Chapter 3 Local Government Bonds (LGBs), Debt of Incorporated Administrative Agencies, etc.

In addition to the bonds or borrowings explained in chapters 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. Although these debt categories are subject to governance frameworks that 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, they 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

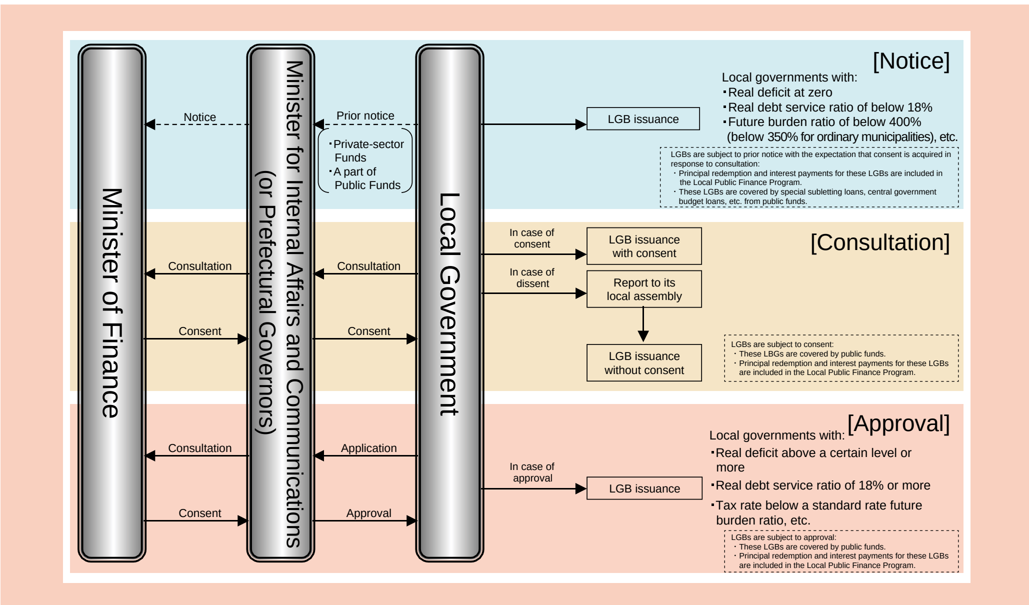
LGBs are issued by local governments to cover part of their expenditures and constitute their debt.

While, in principle, LGBs can only be issued as resources for construction expenses, etc. as stipulated in Article 5 of the "Local Government Finance Act," there are exceptions, such as underpopulated area development measures loans.

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 consent. If the Minister is planning to grant consent in the consultation process, they need to consult with the Minister of Finance in advance.

Local governments that satisfy 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.

Fig. 1-34 Consultation System for the LGB Issuance



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.

Ref: Local Bond Program and Local Public Finance Program at the Ministry of Internal Affairs and Communications website

a. Breakdown by funding resource

Fig. 1-35 Breakdown by Funding Resources of LGBs

Local Government Bonds	Public Funds	Fiscal Loan Funds
		Japan Finance Organization for Municipalities (JFM) 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 (Public Offering Funds and Private Placement Funds). The LGB Program provides the planned issuance amount for each group.

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 play complementary roles.

☞Japan Finance Organization for Municipalities Funds are financed by funds raised by the Japan Finance Organization for Municipalities through bond issuances. The Japan Finance Organization for Municipalities was established through investments from all prefectures and municipalities, and provides local governments with long-term, low-interest financing for their municipal bonds.

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.

An outlook on annual revenues and expenditures for the following year appearing in the Local Public Finance Program is submitted to the Diet. The LGB issuance amount appearing in the Local Public Finance Program covers only ordinary accounts, excluding public enterprise accounts.

☞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 FY2026 LGB Program has been designed to secure local bond funds required for steadily promoting measures implemented urgently by local governments to prevent and reduce disasters, the adequate management of public facilities, local decarbonization, support for children and child-rearing, advancing local government digital transformation (DX) and revitalizing regional communities through digitalization, high school education reform tailored to regional conditions, and the vitalization of local communities, totaling 9,475.4 billion yen (compared with 9,091.8 billion yen in FY2025).

A. Loans to Local Government by Public Funds

As for the funds for LGBs, public funds totaling 4,030.8 billion yen (compared with 3,877.6 billion yen in FY2025) are planned to promote the development of infrastructure linked closely to local residents' livelihoods (☞).

Loans using public funds are made by way of loans on deeds.

☞The breakdown consists of 2,355.8 billion yen in Fiscal Loan Funds (FY2025: 2,269.9 billion yen) and 1,675.0 billion yen in Japan Finance Organization for Municipalities Funds (FY2025: 1,607.7 billion yen).

Ref: See the website below
http://www.kyodohakko.jp/
http://www.chihousai.or.jp/
(Japanese version only)
(Public Offering Funds)

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. Local governments are urged to take greater responsibility for their administrative and fiscal management in line with the promotion of decentralization.

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 LGBs

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

② Method of issuing Public Offering LGBs

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

Fig. 1-36 Planned Issuance of Public Offering LGBs in FY2026

Total about **6.4** trillion yen (about **6.4** trillion yen)

- **Nationwide Public Offering LGB** about **6.3** trillion yen (about **6.4** trillion yen)
  - **10-year** about **3.2** trillion yen (about **3.2** trillion yen)
    - ・**Joint-type** about **1.2** trillion yen (about **1.2** trillion yen)
    - ・**Independent-type** about **2.0** trillion yen (about **2.0** trillion yen)
  - **Medium-term (5-year, etc.)** about **1.1** trillion yen (about **1.0** trillion yen)
  - **Super long-term (20 or 30-year, etc.)** about **0.1** trillion yen (about **0.2** trillion yen)
  - **Flexible issues** about **1.8** trillion yen (about **1.9** trillion yen)
- **Citizen Participatory-Type Public Offering LGB** about **0.03** trillion yen (about **0.02** trillion yen)

Note 1: Figures may not sum up to the total because of rounding.
Note 2: The amount of planned issuance may be changed.
Note 3 : The joint issuance includes the amount planned for issue under joint issuance (Green Bonds).
Note 4: Flexible issues include LGB issues for which maturities are yet to be fixed.
Note 5: ( ) refers to the planned issuance of public offering LGB in FY2025.
(Source) Ministry of Internal Affairs and Communications

terms of each issue separately and independently.

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 Bonds,” and this is financed either by deed borrowings or by actual issuance of the bonds.