

Chapter 3 Other Public Debt

In addition to the bonds or borrowings explained in chapter 1 and 2 such as Construction Bonds, there are other categories of Public Debt, such as Public Pensions, Local Government Bonds (LGBs), and the debt of Incorporated Administrative Agencies, etc. Although these debt categories are subject to governance frameworks which are different from those used for JGBs and Borrowings by the central government, and none of these debt categories relate to fundraising in connection with fiscal activities of the central government, these are considered to be potentially influential factors on the country's debt management principles. The following section will specifically discuss LGBs and the debt of Incorporated Administrative Agencies, etc.

1 Local Government Bonds (LGBs)

(1) Basic Scheme of LGBs

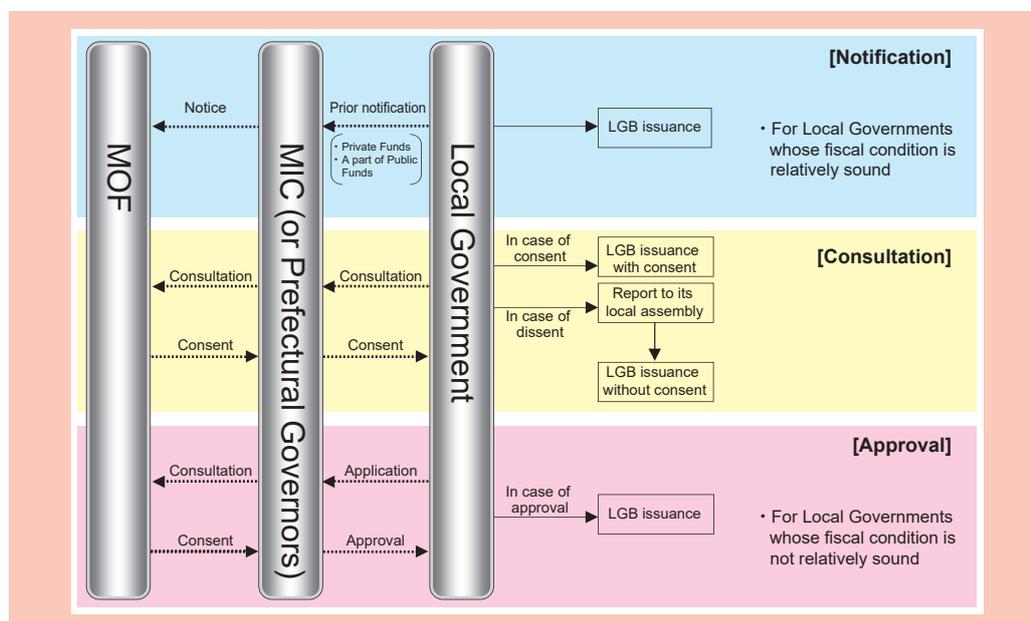
A. Basic scheme

LGBs are issued by local governments to cover part of their expenditures, and to constitute the debt of local governments, and they are separate from the debt of the central government. While, in principle, LGBs can only be issued as resources for construction expenses, etc. as stipulated in Article 5, Local Government Finance Act, there are exceptions such as extraordinary financial countermeasures bonds, etc. (☞)

When a local government intends to issue LGBs, it needs to consult with the Minister for Internal Affairs and Communications or its prefectural governor and obtain his/her consent. If the Minister for Internal Affairs and Communications is planning to grant his/her consent in the consultation process, he/she needs to consult with Minister of Finance in advance. Local governments satisfying certain requirements are able to issue their LGBs financed with private funds, etc. from FY2012 and with a part of public funds from FY2016 by giving prior notice to the Minister for Internal Affairs and Communications or prefectural governor.

☞ Until FY2000, shortages in ordinary revenue appearing in the Local Public Finance Program has been covered by the borrowings of the Special Account for Local Allocation Tax. From FY2001, extraordinary financial countermeasures bonds, a type of LGBs, were introduced as a new bond to cover shortfalls.

Fig.2-35 Consultation System for the LGB Issuance



Ref.: Ministry of Internal Affairs and Communications website (Local Bond Program and Local Public Finance Program)

B. Classification of LGBs

The planned issuance amount of LGBs for the following fiscal year is announced by the central government in the LGB Program at the time of determination of a government budget draft for the following fiscal year. According to the LGB Program, the following tables show the breakdown by funding resources, project types and accounts.

a. Breakdown by funding resource

Fig.2-36 Breakdown by Funding Resources of LGBs

Local Government Bonds	Public Funds	Fiscal Loan Funds
		Japan Finance Organization for Municipalities Funds
	Private Funds	Public Offering Funds
		Private Placement Funds

LGBs can be classified by the funding resources: Public Funds (Fiscal Loan Funds and Japan Finance Organization for Municipalities Funds) and Private Funds. The LGB Program gives the expected issuance amount for each group.

