Financial Condition of the City of Nagoya

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Finance Bureau, City of Nagoya

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Profile of Nagoya

Nagoya Overview

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area</td>
<td>326.43 km² (September 1, 2013)</td>
</tr>
<tr>
<td>Average temperature</td>
<td>15.8°C (Average for 2012)</td>
</tr>
<tr>
<td>Precipitation</td>
<td>1,567.5 mm (Total for 2012)</td>
</tr>
<tr>
<td>Population</td>
<td>2,270,841 (September 1, 2013)</td>
</tr>
<tr>
<td>Households</td>
<td>1,033,489 (September 1, 2013)</td>
</tr>
<tr>
<td>Daytime population</td>
<td>2,569,376 (October 1, 2010)</td>
</tr>
<tr>
<td>Business establishments</td>
<td>122,153 (February 1, 2012)</td>
</tr>
<tr>
<td>Employed individuals</td>
<td>1,405,801 (February 1, 2012)</td>
</tr>
</tbody>
</table>
Population Dynamics of Nagoya City

- The city of Nagoya is Japan’s third most populous government-designated municipality at approximately 2.27 million. As of October 1, 2012, the City’s population stood at 2,266,651 representing an increase for the 16th year in a row and setting a new record for the city.

- While the city’s population is projected to decrease from 2015, it is expected that the rate of decrease will comparatively less than the nationwide average.

*For each year as of October 1

*Shift based on FY 2010 population of 100

Nagoya City figures are based on municipal data. Japan nationwide figures are based on “Population Projections by Municipality, Japan (March 2013 projections)” (National Institute of Population and Social Security Research).
Nagoya’s Transportation Network

- Nagoya features a well-developed transportation network with Nagoya Station serving as the gateway for the larger Nagoya Metro Area in carrying out its role as a railway hub linking numerous rail lines. In doing so, it provides access to the Port of Nagoya, the seafaring gateway for Japan’s Chubu region as well as Chubu Centrair International Airport, the air transport gateway, both of which can be reached by rail from Nagoya Station in approximately 30 minutes.

- The transportation network is currently undergoing further enhancement and once the SCMAGLEV Chuo Shinkansen railway opens, the approximate 100 minute trip between Tokyo and Nagoya will be reduced to approximately 40 minutes. In addition, the Shin-Tomei Expressway is currently under construction and, when complete, will feature “smart technologies” such as electronic toll collection to be featured as part of the Moriyama smart high interchange.
The Restoration of Nagoya Castle Hommaru Palace

Historically, Nagoya Castle Hommaru included a castle tower and Hommaru Palace. Hommaru Palace itself is considered a masterpiece of Japanese Neo-feudal-aristocratic architecture and is likened to the other masterpiece of samurai-residence-styled “shoin-zukuri” architecture—Ninomaru Palace of Kyoto’s Nijo Castle which is designated as a National Treasure of Japan. While Hommaru Palace was designated as a “daiichigo-ranked” National Treasure in 1930, it burned during a bombing raid in 1945.

Since January 2009, the restoration of Hommaru Palace has been promoted by Nagoya City as a key historic and cultural symbol of the city to be handed down to the next generation in efforts to communicate the importance of “the art of monozukuri craftsmanship, the human spirit and the natural environment.”

On May 29, 2013, the Grand Entrance and Main Hall were opened to the public.

Restoration Outline

Structural overview: Wooden-shingled, single-story wooden structure
Shoin-zukuri architectural style
Total area: approximately 3,100㎡
Construction period: FY 2008 – FY 2017
Phase 1: Grand Entrance / Main Drawing Room
Phase 2: Meeting Room / Primary Kitchen, etc.
Phase 3: Primary Drawing Room / Black Study Hall, etc.
Special Zone Comprising Asia’s No. 1 Aerospace Industry Cluster

In December 2011 Aichi Prefecture, Gifu Prefecture and Nagoya City filed a joint petition which led to joint designation as an international strategic comprehensive zone known as the “Special Zone Comprising Asia’s No. 1 Aerospace Industry Cluster.”

