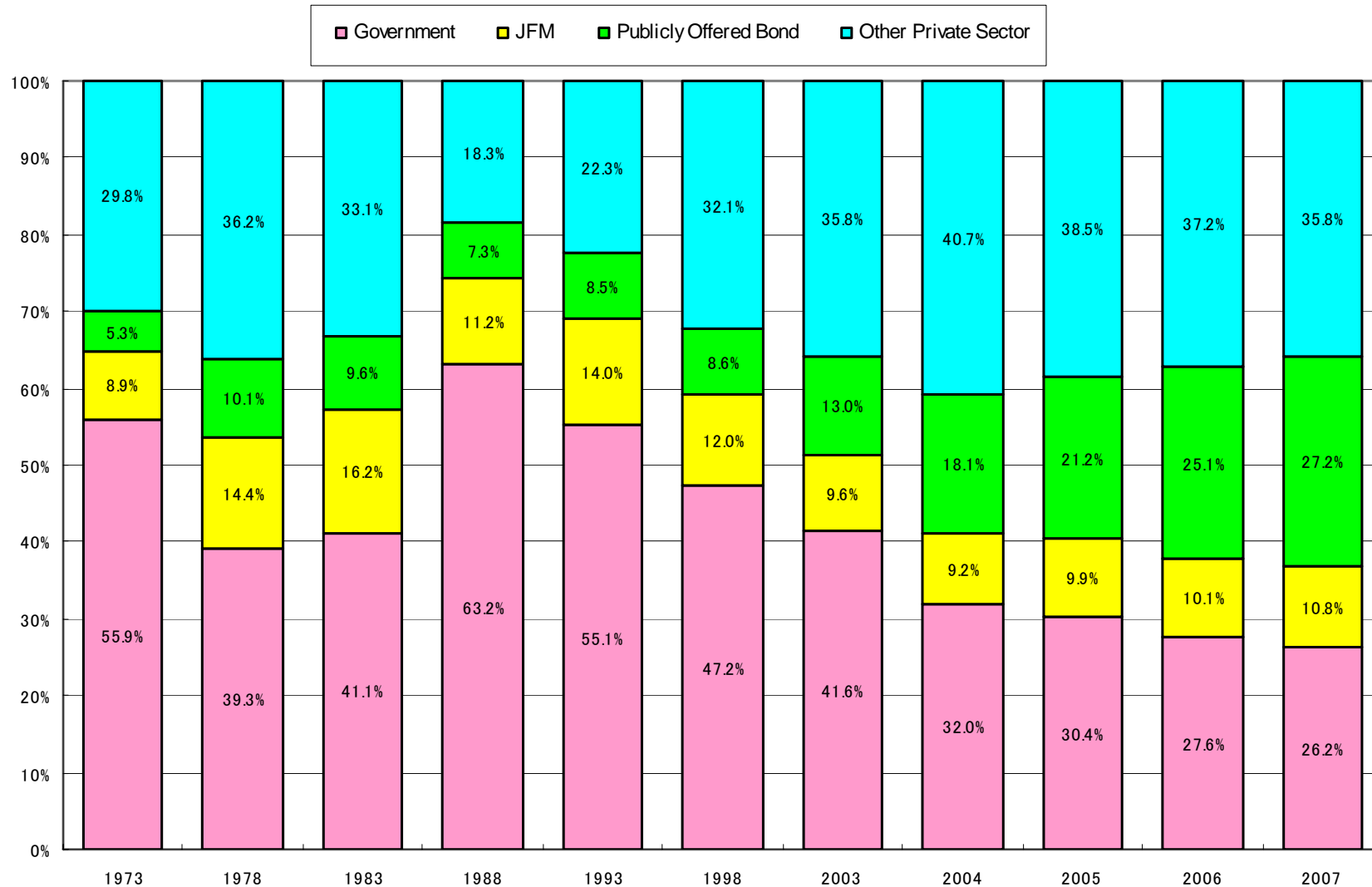
Fund Type	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	Fund Type
Government Funds	4.2	7.3	7.7	7.8	7.6	7.7	5.6	4.7	3.9	3.3	Government Funds
Trust Fund Bureau Fund	3.2	5.6	5.9	5.2	5.0	5.1	3.7	3.5	3.4	3.3	Fiscal Loan Fund
Pension Reserves	0.5	1.4	1.3	—	—	—	—	—	—	—	—
Postal Savings	2.6	4.2	4.6	1.0	1.0	1.0	0.7	0.4	0.2	—	Postal Saving Fund
Postal Life Insurance Fund	1.0	1.7	1.8	1.6	1.6	1.6	1.2	0.8	0.3	—	Postal Life Insurance Fund
-	—	—	—	2.6	2.6	2.6	1.9	1.2	0.5	—	Postal Total
JFM	1.0	1.9	2.0	2.0	1.9	1.8	1.6	1.5	1.4	1.4	JFM
Private Funds	2.5	6.9	6.6	6.7	7.0	9.0	10.3	9.3	8.7	7.9	Private Funds
Publicly Offered Bonds	0.7	1.4	1.6	1.7	1.9	2.4	3.2	3.3	3.5	3.4	Publicly Offered Bonds
Total	8.8	16.0	16.3	16.5	16.5	18.5	17.5	15.5	13.9	12.5	Total

