

## The Impacts of Integrated Reforms of Expenditures and Revenues on Local Governments<sup>‡</sup>

Kanae MUSHA, Kansai, Institute for Society and Economic Research

Yoshiaki KITaura, Kansai, Institute for Society and Economic Research

### 1. Introduction

The total population of Japan started to decrease in fiscal 2005 for the first time since World War II. At the same time, population aging is accelerating and government expenditure such as for social security expenses are expected to continue increasing. The former Koizumi Cabinet decided to implement a scheme titled “Basic Policies for Economic and Fiscal Management and Structural Reform 2006” (“Honebuto-no Hoshin”—literally, Basic Policies”), which described comprehensive expenditure and revenue reforms, and tried to improve the primary balance in July 2006. The Abe Cabinet took over this scheme, and decided to carry on expenditure reduction reforms such as a 3.5%- cut in public investment in the fiscal 2007 national budget. On the other hand, as the latest trend, tax revenues for fiscal 2005 increased by 4.3% over the previous year due to higher corporation tax revenues generated by the business recovery. Such a revenue increase is weakening the reform movement.

This phenomenon also applies to local governments. Local tax revenue is expected to be up by 4.7% over the previous year. According to primary balance data, the financial condition of local governments is not as strong as it is for central government. The nation’s primary balance shows a deficit of 13.8 trillion yen for fiscal 2005 and 11.2 trillion for 2006, whereas the local government primary balance shows a surplus of 3.2 trillion yen and 4.4 trillion yen, respectively. In other words, local government finance reform is less urgent than central government finance reform. However, there is a big difference in low birth-rate/aging progression and expenditure/revenue among local governments. So, we cannot come to an unconditional conclusion about the necessity for reform and the financial situation. This is partly because of limited data. Macro-economic data for 47 prefectures, 755 cities, and 1,789 towns/villages (as of the end of fiscal 2004), are not complete, although budget,

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forecast, and financial accounts are published annually. That makes it difficult to compare and grasp the financial situations of local governments, and it becomes a stumbling block for a study in depth.

In this paper we simulate how local government expenditure and revenue change for two cases. One is the case with the present system continuing and the other is the case with comprehensive expenditure and revenue reform carried out. We simulate revenue using the exogenous economic-growth rate and tax revenue elasticity rate just like the government's forecasts of expenditure and revenue.

We apply the simulation to expenditure, making use of prefecture, city, town, village-level (municipality) expenditure growth rate estimated in Chapter 2 of this paper. The impact of population diminution and aging are taken into account in these estimates. The subjects of our research are 47 prefectures and 2,544 municipalities (at the end of FY2004), but we mainly target prefectures, considering time limitations.

## 2. Analysis Method and Data

### 2.1. Data preparation for analysis

It is noteworthy that we grasp not only the macro-level financial situation but also the micro-level situation of local governments. The starting point of the analysis is fiscal 2004, for which we can get up-to-date data as of November 2006. We quote accounts data for fiscal 2004 from the "Prefecture-level Account settlement Document" and the "Municipality Account settlement Document." We define the following for both prefectures and municipalities.

total expenditure =

personnel expenditure + social security expenditure + public works expenditure

+ debt service payments (redemption + interest) + others

total revenue =

local taxes + local allocation tax + national treasury disbursements

+ local government bonds revenue + others

We extract personnel expenditure/public works/debt service payments from the classification by character and social security expenditure from classification by purpose.

Public works expenditure is defined as ordinary construction works expenditure from a character-level classification. The first four items are separated from total expenditure. For local taxes, we separate inhabitants' tax and others, taking account of "SANMI-ITTAI KAIKAKU" (literally "Triple Reform of Fiscal Relationships"—Overall reform to reduce national treasury disbursements and revenue resources transferred to local governments, and re-examination of local allocation tax"). The first four items are separated from total revenue.

## 2.2 Analysis Method

Next, we explain the method for analyzing expenditure and revenue (abbreviated to E&R) to fiscal 2030 using data in 2.1. Among the expenditure items, the first three and others are analyzed from the growth rate of prefectural and municipality expenditure. Note that only public works expenses in Niigata Prefecture are estimated from average growth rate expenses from fiscal 2001 to 2004 in order to mitigate the influence of the Chuetsu Earthquake. The principal redemption portion of debt service payments is "the bond outstanding-balance" in the previous year multiplied by the "average rate to maturity" at a prefectural level. The average rate to maturity applies to fiscal 2004 rate and fixed value. The difference between prefecture-level yield and long-term national bond interest in fiscal 2004 is fixed as the "spread." The interest redemption portion is the value forecasted to fiscal 2030 multiplied by bond outstanding-balance for the previous year. Note that long-term national bond interest should be kept at 4% after fiscal 2012, and that the rate to maturity and yield of municipality should be the same as those of the prefecture in which they exist.

Among revenue items, local tax is the tax revenue elasticity rate multiplied by prefecture-level nominal growth rate. Assuming that prefecture-level nominal growth rate is replaced by population growth rate, we calculate the difference between national average of population forecast (refer to "The population forecast of prefectures" published by National Institute of Population and Social Security Research) and population expansion rate of prefectures. Then, we estimate to fiscal 2030, adding that difference to the nominal growth rate. Elasticity is only 1.1 in Tokyo with more tax revenue, and is 1.0 for others from our estimate of population decrease caused by aging. In fiscal 2005 and 2006, only the estimated total amount of local tax is published by the Ministry of Internal Affairs and Communications, and we revised it upward by allocating local tax share in fiscal 2004.

The local allocation tax is defined as the difference between standard financial

requirements and standard financial revenues, judging from the present allocation. With the former included in the latter, we forecast from the growth rate of total expenditure including debt service payments. We forecast standard financial revenues according to the growth of local tax revenue. We make use of the same allocation of the tax macro value as in Chapter 2, ‘amount paid’ (entrance base) to the special account for allocation tax. Moreover, we categorize the difference between ‘paid amount’ and ‘received amount’ (exit base) into the special account for local allocation tax.

We quote national treasury disbursements until fiscal 2006 from the local public finance program, and use the value forecasted in Chapter 2 for the total amount after 2007. We allocate to each local government according to the share of average national treasury disbursements for fiscal 2001 to 2004. But, the national treasury disbursements for fiscal 2005 and 2006 should be allocated considering the cuts to subsidies expressed in “Triple Reform of Fiscal Relationships .”

We get local government bond revenue by subtracting local taxes, local allocation tax, national treasury disbursements, and others from total revenue. We analyze other expenditure (local transfer tax, various subsidies, etc.) in terms of growth rate at a prefecture level.

### 2.3 Simulation method for comprehensive expenditure and revenue reform

Comprehensive expenditure and revenue reform is contained in “Basic Policies for Economic and Fiscal Management and Structural Reform 2006” of the former Koizumi Cabinet.

This was coined “Honebuto-no Hoshin 2006”—literally “Basic Policies 2006.” This policy’s target is to get a national primary balance by fiscal 2011. It analyzes what items and how much are needed to decrease expenditure and increase revenue for various cases. For expenditure, it describes the reduction in public-worker personnel expenditure, public works expenses, and social security expenses etc., as specific targets.

On the other hand, for revenue, it aims to raise taxes accompanied by economic growth, hinting at the possibility of increasing consumption tax after fiscal 2008. The Abe Cabinet inaugurated in October 2006 took over this policy. Abe’s fiscal 2007 national budget bill has passed through the Diet.

We adopted combined cases of expense cuts and revenue increases for the 2007 national budget from among several combinations proposed in “Basic Policies 2006.” Specifically, for

our simulation we adopted: expense cut of 14.8 trillion yen (90%) and revenue increase of 1.7 trillion yen (10%). These figures (16.5 trillion yen) meet both ends of the primary balance in fiscal 2011.

Simulation term is fiscal 2007 to 2011. Expenditure cuts are achieved as shown in Table 1 during this period. We estimate raising consumption tax<sup>1</sup> 0.62% in fiscal 2009 as a means to increase revenue. Of 1.7 trillion yen, 80% is allocated to the national treasury and 20% to local governments, with half of the latter for prefectures and the remaining half for municipalities. The rate of reduction and tax increase are quoted from the national finance forecast in Chapter 2.

|              | Pre-reform                              | Post-reform   |
|--------------|---|---|
| Expenditures | Expenditure growth rate of municipality | Personnel expenditure: 2.3%/Year<br>Public works : 6%/Year<br>Social security : 1%/Population<br>Others : 3.2%/Year |
| Revenues     | No tax increase                         | 0.62% consumption tax increase in 2009  |

Table 1 Expenditure-cut rate and revenue-increase rate

### 3. Results

Putting emphasis on an expense-cut oriented reform from 2007 to 2011, we can greatly improve the local primary balance, the amount of local government bonds issued, and local bond balance sheet. On the contrary, we cannot expect a major improvement as in the case mentioned above, because local allocation tax is heavily influenced by aging population and low birth-rate. Note that the national burden is greatly relieved by the decrease in the debt balance of local allocation tax.

#### 3.1 Primary balance

Even though the reform is not carried out, in fiscal 2011 all prefectures (municipalities excepted) have a primary balance surplus amounting to 16 trillion yen (Table 3-1-1) Above all,

<sup>1</sup> It assumed 2.541 trillion yen can be generated by increasing consumption tax by 1%.

the Tokyo Metropolis primary balance is a 7.5 trillion yen surplus, and it accounts for a little less than half. Only the Niigata Prefecture primary balance in 2011 shows a deficit at 252 billion yen. This is because public-works expenses in fiscal 2004 stood out due to the Chuetsu Earthquake (An earthquake in central Echigo, the former name of Niigata). The primary balance does not include local government bond issues and redemptions, so Niigata's financial situation is even tighter than the data indicate.

The municipality primary balance is a 2.7 trillion yen deficit overall in fiscal 2011. (Table 3-1-2) This is partly because of a reduction in the local allocation tax derived from cuts in standard financial requirements. In the background there is the phenomenon whereby the expense-cut rate in a municipality is greater than that of a prefecture. On a prefectural level the surplus of Tokyo contributes largely to the improvement of both-meets, while on a municipality level, municipal governments in Tokyo and Osaka Prefecture contribute to the downward trend of both-meets.

In the case that the reform is carried out, the primary balance surplus in prefectures amounts to 21 trillion yen, double that if no reform is carried out. (Table 3-1-3) The surplus of Tokyo in 2030 is 8.6 trillion yen, accounting for 40% of the total surplus. Niigata's primary balance in 2011 is a 124 billion yen deficit, decreased by half compared to pre-reform. The municipality's primary balance in 2011 trends the other way to a 238 billion yen surplus. (Table 3-1-4)

### 3.2 local government bond issues and balance (sheet)

The amount of tax revenue has big impacts on local government bond issues in the case no reforms are carried out. The most tax-revenue-rich Tokyo Metropolis can reduce bond issues to zero as soon as fiscal 2008, and afterwards its surplus will continue to increase. (Table 3-2-1) In 2011, local government bond issues in eastern Japan such as in Iwate, Miyagi, Tochigi and Nagano prefectures decrease compared to fiscal 2004 in the case no reforms are carried out. In Tokyo, where a revenue increase is expected, the local bond balance reaches zero in 2014. However, in other prefectures it does not. In 2030, prefectures other than Kanagawa, Nagano, Shiga, and Okinawa with relatively high population growth have local bond debts exceeding 1 trillion yen and a deteriorating bond balance (Figure 3-2-1).