Outline

- Objective
  Create the largest / greatest aerospace industry cluster in Asia

- Numeric targets (2010 – 2015)
  - Chubu region’s international aerospace industry market share
    1.5% → 2%
  - Chubu region’s aerospace industry output
    700 billion yen → 900 billion yen
  - Chubu region’s aerospace industry headcount
    15,000 → 20,000
  - Chubu region’s aerospace-related export value
    180 billion yen → 240 billion yen
  - Number of new and additional aerospace-related facilities such as factories, etc. in the Aichi/Gifu region
    For the four years from 2012 – 2015: 20

*Chubu region refers to the five prefectures of Chubu

Illustration representing the future target for the aerospace industry cluster (Commercial aircraft image)
Redevelopment of Area Adjacent to Nagoya Station

Outline

Large-scale redevelopment of the area adjacent to Nagoya Station—which is to become the future terminal for the SCMAGLEV Chuo Shinkansen—is currently moving forward primarily due to private-sector projects, such as Midland Square and Nagoya Lucent Tower, and shows signs of quickening pace.

In addition, in efforts to enhance the international competitiveness of urban areas, the area around Nagoya Station and upscale districts have been designated as “specified critical development areas for urban renaissance.”

Legend

- Construction completed
- To be completed in 2015
- To be completed in 2016
- To be completed in 2017
- Completion TBA

Nagoya Station 4-chome 27-ban Area (Mode Gakuen Spiral Towers)

Nagoya Station 4-chome 7-ban Area (Midland Square)

Nagoya Station 4-chome 4-ban South Area (Nagoya Crosscourt Tower)

Nagoya Station 1-chome 1-ban Plan North Area (tentative)

Nagoya Station 1-chome 1-ban Plan South Area (tentative)

Nagoya Station 1-chome 1-ban Plan North Area (tentative)

Nagoya Station 3-chome 27-ban Plan (tentative) Great Nagoya Building Royal Park Inn Nagoya

Nagoya Station 24 (Nagoya School Building of Aichi University) 1st period: From April 2012

2nd period: From April 2017 (planned)

Nagoya Mitsui Building Annex

Nagoya Station 4-chome 1-ban Area (tentative)
# Characteristics of Nagoya Economic Zone

## Nagoya’s Position among Japan’s Three Major Metro Areas

<table>
<thead>
<tr>
<th>Category</th>
<th>Nationwide (Thousand people)</th>
<th>Nagoya area (Thousand people)</th>
<th>Nationwide %</th>
<th>Tokyo area (Billion yen)</th>
<th>Nationwide %</th>
<th>Osaka area (Billion yen)</th>
<th>Nationwide %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>128,057</td>
<td>11,346</td>
<td>8.9%</td>
<td>35,619</td>
<td>27.8%</td>
<td>18,490</td>
<td>14.4%</td>
</tr>
<tr>
<td>Metro area total manufacturing (FY 2010)</td>
<td>520,395.1</td>
<td>49,456.2</td>
<td>9.5%</td>
<td>166,261.7</td>
<td>31.9%</td>
<td>70,590.4</td>
<td>13.6%</td>
</tr>
<tr>
<td>Businesses (Establishments) (2012)</td>
<td>5,465,578</td>
<td>499,003</td>
<td>9.1%</td>
<td>1,355,818</td>
<td>24.8%</td>
<td>794,720</td>
<td>14.5%</td>
</tr>
<tr>
<td>Headcount individuals (2012)</td>
<td>56,324</td>
<td>536.1</td>
<td>9.5%</td>
<td>1,670.5</td>
<td>29.7%</td>
<td>813.8</td>
<td>14.4%</td>
</tr>
<tr>
<td>Shipment value of manufactured goods (2011)</td>
<td>284,968.8</td>
<td>51,319.8</td>
<td>18.0%</td>
<td>50,580.3</td>
<td>17.7%</td>
<td>37,643.7</td>
<td>13.2%</td>
</tr>
<tr>
<td>Wholesale annual sales (2007)</td>
<td>413,531.7</td>
<td>39,808.0</td>
<td>9.6%</td>
<td>192,714.5</td>
<td>46.6%</td>
<td>65,041.3</td>
<td>15.7%</td>
</tr>
<tr>
<td>Retail annual sales (2007)</td>
<td>134,705.4</td>
<td>12,336.2</td>
<td>9.2%</td>
<td>37,919.8</td>
<td>28.2%</td>
<td>19,410.6</td>
<td>14.4%</td>
</tr>
<tr>
<td>Annual revenue of service industry (2004)</td>
<td>151,815.9</td>
<td>12,008.5</td>
<td>7.9%</td>
<td>61,996.8</td>
<td>40.8%</td>
<td>21,843.3</td>
<td>14.4%</td>
</tr>
<tr>
<td>Export value (2012)</td>
<td>63,747.6</td>
<td>13,205.8</td>
<td>20.7%</td>
<td>22,080.7</td>
<td>34.6%</td>
<td>13,006.6</td>
<td>20.4%</td>
</tr>
<tr>
<td>Import value (2012)</td>
<td>70,688.6</td>
<td>8,195.0</td>
<td>11.6%</td>
<td>29,906.3</td>
<td>42.3%</td>
<td>12,823.0</td>
<td>18.1%</td>
</tr>
</tbody>
</table>