Among public funds, the Fiscal Loan Funds are included in the FILP Plan as the Fiscal Loans for local governments. Japan Finance Organization for Municipalities Funds are based on the funds raised by Japan Finance Organization for Municipalities (☞) through the issuance of bonds.

From the viewpoint of encouraging local governments' self-reliant fiscal operations, local governments should basically employ LGBs to raise private funds, while public funds should rather play complementary roles.

b. Breakdown by project type

As for project types financed with LGBs, General Account Bonds are covering public works, disaster restoration projects, education/welfare facilities development projects, depopulation and remote region projects, and some other projects. On the other hand, Municipal Enterprise Bonds are financing water-supply projects, transportation projects, hospital and elderly care service projects, and sewage projects. The LGB Program sets forth the budgeted LGB amount for each project type.

c. Breakdown by accounts issuing LGBs

LGBs can be classified by the following two accounts: ordinary account (☞) and public enterprise account.

Outlook of annual revenues and expenditures for the following year appearing in the Local Public Finance Program is submitted to the Diet. The issuance amount of LGBs appearing in the Local Public Finance Program does not include public enterprise accounts (including only ordinary accounts).

☞ Japan Finance Organization for Municipalities is founded by investment from all Prefectures and Municipalities, and accommodates local governments with long-term and low-interest rate funds for LGBs.

☞ The ordinary account is an account category used uniformly for local public finance statistics, combining the general account and special accounts excluding municipal enterprise accounts and eliminating moves between relevant accounts.

(2) LGB Program

The FY2018 LGB Program has been designed to allow local governments to secure local bond funds required for steadily promoting the adequate management of public facilities, disaster prevention and reduction measures, and the vitalization of local communities, totaling 11,650.9 billion yen (compared with 11,644.5 billion yen in FY2017).

A. Loans to Local Government by Public Funds

As for the funds for LGBs, public funds totaling 4,590.1 billion yen (compared with 4,679.7 billion yen in FY2017) are planned for promoting the development of infrastructure linked closely to local residents' livelihood, as well as for maintaining the policy for allocating public funds on a priority-oriented basis with consideration given to local government's respective fundraising abilities and spending purposes (☞).

Loans from the Fiscal Loans Funds or from the Japan Finance Organization for Municipalities Funds are available in the form of loans on deed.

☞ The breakdown consists of 2,810.2 billion yen in Fiscal Loan Funds (FY2017: 2,868.0 billion yen) and 1,779.9 billion yen in Japan Finance Organization for Municipalities Funds (FY2017: 1,811.7 billion yen).

B. Local Funds Offered by Private Sectors, etc.

a. Public Offering Funds

Public Offering Funds mean the funds that local governments will raise by issuing their security certificates through markets. Since greater responsibility for administrative and fiscal management will be demanded of local governments as decentralization progresses, the percentage of Public Offering Funds within the LGB Program has been in an uptrend in recent years.

Ref: See the website below
<http://www.kyodohakko.jp/>
<http://www.chihousai.or.jp/>
 (Japanese version only)

① Joint-LGBs, etc.

i. Joint-LGBs

In FY2003, local governments started offering Joint-LGBs to reduce costs and to secure stable financing by increasing the lot size of issuance. “Joint-LGBs” are issued every month under the name of local governments, and the bonds are the joint debt of local governments based on Article 5-7 of the Local Government Finance Act.

ii. Citizen Participatory-type Public Offering LGB

Since March 2002, apart from “Nationwide Public Offering LGB,” “Citizen Participatory-type Public Offering LGB” have been issued. This is not only to diversify financing methods of public offerings targeting at individual investors but also to encourage the residents' participation in local government.

② Method of issuing Public Offering LGB

The method of issuance includes “issuance for offering/underwriting by a syndicate composed of financial institutions and securities companies (“Underwriting Syndicate”),” “issuance for offering/ underwriting led by the lead manager,” and “issuance for offering/underwriting by auction.” Issuance terms were discussed and deliberated on from April 2002, and were set out in two tables: one for Tokyo Metropolitan Government Bonds, and the other for other local government bonds. In 2004 and 2006, the method for determining the appropriate terms was revised, and

now each local government issuer decides on the terms of each issue separately and independently.

Fig.2-37 Planned Issuance of Public Offering LGB in FY2018



b. Private Placement Funds

Private Placement Funds are funds based on borrowings from financial institutions and the several mutual aid associations which have business transactions with the local governments.

The bonds financed through the Private Placement Funds are called “Private Placement Bond,” and this is financed either by deed borrowings or by actual issuance of the bonds.