Corporation tax revenue forecasted for Tokyo varies from ward ("ku") to ward. In 2030, the local bond balance becomes zero in Shibuya, Chiyoda, Chuou, and Minato Wards, whereas an

enormous amount of debt is reached of over 4 trillion yen respectively in Adachi, Nerima, and Edogawa Wards at the same time. Moreover, the amount triggers an increase in the local bond balance not only in Tokyo, but also in all municipalities. (Table 3-2-2)

When reform is carried out, we can suppress local bond issues of expense-ridden prefectures such as Osaka and Hokkaido. There will be 27 prefectures that do not have to issue local bonds in 2030. We can prevent a divergence of the bond balance in prefectures other than Tokyo. In 2030, the local bond balance could become zero in prefectures with ordinance-designated cities. All prefectures and municipalities have a debt balance rate against GDP peaking at 31.2% in 2008, which is then reduced to 20%. In short, we can prevent divergence. (Figure 3-2-6)

### 3.3 Local allocation tax

There are 318 bodies not receiving a local allocation tax in fiscal 2030 if there are no reforms (Table 3-3-1). These include Saitama, Chiba, Tokyo, Kanagawa, Aichi, Shiga, and Fukuoka prefectures (Table 3-3-3). However, the number of non-receiving bodies increases among towns and villages in rural areas. The reason is that standard financial revenues reflect population growth rate at a prefectural level and in rapidly population-decreasing rural towns and villages, so the allocation tax is not reduced because “standard financial revenues” accompanied by less tax revenue do not increase. Moreover, judging that “redemption of bonds” is included in “standard financial requirements,” it increases the rate of expansion of expenditure of other than “debt service payments” until 2020. So, the local allocation tax, the difference between “standard financial requirements” and “standard financial revenues,” nearly doubles from 14.7 trillion yen to 27.8 trillion yen in prefectures and municipalities from 2007 to 2030.

When reforms are carried out, there are 406 non-receiving bodies for local allocation tax in fiscal 2030 (Table 3-3-2). The number of non-receiving bodies doubles after the reforms: Miyagi, Ibaragi, Tochigi, Saitama, Chiba, Tokyo, Kanagawa, Nagano, Shizuoka, Aichi, Mie, Shiga, Osaka, Hyogo, Fukuoka, and Okinawa. After the reforms, non-receiving bodies among municipalities are densely distributed in eastern Japan, and there will be no non-receiving bodies in western Japan, especially in municipalities of Chugoku and Shikoku districts until 2030.

“Basic Policies 2006” stipulates that the Cabinet makes ‘half of cities with a population of

over 200,000' non-receiving bodies; in other words, 40% of the nation's population will reside in a non-receiving body in the three years from 2007. There will be little possibility that the target will be met in 2011 even if reform is carried out.

It is noteworthy that our method of estimating the local allocation tax amount differs a little from the present one. Under the current system, first macro-level grant-in-aid is decided and the "standard financial requirements" are calculated for every local government, then grant - in-aid is specified. (Figures 3-3-3 and 3-3-4)

Unfortunately, this system does not lead to a reduction of the macro-level allocation, because grant-in-aid is allocated to other receiving-bodies when non-receiving-bodies increase. We define the difference between "standard financial requirements" and "standard financial revenues" as "grant-in-aid of local allocation tax" in this paper.

### 3.4 Special account for debt of local allocation tax

In this paper local allocation tax is expressed as 'the carry-over into special account' (entrance-base). On the other hand, the local allocation tax forecast is the difference between "standard financial requirements" and "standard financial revenues" expressed on an exit-base. We allot the gap between entrance-base and exit-base for debt service payment of the 'special account for debt of local allocation tax.' If the reform is not carried out, the fiscal 2025 term-end balance of the 'special account for debt of local allocation tax' peaks at 103 trillion yen for both central and local governments. (Figure 3-4-1) The balance converges afterwards, with 90 trillion yen remaining in 2030.

In the case that reform is implemented, the 2006 term-end balance peaks at 53 trillion yen, continues decreasing, and finally in 2024 reaches zero for both governments. (Figure 3-4-2) Above all, the balance in 2011 amounts to zero for the central government. That would relieve the national burden greatly in contrast to the case of no reform.

## 4. Conclusions

The main conclusions we reach in this paper can be summarized as follows.

First, the following financial indices can be improved thoroughly by reforming expenditure and revenue comprehensively. First, the local government's primary balance can be changed for the better. Next, the amount of all local government bond issues decrease because even

local governments with heavy annual expenditure can suppress the amount of the bond issues. In addition, the local government bond balance is expected to settle in the majority of prefectural local governments by 2030. The special accounting term-end balance of the local allocation tax possibly reaches zero by 2030, and the Japanese Government debt will decrease sharply as a result.

Second, if the Japanese Government implements comprehensive reforms, it can suppress the amount of local allocation tax distributed, but cannot increase the number of non-receiving bodies greatly in terms of population. As a result, it cannot achieve the target in "Basic Policies for Economic and Fiscal Management and Structural Reform 2006." ("Honebuto-no Hoshin 2006"—literally, Basic Policies 2006)

Finally, we describe the limits of this paper's analysis and problems for future study. First, we analyze comprehensive E&R reform's impact on local government finances. However, we do not make searching inquiries into its influence on the macroeconomy. It is clear that the annual expenditure reduction leads to decreases in public investment and government consumption. Note that we do not take account of the negative effects an expenditure reduction has on Japan's economic growth.

Second, we take into consideration the annual expenditure expansion rate and the population growth rate at a prefectural level, but neither individual policies nor financial situation at a municipal level. Moreover, the decrease in the recent birthrate is not reflected in this paper because we refer to estimated data as of January 2002 when studying population growth at a prefectural level. So, we regard this paper's results as a little optimistic.

Third, in this study we take the standpoint that we do not fix the total distributed amount of local allocation tax. Therefore, the forecast has low accuracy unless the amount of the reduction in the present local allocation tax system is reformed in the future.

Fourth, our model in this paper is based on the existing system; however, the Japanese Government is now examining local allocation tax reform. If the central government decides on a reform draft, we should modify our model.

Table 3-1-1 Primary balance forecast in prefectures (before reform)

| billion yen | 2004 | 2011  | 2030   |
|-------------|------|-------|--------|
| Hokkaido    | -61  | 64    | 326    |
| Aomori      | 30   | 41    | 51     |
| Iwate       | 26   | 58    | 81     |
| Miyagi      | 34   | 71    | 171    |
| Akita       | 16   | 16    | 12     |
| Yamagata    | 18   | 32    | 37     |
| Fukushima   | 35   | 53    | 77     |
| Ibaragi     | -0   | 40    | 134    |
| Tochigi     | 44   | 56    | 96     |
| Gumma       | 18   | 32    | 68     |
| Saitama     | 24   | 135   | 847    |
| Chiba       | -33  | 55    | 482    |
| Tokyo       | 371  | 1,823 | 7,535  |
| Kanagawa    | -17  | 222   | 1,501  |
| Niigata     | -311 | -252  | 31     |
| Toyama      | 20   | 20    | 30     |
| Ishikawa    | 17   | 23    | 36     |
| Fukui       | 15   | 5     | 29     |
| Yamanashi   | 14   | 17    | 35     |
| Nagano      | 98   | 115   | 132    |
| Gifu        | 6    | 28    | 66     |
| Shizuoka    | 31   | 69    | 150    |
| Aichi       | -55  | 233   | 1,287  |
| Mie         | 32   | 39    | 60     |
| Shiga       | 15   | 57    | 526    |
| Kyoto       | -1   | 17    | 115    |
| Osaka       | 38   | 87    | 401    |
| Hyogo       | -40  | 91    | 544    |
| Nara        | -0   | 9     | 45     |
| Wakayama    | 13   | 5     | 14     |
| Tottori     | 20   | 22    | 27     |
| Shimane     | 7    | 20    | 45     |
| Okayama     | 20   | 32    | 93     |
| Hiroshima   | -15  | 8     | 112    |
| Yamaguchi   | 27   | 5     | 20     |
| Tokushima   | 24   | 24    | 16     |
| Kagawa      | 11   | 6     | 9      |
| Ehime       | 23   | 17    | 30     |
| Kochi       | 21   | 27    | 46     |
| Fukuoka     | -7   | 59    | 523    |
| Saga        | 14   | 12    | 18     |
| Nagasaki    | 17   | 22    | 28     |
| Kumamoto    | 47   | 59    | 94     |
| Oita        | 28   | 27    | 34     |
| Miyazaki    | 21   | 24    | 33     |
| Kagoshima   | 33   | 69    | 124    |
| Okinawa     | 26   | 57    | 135    |
| All         | 715  | 3,755 | 16,307 |

Table 3-1-2 Primary balance forecast in municipalities (before reform)

| billion yen | 2004  | 2011   | 2030   |
|-------------|-------|--------|--------|
| Hokkaido    | 169   | -87    | 283    |
| Aomori      | 18    | -28    | 135    |
| Iwate       | 37    | -1     | 132    |
| Miyagi      | 33    | -104   | 95     |
| Akita       | 18    | -36    | 44     |
| Yamagata    | 32    | -4     | 70     |
| Fukushima   | 50    | 6      | 133    |
| Ibaragi     | 54    | 35     | 235    |
| Tochigi     | 40    | 21     | 179    |
| Gumma       | 46    | 11     | 168    |
| Saitama     | 65    | 46     | 1,071  |
| Chiba       | 56    | -2     | 673    |
| Tokyo       | -515  | -1,326 | 269    |
| Kanagawa    | 152   | -43    | 1,916  |
| Niigata     | 51    | -62    | 99     |
| Toyama      | 28    | -7     | 77     |
| Ishikawa    | 14    | -43    | 68     |
| Fukui       | 10    | -30    | 107    |
| Yamanashi   | 20    | -20    | 78     |
| Nagano      | 83    | 41     | 196    |
| Gifu        | 61    | -8     | 84     |
| Shizuoka    | 73    | 5      | 184    |
| Aichi       | 108   | 50     | 1,339  |
| Mie         | 25    | -8     | 117    |
| Shiga       | 19    | -3     | 427    |
| Kyoto       | 15    | -94    | 169    |
| Osaka       | 47    | -416   | 358    |
| Hyogo       | 204   | -16    | 580    |
| Nara        | 31    | -8     | 154    |
| Wakayama    | 23    | -27    | 131    |
| Tottori     | 11    | -9     | 86     |
| Shimane     | 23    | -33    | 66     |
| Okayama     | 43    | -31    | 103    |
| Hiroshima   | 47    | -89    | 116    |
| Yamaguchi   | 32    | -41    | 48     |
| Tokushima   | 22    | -16    | 108    |
| Kagawa      | 30    | -11    | 86     |
| Ehime       | 38    | -36    | 57     |
| Kochi       | 34    | -9     | 117    |
| Fukuoka     | 91    | -50    | 649    |
| Saga        | 17    | -2     | 106    |
| Nagasaki    | 38    | -69    | 62     |
| Kumamoto    | 41    | -28    | 158    |
| Oita        | 25    | -41    | 34     |
| Miyazaki    | 6     | -43    | 134    |
| Kagoshima   | 48    | -44    | 169    |
| Okinawa     | 11    | -61    | 181    |
| All         | 1,625 | -2,772 | 11,850 |

Table 3-1-3 Primary balance forecast in prefectures (after reform)

| billion yen | 2004 | 2011  | 2030   |
|-------------|------|-------|--------|
| Hokkaido    | -61  | 248   | 450    |
| Aomori      | 30   | 90    | 29     |
| Iwate       | 26   | 104   | 60     |
| Miyagi      | 34   | 113   | 346    |
| Akita       | 16   | 65    | 63     |
| Yamagata    | 18   | 68    | 49     |
| Fukushima   | 35   | 98    | 5      |
| Ibaragi     | -0   | 102   | 191    |
| Tochigi     | 44   | 98    | 201    |
| Gumma       | 18   | 76    | 45     |
| Saitama     | 24   | 301   | 1,217  |
| Chiba       | -33  | 185   | 815    |
| Tokyo       | 371  | 2,561 | 8,627  |
| Kanagawa    | -17  | 501   | 1,948  |
| Niigata     | -311 | -124  | 337    |
| Toyama      | 20   | 57    | 37     |
| Ishikawa    | 17   | 61    | 30     |
| Fukui       | 15   | 41    | 44     |
| Yamanashi   | 14   | 50    | 14     |
| Nagano      | 98   | 146   | 152    |
| Gifu        | 6    | 79    | 46     |
| Shizuoka    | 31   | 135   | 235    |
| Aichi       | -55  | 550   | 1,746  |
| Mie         | 32   | 71    | 29     |
| Shiga       | 15   | 88    | 663    |
| Kyoto       | -1   | 61    | 101    |
| Osaka       | 38   | 324   | 720    |
| Hyogo       | -40  | 237   | 848    |
| Nara        | -0   | 40    | 41     |
| Wakayama    | 13   | 39    | 42     |
| Tottori     | 20   | 47    | 17     |
| Shimane     | 7    | 65    | 82     |
| Okayama     | 20   | 82    | 92     |
| Hiroshima   | -15  | 70    | 114    |
| Yamaguchi   | 27   | 56    | 57     |
| Tokushima   | 24   | 64    | 41     |
| Kagawa      | 11   | 35    | 28     |
| Ehime       | 23   | 59    | 41     |
| Kochi       | 21   | 58    | 44     |
| Fukuoka     | -7   | 143   | 868    |
| Saga        | 14   | 37    | 12     |
| Nagasaki    | 17   | 69    | 50     |
| Kumamoto    | 47   | 99    | 16     |
| Oita        | 28   | 63    | 23     |
| Miyazaki    | 21   | 64    | 40     |
| Kagoshima   | 33   | 123   | 79     |
| Okinawa     | 26   | 96    | 263    |
| All         | 715  | 7,698 | 20,996 |