Source: Local Public Finance Bureau, MIC



Fund Sources: Government to Private Sector

Composition of Funds of Local Gov. Bond & Loan Program



Source: Local Public Finance Bureau, MIC



Publicly Offered Bonds:

3 types of JLGBs are Publicly Offered

Individually Issued Publicly Offered JLGB

- ✓ 40 entities will issue publicly offered bond independently in FY2007.
 - ▶ 24 prefectures including Tokyo Metropolis & 16 Designated Cities
- ✓ Terms & Conditions are decided mainly by negotiation with syndicated underwriters as well as bidding.
 - ▶ Maturities are 5, 7, 10, 15, 20 or 30 years, the majority of which is in 10-year tenor.

Joint-JLGB

- ✓ 28 entities will jointly issue Joint-JLGB as cosigners of all the debts payment of the Joint-JLGB for FY2007.
 - ▶ 17 prefectures & 11 Designated Cities
 - ▶ Local Finance Law provides for that issuers shall cosign each other for joint bonds.
- ✓ 10-year bonds of ¥100 billion size are scheduled to be issued monthly.
 - ▶ Terms & Conditions are decided by negotiation with the syndicated underwriters.

JLGB for Residents

- ✓ Bonds mainly targeting issuer's residents
 - ▶ Terms and conditions vary between issues, 5-year bonds being the most popular.
- ✓ Not only Prefectures and Designated Cities but also dozens of municipalities are scheduled to issue in FY2007.



Fund Sources: to Private Sector especially Market Based

Publicly Offered Bond Issuance in FY 2007 (Scheduled)

	FY1997		FY2002		FY2007 (scheduled)	
	No. of Entities	Total Amount	No. of Entities	Amount Issuance	No. of Entities	Amount Issuance
10y	28	1,851	28	1,794	33	2,681
5y			15	430	23	1,145
7y					1	40
15y					1	10
20y					14	290
30y					5	70
Joint LGB					28	1,214
Subtotal	28	1,851	28	2,224	42	5,450
Residential LGB			1	1	130	350
Total	28	1,851	29	2,225	171	5,800

[Prefectures] Hokkaido, Miyagi, Fukushima, Ibaraki, Gunma, Saitama, Chiba, Tokyo metropolis, Kanagawa, Niigata, Yamanashi, Nagano, Gifu, Shizuoka, Aichi, Kyoto, Osaka, Hyogo, Shimane, Okayama, Hiroshima, Fukuoka, Kumamoto, Oita, Kagoshima.

[Designated Cities] Sapporo, Sendai, Niigata, Saitama, Chiba, Kawasaki, Yokohama, Shizuoka, Hamamatsu, Nagoya, Kyoto, Osaka, Sakai, Kobe, Hiroshima, Kitakyushu, Fukuoka.