Table 3-1-4 Primary balance forecast in municipalities (before reform)

| billion yen | 2004  | 2011 | 2030   |
|-------------|-------|------|--------|
| Hokkaido    | 169   | -5   | 498    |
| Aomori      | 18    | -11  | 266    |
| Iwate       | 37    | 2    | 173    |
| Miyagi      | 33    | -92  | 189    |
| Akita       | 18    | -13  | 180    |
| Yamagata    | 32    | 7    | 132    |
| Fukushima   | 50    | 27   | 258    |
| Ibaragi     | 54    | 72   | 309    |
| Tochigi     | 40    | 55   | 261    |
| Gumma       | 46    | 38   | 230    |
| Saitama     | 65    | 193  | 1,399  |
| Chiba       | 56    | 128  | 968    |
| Tokyo       | -515  | -851 | 889    |
| Kanagawa    | 152   | 298  | 2,433  |
| Niigata     | 51    | -2   | 265    |
| Toyama      | 28    | 12   | 134    |
| Ishikawa    | 14    | -17  | 145    |
| Fukui       | 10    | -18  | 198    |
| Yamanashi   | 20    | -4   | 126    |
| Nagano      | 83    | 58   | 238    |
| Gifu        | 61    | 34   | 134    |
| Shizuoka    | 73    | 78   | 302    |
| Aichi       | 108   | 330  | 1,717  |
| Mie         | 25    | 33   | 254    |
| Shiga       | 19    | 26   | 529    |
| Kyoto       | 15    | -17  | 420    |
| Osaka       | 47    | -165 | 839    |
| Hyogo       | 204   | 106  | 920    |
| Nara        | 31    | 3    | 169    |
| Wakayama    | 23    | -24  | 232    |
| Tottori     | 11    | 2    | 148    |
| Shimane     | 23    | -13  | 157    |
| Okayama     | 43    | 19   | 264    |
| Hiroshima   | 47    | 3    | 380    |
| Yamaguchi   | 32    | -4   | 186    |
| Tokushima   | 22    | -13  | 142    |
| Kagawa      | 30    | 0    | 134    |
| Ehime       | 38    | 1    | 198    |
| Kochi       | 34    | 2    | 229    |
| Fukuoka     | 91    | 90   | 953    |
| Saga        | 17    | 10   | 199    |
| Nagasaki    | 38    | -35  | 269    |
| Kumamoto    | 41    | -10  | 295    |
| Oita        | 25    | -7   | 153    |
| Miyazaki    | 6     | -26  | 285    |
| Kagoshima   | 48    | -30  | 266    |
| Okinawa     | 11    | -33  | 219    |
| All         | 1,625 | 238  | 19,283 |

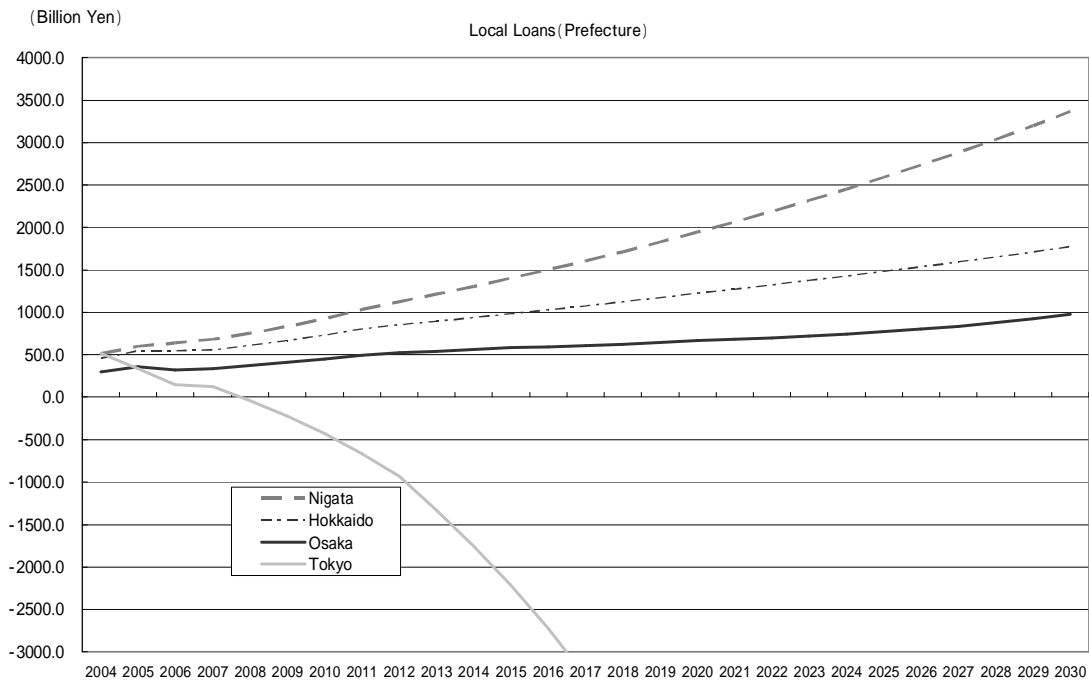


Figure 3-2-1 Local government bond issues forecast (prefectures, before reform)

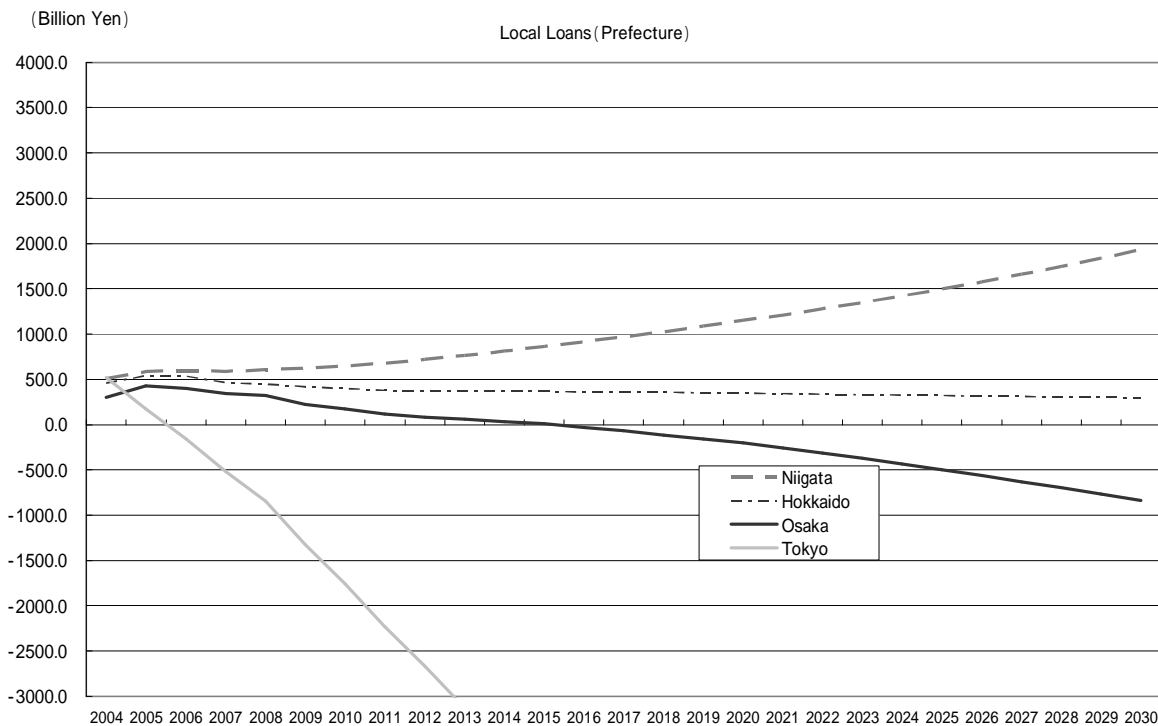


Figure 3-2-2 Local government bond issues forecast (prefectures, after reform)

Table 3-2-1 Local government bond issues forecast (prefectures, before reform)

| billion yen | 2004  | 2011   | 2030    |
|-------------|-------|--------|---------|
| Hokkaido    | 459   | 608    | 750     |
| Aomori      | 108   | 129    | 222     |
| Iwate       | 112   | 103    | 97      |
| Miyagi      | 103   | 87     | -119    |
| Akita       | 117   | 162    | 386     |
| Yamagata    | 99    | 114    | 208     |
| Fukushima   | 109   | 115    | 95      |
| Ibaragi     | 153   | 171    | 135     |
| Tochigi     | 99    | 86     | -17     |
| Gumma       | 94    | 97     | 109     |
| Saitama     | 219   | 195    | -1,021  |
| Chiba       | 209   | 224    | -269    |
| Tokyo       | 518   | -1,588 | -19,233 |
| Kanagawa    | 239   | 73     | -2,396  |
| Niigata     | 512   | 800    | 1,780   |
| Toyama      | 96    | 113    | 240     |
| Ishikawa    | 91    | 116    | 224     |
| Fukui       | 84    | 128    | 263     |
| Yamanashi   | 92    | 104    | 180     |
| Nagano      | 97    | 62     | -114    |
| Gifu        | 122   | 141    | 195     |
| Shizuoka    | 170   | 200    | 185     |
| Aichi       | 339   | 162    | -1,692  |
| Mie         | 100   | 92     | 81      |
| Shiga       | 71    | 40     | -808    |
| Kyoto       | 115   | 157    | 141     |
| Osaka       | 300   | 471    | 381     |
| Hyogo       | 343   | 411    | -17     |
| Nara        | 90    | 120    | 198     |
| Wakayama    | 77    | 107    | 237     |
| Tottori     | 66    | 64     | 114     |
| Shimane     | 117   | 139    | 246     |
| Okayama     | 120   | 146    | 158     |
| Hiroshima   | 177   | 246    | 336     |
| Yamaguchi   | 103   | 162    | 388     |
| Tokushima   | 92    | 96     | 240     |
| Kagawa      | 71    | 97     | 247     |
| Ehime       | 93    | 121    | 251     |
| Kochi       | 86    | 95     | 136     |
| Fukuoka     | 218   | 235    | -341    |
| Saga        | 71    | 94     | 194     |
| Nagasaki    | 116   | 141    | 284     |
| Kumamoto    | 113   | 116    | 74      |
| Oita        | 89    | 106    | 198     |
| Miyazaki    | 90    | 112    | 214     |
| Kagoshima   | 141   | 137    | 45      |
| Okinawa     | 60    | 27     | -249    |
| All         | 7,160 | 5,933  | -17,044 |

Table 3-2-2 Local government bond issues forecast (municipalities, before reform)

| bilion yen | 2004  | 2011   | 2030   |
|------------|-------|--------|--------|
| Hokkaido   | 292   | 557    | 774    |
| Aomori     | 69    | 202    | 468    |
| Iwate      | 65    | 123    | 227    |
| Miyagi     | 120   | 102    | -198   |
| Akita      | 67    | 166    | 456    |
| Yamagata   | 55    | 105    | 239    |
| Fukushima  | 80    | 138    | 220    |
| Ibaragi    | 97    | 120    | 104    |
| Tochigi    | 68    | 113    | 187    |
| Gumma      | 67    | 126    | 236    |
| Saitama    | 221   | 226    | -1,018 |
| Chiba      | 204   | 285    | -306   |
| Tokyo      | 132   | 2,685  | 7,319  |
| Kanagawa   | 314   | 644    | -1,499 |
| Niigata    | 125   | 266    | 514    |
| Toyama     | 51    | 118    | 337    |
| Ishikawa   | 78    | 196    | 523    |
| Fukui      | 39    | 147    | 452    |
| Yamanashi  | 43    | 116    | 339    |
| Nagano     | 93    | 125    | 80     |
| Gifu       | 82    | 138    | 293    |
| Shizuoka   | 133   | 205    | 254    |
| Aichi      | 249   | 336    | -1,091 |
| Mie        | 80    | 152    | 290    |
| Shiga      | 55    | 119    | -241   |
| Kyoto      | 138   | 386    | 618    |
| Osaka      | 378   | 924    | 1,334  |
| Hyogo      | 255   | 495    | 181    |
| Nara       | 60    | 157    | 354    |
| Wakayama   | 48    | 178    | 471    |
| Tottori    | 36    | 100    | 292    |
| Shimane    | 70    | 174    | 427    |
| Okayama    | 99    | 219    | 363    |
| Hiroshima  | 153   | 407    | 748    |
| Yamaguchi  | 71    | 198    | 501    |
| Tokushima  | 38    | 110    | 350    |
| Kagawa     | 39    | 98     | 308    |
| Ehime      | 70    | 181    | 471    |
| Kochi      | 47    | 159    | 370    |
| Fukuoka    | 266   | 494    | 38     |
| Saga       | 32    | 96     | 303    |
| Nagasaki   | 79    | 278    | 755    |
| Kumamoto   | 88    | 195    | 346    |
| Oita       | 59    | 177    | 485    |
| Miyazaki   | 72    | 208    | 554    |
| Kagoshima  | 97    | 209    | 349    |
| Okinawa    | 57    | 177    | 294    |
| All        | 5,127 | 13,128 | 18,871 |

Table 3-2-3 Local government bond issues forecast (prefectures, after reform)

| billion yen | 2004  | 2011   | 2030    |
|-------------|-------|--------|---------|
| Hokkaido    | 459   | 377    | 298     |
| Aomori      | 108   | 52     | -25     |
| Iwate       | 112   | 41     | -101    |
| Miyagi      | 103   | 11     | -757    |
| Akita       | 117   | 98     | 265     |
| Yamagata    | 99    | 65     | 88      |
| Fukushima   | 109   | 32     | -192    |
| Ibaragi     | 153   | 79     | -251    |
| Tochigi     | 99    | -8     | -652    |
| Gumma       | 94    | 20     | -180    |
| Saitama     | 219   | -41    | -2,061  |
| Chiba       | 209   | 38     | -1,205  |
| Tokyo       | 518   | -2,232 | -21,663 |
| Kanagawa    | 239   | -258   | -3,296  |
| Niigata     | 512   | 680    | 1,934   |
| Toyama      | 96    | 60     | 99      |
| Ishikawa    | 91    | 60     | 55      |
| Fukui       | 84    | 72     | 113     |
| Yamanashi   | 92    | 51     | -5      |
| Nagano      | 97    | -22    | -808    |
| Gifu        | 122   | 64     | -30     |
| Shizuoka    | 170   | 87     | -359    |
| Aichi       | 339   | -159   | -2,539  |
| Mie         | 100   | 24     | -232    |
| Shiga       | 71    | -10    | -1,226  |
| Kyoto       | 115   | 82     | -102    |
| Osaka       | 300   | 117    | -837    |
| Hyogo       | 343   | 206    | -993    |
| Nara        | 90    | 74     | 66      |
| Wakayama    | 77    | 58     | 138     |
| Tottori     | 66    | 26     | -15     |
| Shimane     | 117   | 84     | 126     |
| Okayama     | 120   | 69     | -59     |
| Hiroshima   | 177   | 147    | 86      |
| Yamaguchi   | 103   | 86     | 233     |
| Tokushima   | 92    | 46     | 108     |
| Kagawa      | 71    | 54     | 146     |
| Ehime       | 93    | 57     | 90      |
| Kochi       | 86    | 52     | 11      |
| Fukuoka     | 218   | 88     | -1,409  |
| Saga        | 71    | 48     | 63      |
| Nagasaki    | 116   | 70     | 117     |
| Kumamoto    | 113   | 44     | -196    |
| Oita        | 89    | 51     | 36      |
| Miyazaki    | 90    | 53     | 49      |
| Kagoshima   | 141   | 60     | -220    |
| Okinawa     | 60    | -33    | -821    |
| All         | 7,160 | 18,699 | -4,939  |

Table 3-2-4 Local government bond issues forecast (municipalities, after reform)

| billion yen | 2004  | 2011  | 2030   |
|-------------|-------|-------|--------|
| Hokkaido    | 292   | 334   | 452    |
| Aomori      | 69    | 153   | 402    |
| Iwate       | 65    | 84    | 163    |
| Miyagi      | 120   | 33    | -702   |
| Akita       | 67    | 124   | 405    |
| Yamagata    | 55    | 74    | 190    |
| Fukushima   | 80    | 84    | 154    |
| Ibaragi     | 97    | 44    | -78    |
| Tochigi     | 68    | 53    | 45     |
| Gumma       | 67    | 61    | 102    |
| Saitama     | 221   | 19    | -2,059 |
| Chiba       | 204   | 108   | -1,057 |
| Tokyo       | 132   | 2,095 | 5,078  |
| Kanagawa    | 314   | 238   | -3,215 |
| Niigata     | 125   | 172   | 373    |
| Toyama      | 51    | 78    | 255    |
| Ishikawa    | 78    | 143   | 413    |
| Fukui       | 39    | 109   | 388    |
| Yamanashi   | 43    | 78    | 248    |
| Nagano      | 93    | 55    | -74    |
| Gifu        | 82    | 67    | 145    |
| Shizuoka    | 133   | 78    | -1     |
| Aichi       | 249   | -51   | -2,509 |
| Mie         | 80    | 91    | 197    |
| Shiga       | 55    | 69    | -557   |
| Kyoto       | 138   | 291   | 499    |
| Osaka       | 378   | 642   | 928    |
| Hyogo       | 255   | 296   | -585   |
| Nara        | 60    | 113   | 248    |
| Wakayama    | 48    | 139   | 421    |
| Tottori     | 36    | 73    | 239    |
| Shimane     | 70    | 133   | 360    |
| Okayama     | 99    | 152   | 269    |
| Hiroshima   | 153   | 299   | 608    |
| Yamaguchi   | 71    | 144   | 424    |
| Tokushima   | 38    | 78    | 281    |
| Kagawa      | 39    | 65    | 244    |
| Ehime       | 70    | 127   | 391    |
| Kochi       | 47    | 128   | 340    |
| Fukuoka     | 266   | 295   | -532   |
| Saga        | 32    | 69    | 264    |
| Nagasaki    | 79    | 218   | 696    |
| Kumamoto    | 88    | 139   | 275    |
| Oita        | 59    | 130   | 408    |
| Miyazaki    | 72    | 162   | 498    |
| Kagoshima   | 97    | 144   | 250    |
| Okinawa     | 57    | 116   | -365   |
| All         | 5,127 | 8,345 | 4,920  |

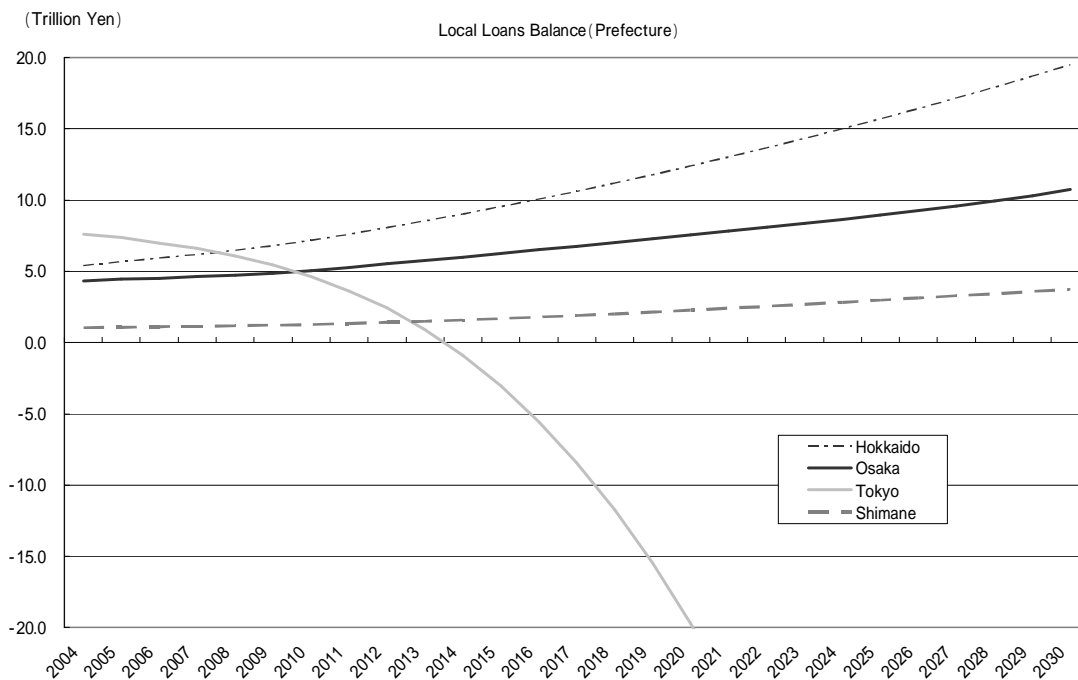


Figure 3-2-3 Local government bond balance forecast (prefectures, before reform)

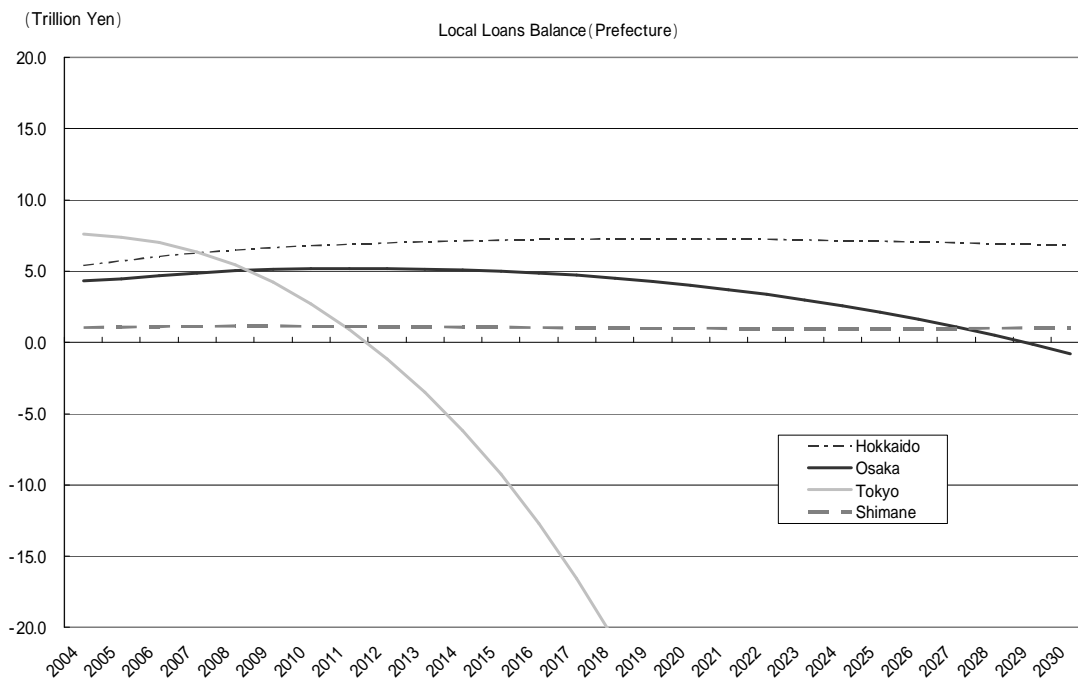


Figure 3-2-4 Local government bond balance forecast (prefectures, after reform)