Source: Local Public Finance Bureau, MIC

Issuer at a glance: Publicly Offered JLGBs

Individually Issued Publicly Offered JLGB & Joint-JLGB

billions for ¥, thousand for population

	Scheduled Issue FY2007 ¥	Population	General Expenditure FY2005 ¥	Local Tax FY2005 ¥
Tokyo Metropolis	610	12,571	6,220	5,653
Osaka Pref.	480	8,817	2,633	1,113
Hokkaido Pref.	360	5,627	2,632	551
Kanagawa Pref.	285	8,791	1,711	1,000
Hyogo Pref.	270	5,590	2,635	573
Yokohama City	230	3,580	1,343	668
Osaka City	230	2,629	1,665	629
Aichi Pref.	220	7,254	2,074	1,089
Saitama Pref.	210	7,054	1,504	682
Shizuoka Pref.	210	3,792	1,093	487
Chiba Pref.	195	6,056	1,447	636
Kobe City	160	1,525	1,118	257
Fukuoka Pref.	160	5,049	1,445	510
Hiroshima Pref.	140	2,877	973	321
Nagoya City	130	2,215	960	473
Kyoto Pref.	110	2,648	843	300
Fukuoka City	110	1,401	704	250
Kawasaki City	105	1,327	506	263
Niigata Pref.	100	2,431	1,227	260
Kyoto City	100	1,475	672	242
Sapporo City	96	1,881	803	261

billions for ¥, thousand for population

	Scheduled Issue FY2007 ¥	Population	General Expenditure FY2005 ¥	Local Tax FY2005 ¥
Nagano Pref.	80	2,196	835	236
Kitakyusyu City	80	994	519	158
Chiba City	70	924	355	164
Kumamoto Pref.	60	1,842	719	161
Miyagi Pref.	56	2,360	788	252
Kagoshima Pref.	55	1,753	814	145
Hiroshima City	55	1,154	508	196
Fukushima Pref.	40	2,091	866	223
Sendai City	40	1,025	395	168
Ibaraki Pref.	37	2,975	985	354
Gunma Pref.	20	2,024	733	228
Gifu Pref.	20	2,107	773	223
Oita Pref.	20	1,210	572	114
Shizuoka City	15	714	240	118
Yamanashi Pref.	10	885	453	105
Shimane Pref.	10	742	550	67
Okayama Pref.	10	1,957	772	225
Saitama City	10	1,176	364	195
Niigata City	10	814	281	109
Hamamatsu City	10	804	241	123
Sakai City	10	831	269	120

Source: Local Public Finance Bureau, MIC



Tax Exemption Measures: for Nonresident Holders of LGBs Starts in 2008

FY2007 Tax Reform for Nonresident individuals and foreign corporations

Basics

- ✓ Interest income from bonds held by nonresident individuals or foreign corporations is generally subject to 15% withholding tax, even if JGB or JLGB are held by nonresident individuals or foreign corporations without a permanent establishment in Japan.

Tax Exemption Measures will apply not only to JGB but also to JLGB

- ✓ Interest on book-entry transfer JGBs held by nonresident individuals or foreign corporations is exempt from income tax,
 - if nonresident individual or foreign corporation deposits them in a transfer account with a JGB Book-entry System participant in Japan or a qualified foreign intermediary (QFI).
- ✓ From January 2008, the measures will be applied not only to JGBs but also to JLGBs.

Tips

- ✓ Almost all JLGBs has been issued in the book-entry format since January 2006 when the book-entry transfer system for JLGBs started, and almost all JLGBs issued before January 2006 have also been consented to be reformatted into the book-entry format.
- ✓ If you have already submitted the Application Form for Withholding Tax Exemption of JGBs, you may be considered to have submitted the Application Form of JLGBs.
- ✓ The book-entry system of JLGBs is operated by JASDEC (Japan Securities Depository Center, Inc.), while the one for JGBs is operated by BOJ.