Table 3-2-5 Local government bond balance forecast (prefectures, before reform)

| trillion yen | 2004 | 2011  | 2030  |
|--------------|------|-------|-------|
| Hokkaido     | 5.4  | 8.2   | 21.6  |
| Aomori       | 1.3  | 1.6   | 3.8   |
| Iwate        | 1.4  | 1.7   | 3.2   |
| Miyagi       | 1.4  | 1.6   | 0.9   |
| Akita        | 1.2  | 1.7   | 5.6   |
| Yamagata     | 1.1  | 1.4   | 3.8   |
| Fukushima    | 1.2  | 1.5   | 2.4   |
| Ibaragi      | 1.7  | 2.4   | 5.3   |
| Tochigi      | 1.0  | 1.1   | 0.6   |
| Gumma        | 1.0  | 1.3   | 2.8   |
| Saitama      | 2.9  | 3.7   | 1.4   |
| Chiba        | 2.3  | 3.5   | 5.6   |
| Tokyo        | 7.6  | 3.6   | -95.9 |
| Kanagawa     | 2.8  | 3.9   | -3.8  |
| Niigata      | 2.4  | 6.3   | 28.2  |
| Toyama       | 1.0  | 1.3   | 3.8   |
| Ishikawa     | 1.1  | 1.4   | 3.7   |
| Fukui        | 0.8  | 1.1   | 3.6   |
| Yamanashi    | 0.9  | 1.1   | 2.7   |
| Nagano       | 1.6  | 1.4   | -1.3  |
| Gifu         | 1.4  | 1.9   | 4.6   |
| Shizuoka     | 2.2  | 2.9   | 5.7   |
| Aichi        | 3.8  | 5.2   | 2.2   |
| Mie          | 0.9  | 1.1   | 1.7   |
| Shiga        | 0.9  | 1.0   | -2.4  |
| Kyoto        | 1.3  | 1.9   | 4.8   |
| Osaka        | 4.3  | 6.5   | 14.0  |
| Hyogo        | 4.1  | 6.1   | 11.2  |
| Nara         | 1.0  | 1.4   | 4.1   |
| Wakayama     | 0.7  | 1.0   | 3.7   |
| Tottori      | 0.6  | 0.7   | 1.7   |
| Shimane      | 1.1  | 1.4   | 4.0   |
| Okayama      | 1.2  | 1.6   | 3.9   |
| Hiroshima    | 1.8  | 2.7   | 7.4   |
| Yamaguchi    | 1.1  | 1.6   | 5.8   |
| Tokushima    | 1.0  | 1.2   | 3.8   |
| Kagawa       | 0.7  | 1.0   | 3.8   |
| Ehime        | 1.0  | 1.3   | 4.3   |
| Kochi        | 0.8  | 1.0   | 2.3   |
| Fukuoka      | 2.4  | 3.5   | 4.1   |
| Saga         | 0.6  | 0.9   | 2.5   |
| Nagasaki     | 1.0  | 1.5   | 4.5   |
| Kumamoto     | 1.3  | 1.6   | 2.2   |
| Oita         | 1.0  | 1.3   | 3.3   |
| Miyazaki     | 0.9  | 1.2   | 3.5   |
| Kagoshima    | 1.6  | 2.0   | 2.8   |
| Okinawa      | 0.6  | 0.7   | -1.0  |
| All          | 79.2 | 104.0 | 106.7 |

Table 3-2-6 Local government bond balance forecast (municipalities, before reform)

| trillion yen | 2004 | 2011 | 2030  |
|--------------|------|------|-------|
| Hokkaido     | 3.9  | 5.7  | 11.0  |
| Aomori       | 0.8  | 1.4  | 4.2   |
| Iwate        | 0.8  | 1.1  | 2.6   |
| Miyagi       | 1.3  | 1.4  | 0.4   |
| Akita        | 0.6  | 1.1  | 3.7   |
| Yamagata     | 0.6  | 0.9  | 2.2   |
| Fukushima    | 0.9  | 1.2  | 2.1   |
| Ibaragi      | 1.0  | 1.3  | 2.0   |
| Tochigi      | 0.7  | 0.8  | 1.7   |
| Gumma        | 0.7  | 1.0  | 2.4   |
| Saitama      | 1.8  | 2.5  | -2.5  |
| Chiba        | 2.0  | 2.9  | 2.2   |
| Tokyo        | 2.2  | 12.9 | 62.1  |
| Kanagawa     | 4.2  | 6.4  | -0.3  |
| Niigata      | 1.2  | 2.0  | 5.4   |
| Toyama       | 0.6  | 0.8  | 2.9   |
| Ishikawa     | 0.8  | 1.3  | 4.7   |
| Fukui        | 0.3  | 0.8  | 3.3   |
| Yamanashi    | 0.4  | 0.7  | 2.7   |
| Nagano       | 1.1  | 1.3  | 1.4   |
| Gifu         | 0.8  | 1.2  | 3.1   |
| Shizuoka     | 1.4  | 2.0  | 3.6   |
| Aichi        | 2.9  | 3.9  | -1.9  |
| Mie          | 0.7  | 1.0  | 2.5   |
| Shiga        | 0.6  | 1.0  | 0.4   |
| Kyoto        | 1.6  | 2.8  | 7.1   |
| Osaka        | 4.8  | 5.6  | 17.1  |
| Hyogo        | 3.8  | 5.3  | 7.2   |
| Nara         | 0.7  | 1.2  | 3.6   |
| Wakayama     | 0.5  | 1.0  | 3.6   |
| Tottori      | 0.4  | 0.6  | 2.2   |
| Shimane      | 0.7  | 1.1  | 3.4   |
| Okayama      | 1.0  | 1.5  | 3.5   |
| Hiroshima    | 1.9  | 3.1  | 7.9   |
| Yamaguchi    | 0.8  | 1.3  | 4.3   |
| Tokushima    | 0.4  | 0.7  | 3.0   |
| Kagawa       | 0.4  | 0.6  | 2.6   |
| Ehime        | 0.7  | 1.2  | 4.0   |
| Kochi        | 0.6  | 1.0  | 2.8   |
| Fukuoka      | 3.3  | 4.7  | 5.6   |
| Saga         | 0.4  | 0.6  | 2.1   |
| Nagasaki     | 0.9  | 1.7  | 5.7   |
| Kumamoto     | 0.9  | 1.4  | 3.3   |
| Oita         | 0.6  | 1.1  | 4.0   |
| Miyazaki     | 0.6  | 1.2  | 4.3   |
| Kagoshima    | 1.0  | 1.6  | 3.6   |
| Okinawa      | 0.5  | 1.1  | 2.6   |
| All          | 59.1 | 97.2 | 225.3 |

Table 3-2-7 Local government bond balance forecast (prefectures after reform)

| trillion yen | 2004  | 2011  | 2030    |
|--------------|-------|-------|---------|
| Hokkaido     | 5.42  | 6.41  | 6.38    |
| Aomori       | 1.28  | 1.18  | 0.29    |
| Iwate        | 1.45  | 1.32  | -0.02   |
| Miyagi       | 1.36  | 1.18  | -3.77   |
| Akita        | 1.20  | 1.24  | 2.03    |
| Yamagata     | 1.10  | 1.07  | 1.01    |
| Fukushima    | 1.20  | 1.01  | -0.82   |
| Ibaragi      | 1.66  | 1.74  | -0.37   |
| Tochigi      | 1.00  | 0.69  | -3.23   |
| Gumma        | 0.97  | 0.83  | -0.69   |
| Saitama      | 2.90  | 2.58  | -12.14  |
| Chiba        | 2.32  | 2.48  | -6.49   |
| Tokyo        | 7.61  | -1.56 | -129.82 |
| Kanagawa     | 2.83  | 1.99  | -20.79  |
| Niigata      | 2.41  | 5.02  | 16.34   |
| Toyama       | 0.98  | 0.95  | 1.02    |
| Ishikawa     | 1.09  | 1.06  | 0.87    |
| Fukui        | 0.77  | 0.83  | 0.95    |
| Yamanashi    | 0.86  | 0.85  | 0.34    |
| Nagano       | 1.59  | 1.05  | -4.10   |
| Gifu         | 1.37  | 1.37  | 0.51    |
| Shizuoka     | 2.20  | 2.18  | -1.22   |
| Aichi        | 3.78  | 3.04  | -15.11  |
| Mie          | 0.94  | 0.76  | -0.99   |
| Shiga        | 0.88  | 0.72  | -6.38   |
| Kyoto        | 1.28  | 1.41  | 0.36    |
| Osaka        | 4.33  | 4.55  | -3.13   |
| Hyogo        | 4.06  | 4.69  | -2.30   |
| Nara         | 0.96  | 1.07  | 1.10    |
| Wakayama     | 0.70  | 0.71  | 1.02    |
| Tottori      | 0.61  | 0.51  | 0.10    |
| Shimane      | 1.05  | 1.07  | 1.17    |
| Okayama      | 1.21  | 1.15  | 0.15    |
| Hiroshima    | 1.75  | 2.06  | 1.79    |
| Yamaguchi    | 1.11  | 1.14  | 1.85    |
| Tokushima    | 0.95  | 0.89  | 1.05    |
| Kagawa       | 0.73  | 0.76  | 1.27    |
| Ehime        | 0.96  | 0.95  | 0.91    |
| Kochi        | 0.80  | 0.73  | 0.33    |
| Fukuoka      | 2.35  | 2.57  | -6.84   |
| Saga         | 0.62  | 0.60  | 0.52    |
| Nagasaki     | 1.04  | 1.02  | 0.98    |
| Kumamoto     | 1.33  | 1.17  | -0.71   |
| Oita         | 0.99  | 0.93  | 0.59    |
| Miyazaki     | 0.90  | 0.86  | 0.57    |
| Kagoshima    | 1.63  | 1.50  | -0.68   |
| Okinawa      | 0.65  | 0.40  | -3.90   |
| All          | 79.17 | 70.73 | -180.00 |

Table 3-2-8 Local government bond balance forecast (prefectures after reform)

| trillion yen | 2004  | 2011  | 2030   |
|--------------|-------|-------|--------|
| Hokkaido     | 3.89  | 5.18  | 8.76   |
| Aomori       | 0.83  | 1.33  | 4.04   |
| Iwate        | 0.81  | 1.06  | 2.10   |
| Miyagi       | 1.28  | 1.13  | -4.10  |
| Akita        | 0.64  | 1.00  | 3.61   |
| Yamagata     | 0.65  | 0.82  | 1.95   |
| Fukushima    | 0.93  | 1.07  | 1.95   |
| Ibaragi      | 1.01  | 1.13  | 0.90   |
| Tochigi      | 0.67  | 0.73  | 1.12   |
| Gumma        | 0.73  | 0.86  | 1.56   |
| Saitama      | 1.84  | 2.15  | -8.23  |
| Chiba        | 2.00  | 2.60  | -2.18  |
| Tokyo        | 2.18  | 11.64 | 51.39  |
| Kanagawa     | 4.23  | 5.51  | -10.14 |
| Niigata      | 1.16  | 1.82  | 4.74   |
| Toyama       | 0.56  | 0.73  | 2.40   |
| Ishikawa     | 0.79  | 1.22  | 4.01   |
| Fukui        | 0.33  | 0.70  | 3.18   |
| Yamanashi    | 0.41  | 0.64  | 2.23   |
| Nagano       | 1.12  | 1.12  | 0.52   |
| Gifu         | 0.83  | 1.01  | 1.94   |
| Shizuoka     | 1.43  | 1.73  | 2.32   |
| Aichi        | 2.92  | 3.05  | -9.63  |
| Mie          | 0.71  | 0.94  | 2.29   |
| Shiga        | 0.59  | 0.84  | -1.33  |
| Kyoto        | 1.55  | 2.62  | 6.93   |
| Osaka        | 4.80  | 4.90  | 14.75  |
| Hyogo        | 3.84  | 4.76  | 2.41   |
| Nara         | 0.75  | 1.08  | 2.73   |
| Wakayama     | 0.53  | 0.93  | 3.56   |
| Tottori      | 0.39  | 0.57  | 2.02   |
| Shimane      | 0.71  | 1.06  | 3.25   |
| Okayama      | 0.99  | 1.37  | 3.16   |
| Hiroshima    | 1.85  | 2.84  | 7.56   |
| Yamaguchi    | 0.76  | 1.18  | 4.04   |
| Tokushima    | 0.41  | 0.66  | 2.58   |
| Kagawa       | 0.40  | 0.58  | 2.28   |
| Ehime        | 0.72  | 1.10  | 3.78   |
| Kochi        | 0.63  | 0.93  | 2.94   |
| Fukuoka      | 3.26  | 4.25  | 2.94   |
| Saga         | 0.39  | 0.55  | 2.14   |
| Nagasaki     | 0.91  | 1.57  | 5.96   |
| Kumamoto     | 0.89  | 1.32  | 3.21   |
| Oita         | 0.63  | 1.03  | 3.76   |
| Miyazaki     | 0.62  | 1.16  | 4.40   |
| Kagoshima    | 1.04  | 1.51  | 3.18   |
| Okinawa      | 0.54  | 0.97  | -2.81  |
| All          | 59.13 | 86.95 | 150.19 |

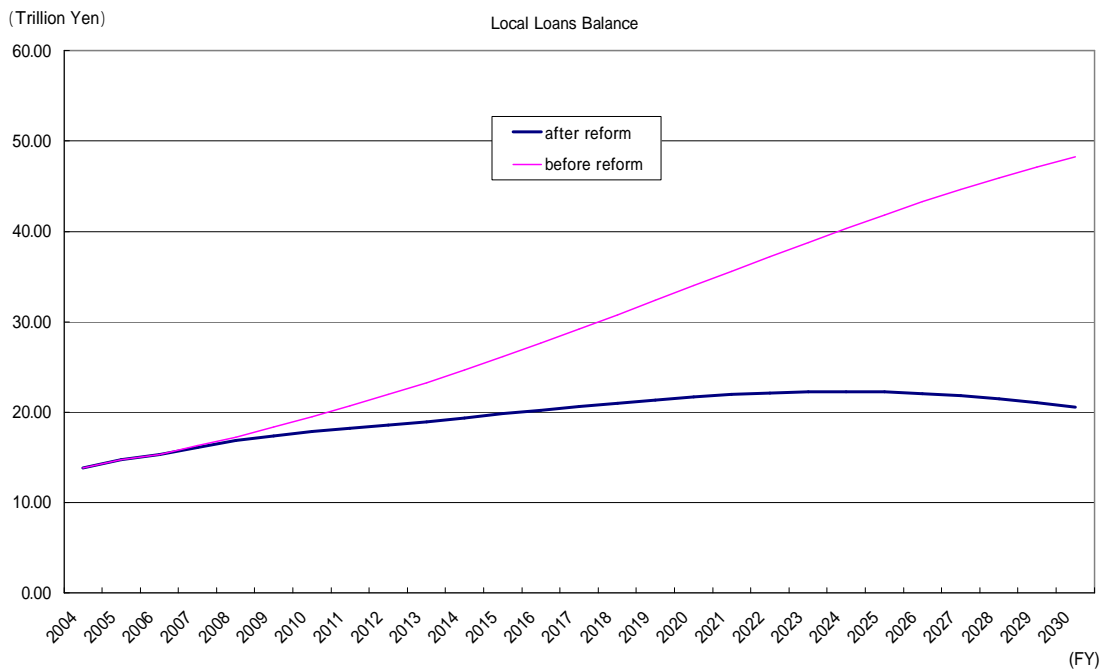


Figure 3-2-5 Local government bond balance forecast (total amount, before and after reform)

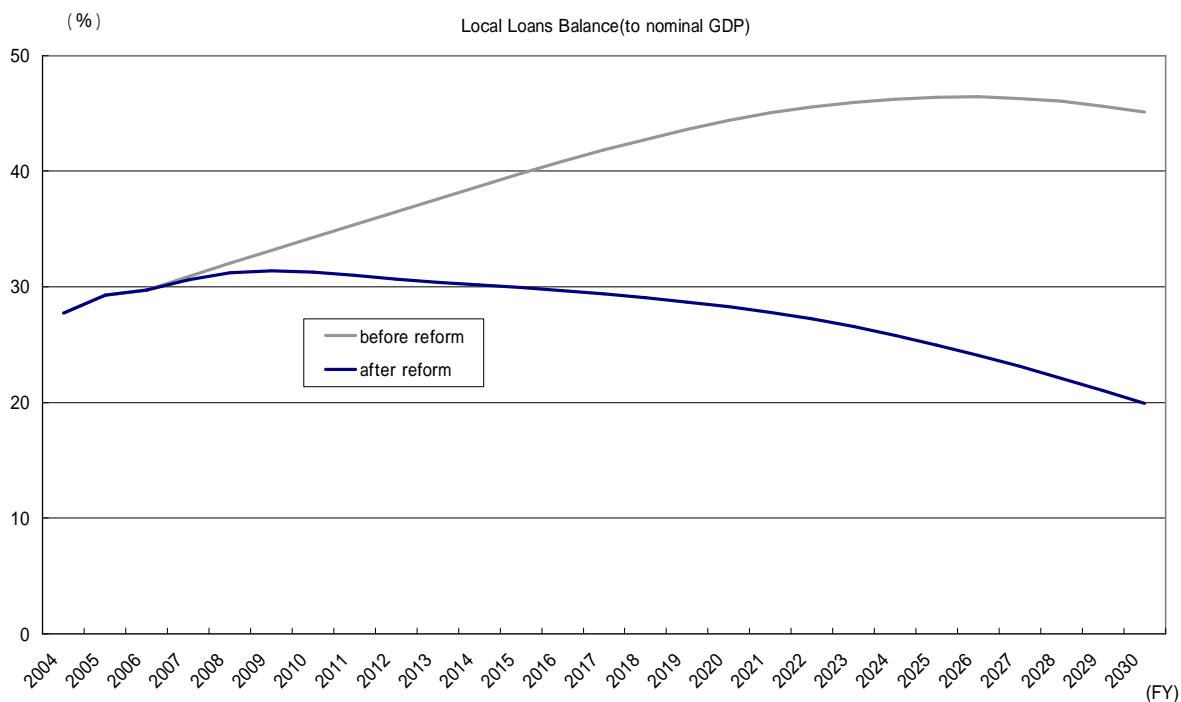


Figure 3-2-6 local government bond balance forecast against GDP  
(total amount, before and after reform)

Table 3-3-1 Trend in the number of non-receiving bodies<sup>2</sup> (before reform)

| FY                                 | 2004  | 2011  | 2030  |
|------------------------------------|-------|-------|-------|
| Prefecture                         | 1     | 3     | 7     |
| Cities(including 23wards in Tokyo) | 95    | 159   | 254   |
| Towns and Villages                 | 56    | 24    | 57    |
| All                                | 152   | 186   | 318   |
| Population ratio                   | 16.6% | 24.4% | 42.3% |

Table 3-3-2 Trend in the number of non-receiving bodies (after reform)

| FY                                 | 2004  | 2011  | 2030  |
|------------------------------------|-------|-------|-------|
| Prefecture                         | 1     | 6     | 19    |
| Cities(included 23 wards in Tokyo) | 95    | 209   | 295   |
| Towns and Villages                 | 56    | 39    | 92    |
| All                                | 152   | 254   | 406   |
| Population ratio                   | 16.6% | 32.8% | 44.4% |

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<sup>2</sup> The number of non-receiving bodies by population ratio are for 2004.

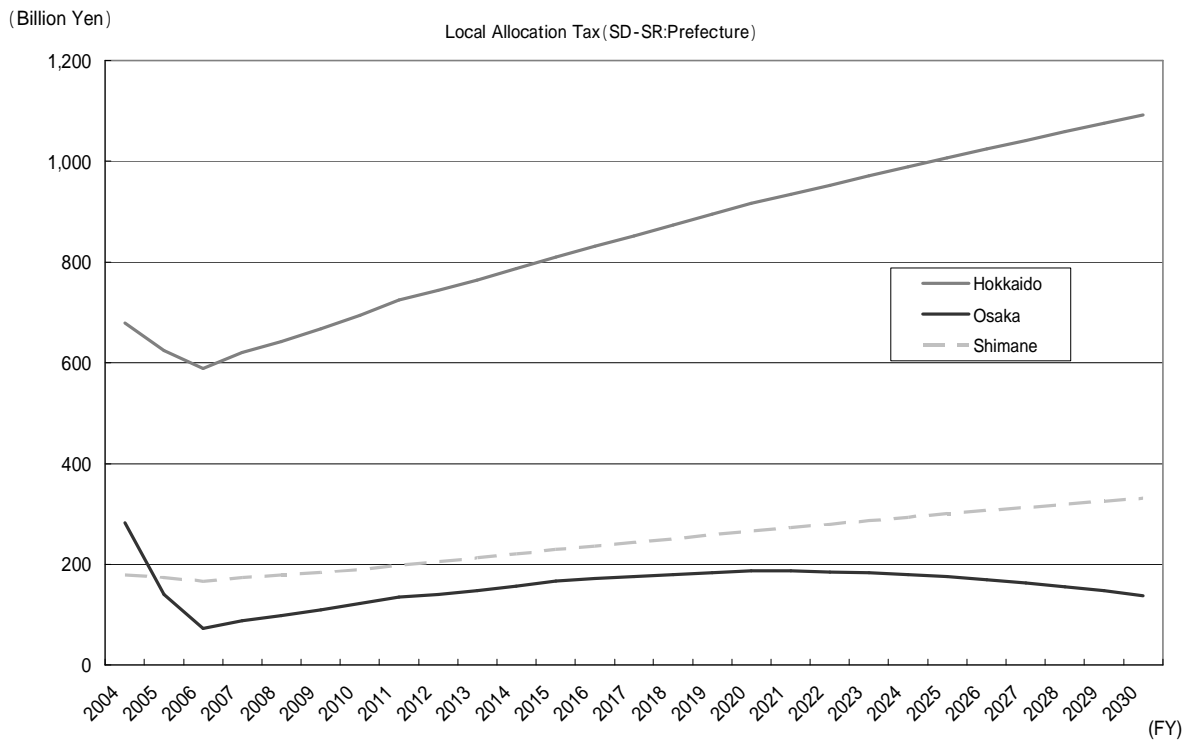


Figure 3-3-1 Local allocation tax forecast (prefectures, before reform)

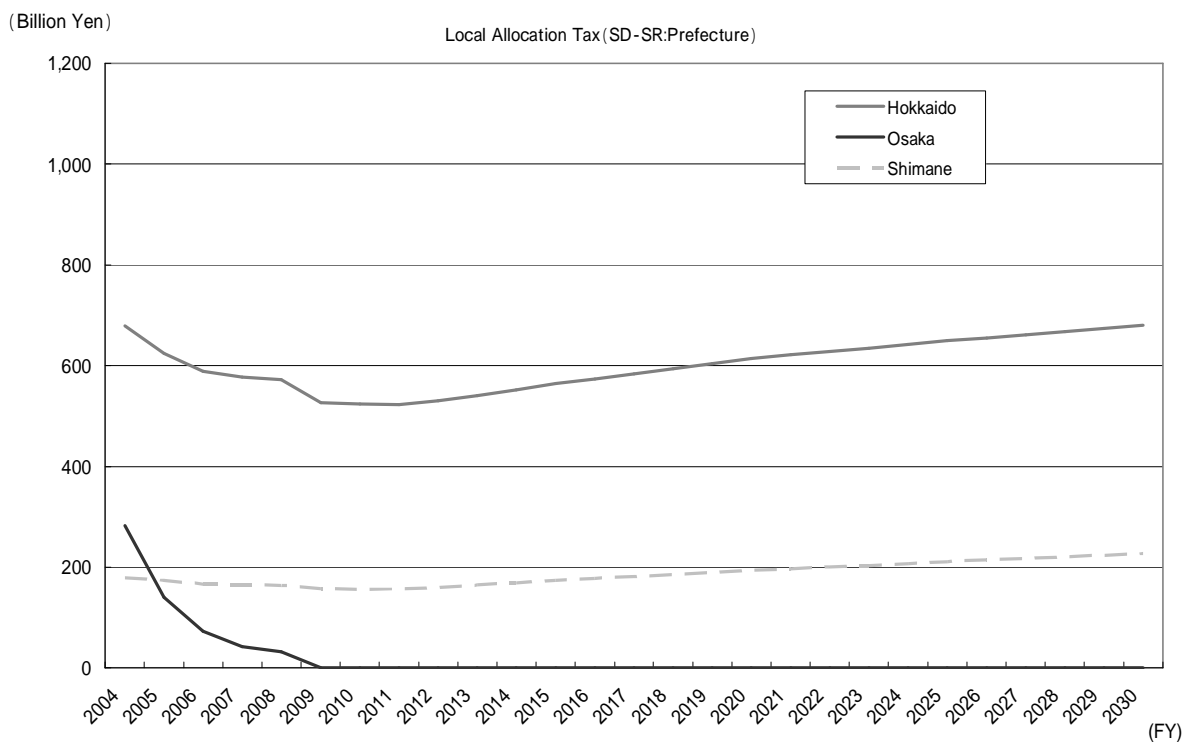


Figure 3-3-2 Local allocation tax forecast (prefectures, after reform)

Table 3-3-3 Local allocation tax forecast (prefectures, before reform)

| billion yen | 2004  | 2011  | 2030   |
|-------------|-------|-------|--------|
| Hokkaido    | 679   | 725   | 1,092  |
| Aomori      | 228   | 228   | 383    |
| Iwate       | 234   | 240   | 338    |
| Miyagi      | 179   | 128   | 9      |
| Akita       | 206   | 229   | 441    |
| Yamagata    | 187   | 198   | 334    |
| Fukushima   | 235   | 219   | 303    |
| Ibaragi     | 186   | 154   | 168    |
| Tochigi     | 154   | 102   | 76     |
| Gumma       | 153   | 127   | 187    |
| Saitama     | 244   | 73    | 0      |
| Chiba       | 220   | 92    | 0      |
| Tokyo       | 0     | 0     | 0      |
| Kanagawa    | 149   | 0     | 0      |
| Niigata     | 288   | 367   | 849    |
| Toyama      | 138   | 151   | 289    |
| Ishikawa    | 137   | 148   | 283    |
| Fukui       | 127   | 132   | 260    |
| Yamanashi   | 130   | 131   | 230    |
| Nagano      | 241   | 193   | 145    |
| Gifu        | 190   | 189   | 310    |
| Shizuoka    | 163   | 119   | 162    |
| Aichi       | 72    | 0     | 0      |
| Mie         | 155   | 133   | 181    |
| Shiga       | 123   | 72    | 0      |
| Kyoto       | 180   | 161   | 188    |
| Osaka       | 283   | 135   | 137    |
| Hyogo       | 384   | 293   | 120    |
| Nara        | 144   | 157   | 270    |
| Wakayama    | 162   | 181   | 342    |
| Tottori     | 126   | 130   | 218    |
| Shimane     | 179   | 199   | 331    |
| Okayama     | 182   | 174   | 243    |
| Hiroshima   | 210   | 204   | 340    |
| Yamaguchi   | 188   | 203   | 414    |
| Tokushima   | 137   | 149   | 286    |
| Kagawa      | 114   | 121   | 258    |
| Ehime       | 179   | 188   | 348    |
| Kochi       | 166   | 179   | 281    |
| Fukuoka     | 284   | 167   | 0      |
| Saga        | 135   | 141   | 270    |
| Nagasaki    | 230   | 247   | 449    |
| Kumamoto    | 223   | 210   | 267    |
| Oita        | 184   | 194   | 342    |
| Miyazaki    | 187   | 196   | 345    |
| Kagoshima   | 275   | 278   | 336    |
| Okinawa     | 180   | 150   | 34     |
| All         | 9,148 | 8,206 | 11,863 |

Table 3-3-4 Local allocation tax forecast (municipalities, before reform)

| billion yen | 2004  | 2011  | 2030   |
|-------------|-------|-------|--------|
| Hokkaido    | 727   | 842   | 1,153  |
| Aomori      | 165   | 250   | 537    |
| Iwate       | 172   | 231   | 397    |
| Miyagi      | 166   | 123   | 29     |
| Akita       | 157   | 231   | 521    |
| Yamagata    | 132   | 175   | 348    |
| Fukushima   | 171   | 226   | 357    |
| Ibaragi     | 111   | 165   | 191    |
| Tochigi     | 59    | 103   | 177    |
| Gumma       | 98    | 151   | 275    |
| Saitama     | 107   | 154   | 21     |
| Chiba       | 73    | 154   | 74     |
| Tokyo       | -25   | 16    | 29     |
| Kanagawa    | 21    | 49    | 0      |
| Niigata     | 211   | 285   | 510    |
| Toyama      | 76    | 137   | 351    |
| Ishikawa    | 98    | 173   | 453    |
| Fukui       | 49    | 101   | 326    |
| Yamanashi   | 66    | 117   | 313    |
| Nagano      | 212   | 253   | 281    |
| Gifu        | 123   | 185   | 352    |
| Shizuoka    | 62    | 116   | 158    |
| Aichi       | -41   | 42    | 0      |
| Mie         | 88    | 162   | 305    |
| Shiga       | 62    | 97    | 22     |
| Kyoto       | 168   | 287   | 466    |
| Osaka       | 246   | 284   | 497    |
| Hyogo       | 322   | 360   | 143    |
| Nara        | 96    | 171   | 376    |
| Wakayama    | 94    | 171   | 438    |
| Tottori     | 72    | 115   | 289    |
| Shimane     | 119   | 174   | 384    |
| Okayama     | 159   | 243   | 399    |
| Hiroshima   | 175   | 287   | 543    |
| Yamaguchi   | 108   | 188   | 455    |
| Tokushima   | 68    | 115   | 329    |
| Kagawa      | 62    | 110   | 309    |
| Ehime       | 130   | 211   | 475    |
| Kochi       | 114   | 181   | 394    |
| Fukuoka     | 330   | 417   | 171    |
| Saga        | 76    | 125   | 331    |
| Nagasaki    | 174   | 258   | 632    |
| Kumamoto    | 192   | 262   | 451    |
| Oita        | 113   | 187   | 463    |
| Miyazaki    | 122   | 203   | 508    |
| Kagoshima   | 223   | 281   | 465    |
| Okinawa     | 112   | 180   | 295    |
| All         | 6,416 | 9,347 | 15,993 |

Table 3-3-5 Local allocation tax forecast (prefectures, after reform)

| billion yen | 2004  | 2011  | 2030  |
|-------------|-------|-------|-------|
| Hokkaido    | 679   | 522   | 680   |
| Aomori      | 228   | 167   | 212   |
| Iwate       | 234   | 183   | 190   |
| Miyagi      | 179   | 61    | 0     |
| Akita       | 206   | 177   | 322   |
| Yamagata    | 187   | 151   | 224   |
| Fukushima   | 235   | 144   | 93    |
| Ibaragi     | 186   | 69    | 0     |
| Tochigi     | 154   | 36    | 0     |
| Gumma       | 153   | 65    | 6     |
| Saitama     | 244   | 0     | 0     |
| Chiba       | 220   | 0     | 0     |
| Tokyo       | 0     | 0     | 0     |
| Kanagawa    | 149   | 0     | 0     |
| Niigata     | 288   | 284   | 725   |
| Toyama      | 138   | 106   | 173   |
| Ishikawa    | 137   | 101   | 155   |
| Fukui       | 127   | 92    | 147   |
| Yamanashi   | 130   | 89    | 103   |
| Nagano      | 241   | 120   | 0     |
| Gifu        | 190   | 117   | 134   |
| Shizuoka    | 163   | 12    | 0     |
| Aichi       | 72    | 0     | 0     |
| Mie         | 155   | 70    | 0     |
| Shiga       | 123   | 31    | 0     |
| Kyoto       | 180   | 91    | 7     |
| Osaka       | 283   | 0     | 0     |
| Hyogo       | 384   | 147   | 0     |
| Nara        | 144   | 110   | 148   |
| Wakayama    | 162   | 136   | 237   |
| Tottori     | 126   | 100   | 126   |
| Shimane     | 179   | 157   | 227   |
| Okayama     | 182   | 112   | 81    |
| Hiroshima   | 210   | 117   | 136   |
| Yamaguchi   | 188   | 144   | 277   |
| Tokushima   | 137   | 112   | 187   |
| Kagawa      | 114   | 85    | 169   |
| Ehime       | 179   | 133   | 211   |
| Kochi       | 166   | 141   | 176   |
| Fukuoka     | 284   | 41    | 0     |
| Saga        | 135   | 101   | 159   |
| Nagasaki    | 230   | 186   | 300   |
| Kumamoto    | 223   | 146   | 77    |
| Oita        | 184   | 144   | 211   |
| Miyazaki    | 187   | 147   | 210   |
| Kagoshima   | 275   | 207   | 142   |
| Okinawa     | 180   | 101   | 0     |
| All         | 9,148 | 5,253 | 6,246 |

Table 3-3-6 Local allocation tax forecast (municipalities, after reform)

| billion yen | 2004  | 2011  | 2030   |
|-------------|-------|-------|--------|
| Hokkaido    | 727   | 657   | 881    |
| Aomori      | 165   | 205   | 477    |
| Iwate       | 172   | 186   | 326    |
| Miyagi      | 166   | 60    | 0      |
| Akita       | 157   | 191   | 472    |
| Yamagata    | 132   | 140   | 296    |
| Fukushima   | 171   | 169   | 289    |
| Ibaragi     | 111   | 93    | 88     |
| Tochigi     | 59    | 53    | 84     |
| Gumma       | 98    | 97    | 166    |
| Saitama     | 107   | 49    | 0      |
| Chiba       | 73    | 57    | 51     |
| Tokyo       | 8     | 12    | 26     |
| Kanagawa    | 21    | 0     | 0      |
| Niigata     | 211   | 213   | 404    |
| Toyama      | 76    | 101   | 277    |
| Ishikawa    | 98    | 130   | 363    |
| Fukui       | 49    | 73    | 279    |
| Yamanashi   | 66    | 86    | 240    |
| Nagano      | 212   | 183   | 176    |
| Gifu        | 123   | 124   | 226    |
| Shizuoka    | 62    | 42    | 64     |
| Aichi       | 15    | 15    | 0      |
| Mie         | 88    | 111   | 227    |
| Shiga       | 62    | 57    | 1      |
| Kyoto       | 168   | 215   | 375    |
| Osaka       | 246   | 100   | 233    |
| Hyogo       | 322   | 216   | 110    |
| Nara        | 96    | 130   | 278    |
| Wakayama    | 94    | 137   | 395    |
| Tottori     | 72    | 93    | 247    |
| Shimane     | 119   | 143   | 334    |
| Okayama     | 159   | 185   | 317    |
| Hiroshima   | 175   | 208   | 441    |
| Yamaguchi   | 108   | 145   | 394    |
| Tokushima   | 68    | 89    | 273    |
| Kagawa      | 62    | 81    | 252    |
| Ehime       | 130   | 166   | 409    |
| Kochi       | 114   | 153   | 365    |
| Fukuoka     | 330   | 280   | 90     |
| Saga        | 76    | 101   | 297    |
| Nagasaki    | 174   | 213   | 587    |
| Kumamoto    | 192   | 209   | 385    |
| Oita        | 113   | 148   | 398    |
| Miyazaki    | 122   | 166   | 463    |
| Kagoshima   | 223   | 223   | 377    |
| Okinawa     | 112   | 139   | 60     |
| All         | 6,506 | 6,643 | 12,492 |

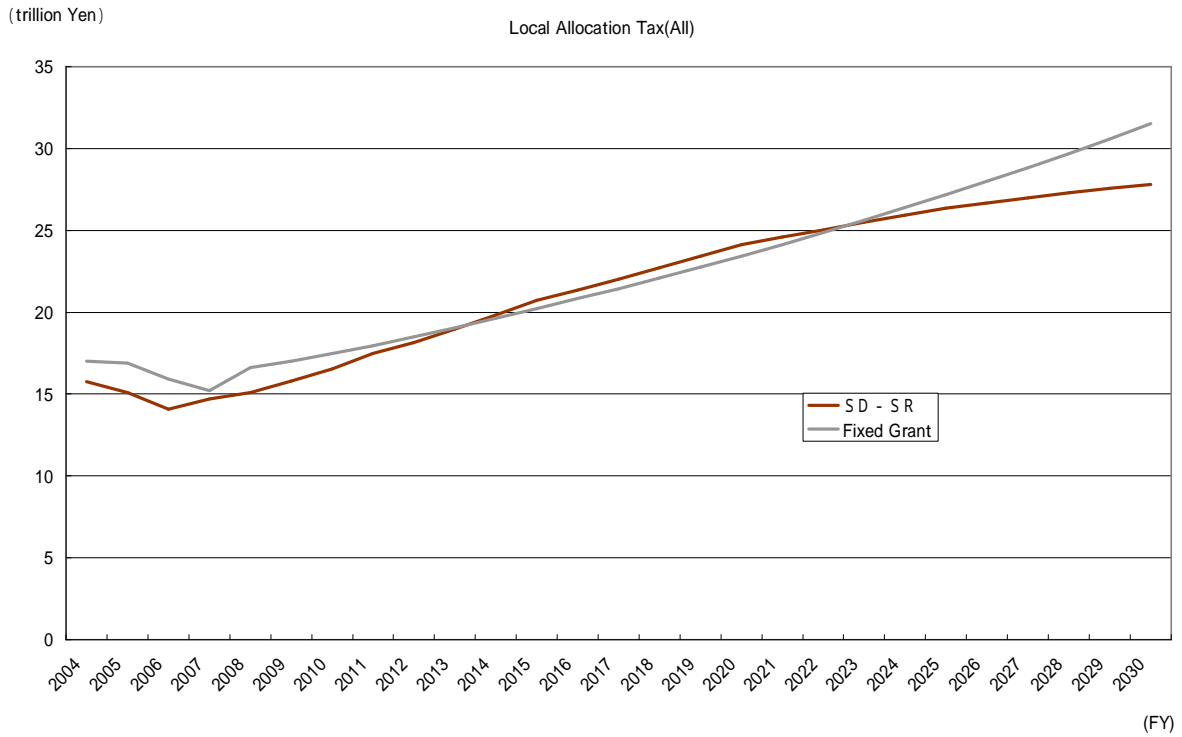


Figure 3-3-3 Local allocation tax forecast (total, pre-reform)

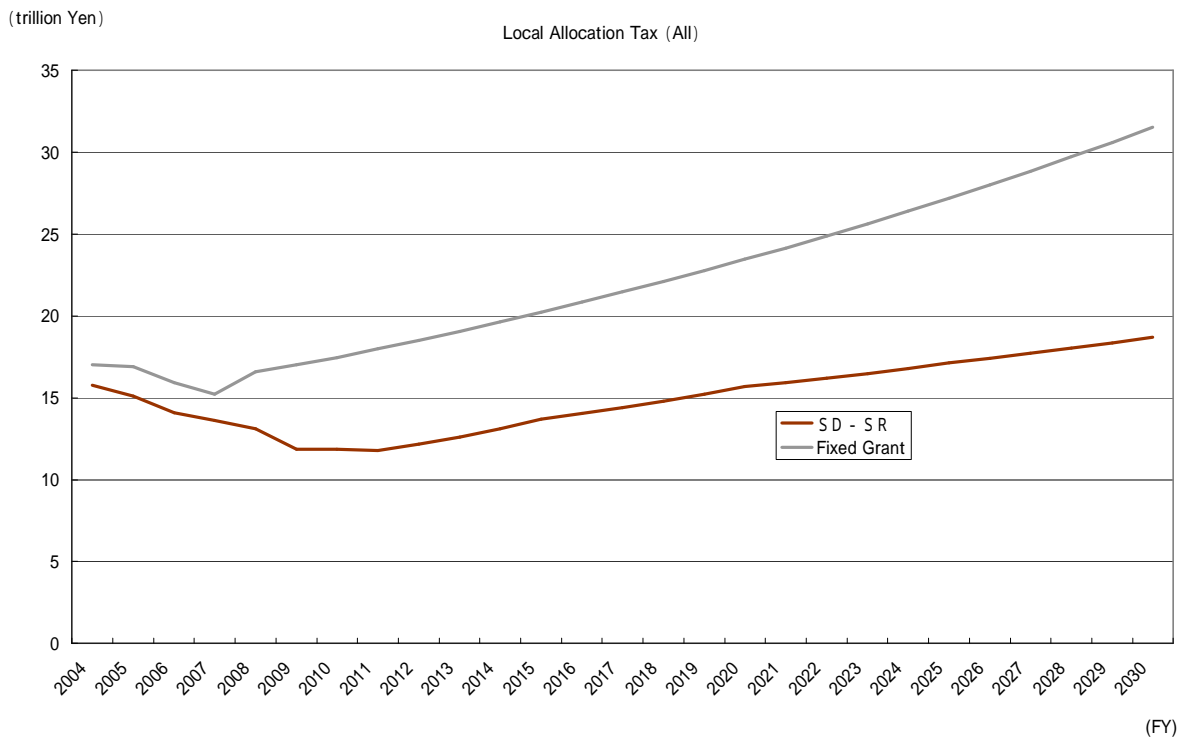


Figure 3-3-4 Local allocation tax forecast (total, post-reform)

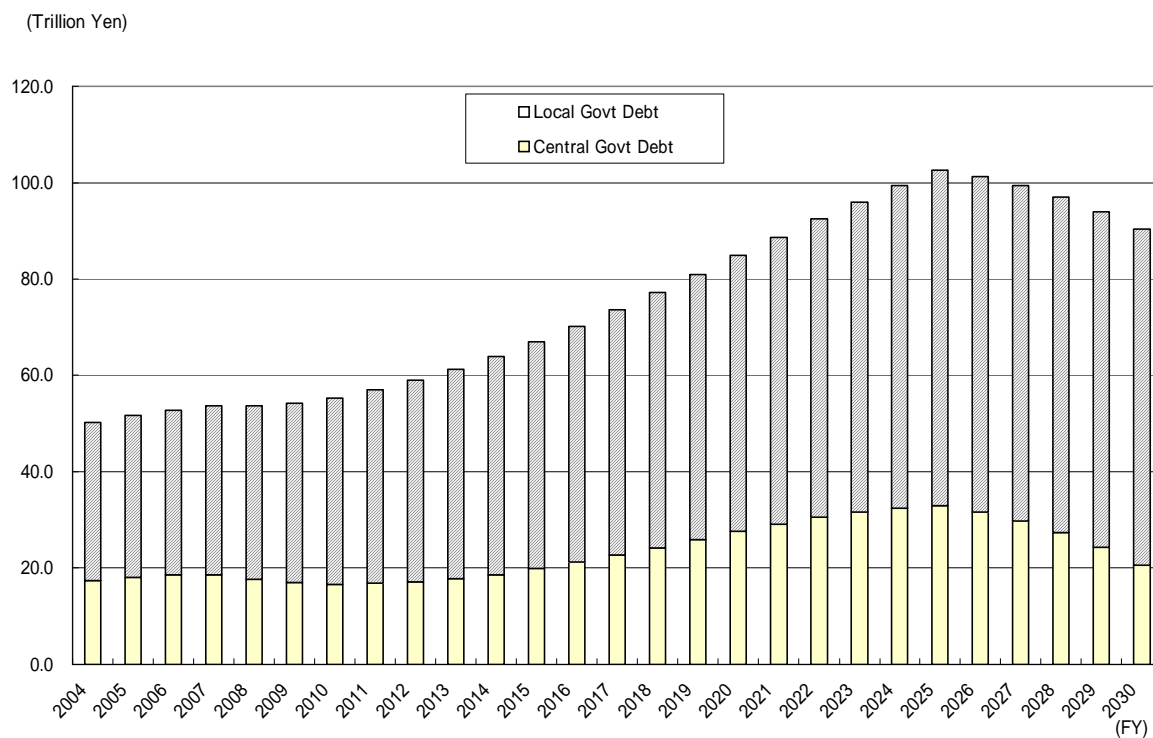


Figure 3-4-1 Term-end debt balance in special account for debt of local allocation tax (pre-reform)

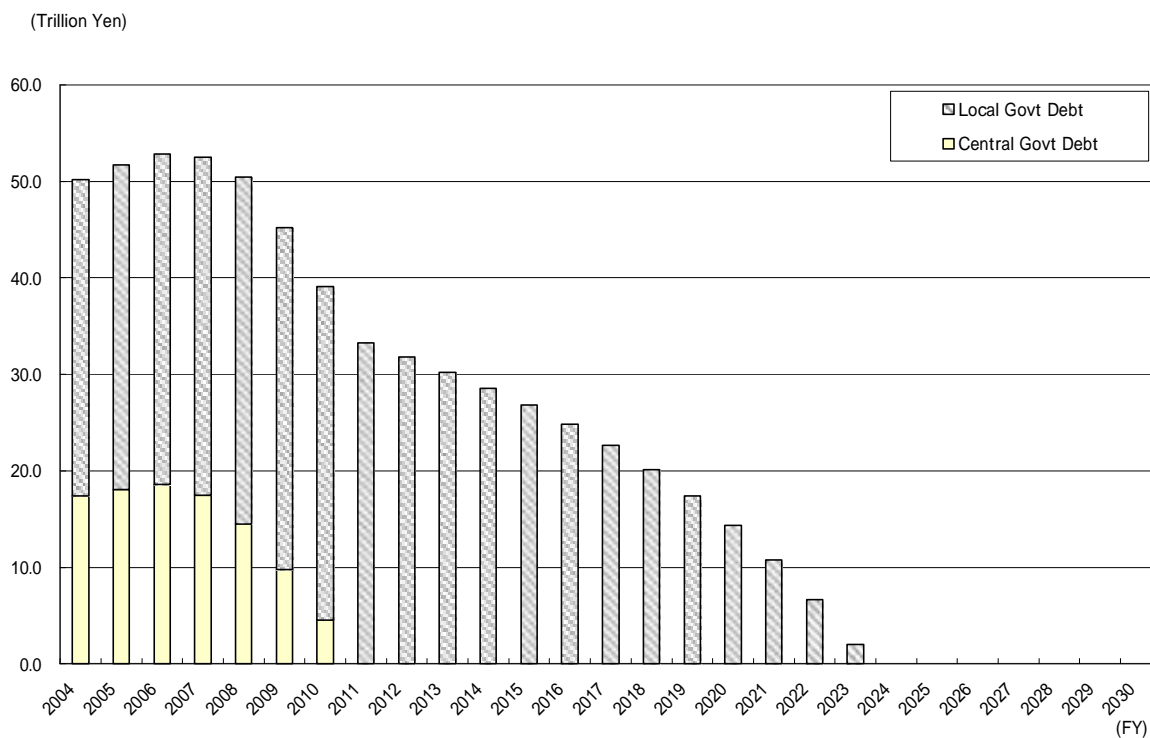


Figure 3-4-2 Term-end debt balance in special account for debt of local allocation tax (post-reform)

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