The Nagoya metro area is notable for its high concentration of manufacturing. The region’s shipment of manufactured goods is the highest among the three major metro areas.
Economic Size of Nagoya

Population

- As of July 2013, the population of Nagoya was just under 2.27 million, up slightly from the same period last year.
- The population has increased for 17 years in a row from just under 2.152 million in January 1996, a total increase of approximately 0.118 million.
- Daytime population is 2,569 (National Census for FY 2010) and the ratio of daytime to nighttime population is 113.5% suggesting a significant population inflow from surrounding areas.

Gross product

- The gross product of Nagoya in FY 2010 was the third largest among government-designated cities after Osaka and Yokohama. The gross product of Nagoya accounts for approximately 2.4% of Japan’s GDP.

*Cities not mentioned in the above graphs have not provided data for FY 2010.*
Economic Snapshot of Nagoya City

- Nagoya City nominal gross product is notable for its high proportion of commercial businesses such as wholesale/retail and services. In addition, manufacturing, such as automotive-related, stands at 8.1%.

- By sector, manufacturing comprises 20.2% of Nagoya's corporate municipal tax (portion levied for the current year) and, comparing this to gross product indicates it is on the increase.

- While chemical, industrial machinery and auto parts comprise a major portion of Nagoya's manufacturing industry, during FY 2012 in particular, the stellar financial performance of automotive manufacturing, which has a ripple-effect across other industries, significantly contributed to increases in corporate municipal tax coffers.
Overview of General Account for FY 2013

Overview of General Account for FY 2013

In terms of municipal tax revenue for FY 2013, Nagoya has seen a year-on-year of 16.2 billion yen. A closer look shows that while volatility in tax revenue reductions, due to municipal tax cuts has leveled out and become more stable, revenue from corporate municipal tax has risen due to improvements in corporate revenue, etc.

The autonomous fund comprises 67.6% of Nagoya’s revenue, representing a 1.3% year-on-year increase---the highest figure among all government-designated cities.

With respect to expenditure, mandatory spending (payroll, assistance & aid and debt servicing) comprises 55.3%---a new all-time record high. These results indicate that increases, in expenditure for assistance to provide support for the elderly and child rearing, are inevitable.

The general account is 1.259 billion yen, representing a year-on-year decrease of 2.9 billion yen (this fiscal budget represents 99.7% of last fiscal year's account).
While the recession and the implementation of municipal tax cuts is heralding decreases in municipal tax revenue (the cornerstone of municipal revenue), thanks to improvements in corporate revenue, the FY 2013 general account recorded a year-on-year increase of 16.2 billion yen.

Nagoya is striving to ensure that the young generation will not be saddled with debts of the past and, as a result of reductions in bonds issued to cover extraordinary fiscal needs etc., overall, municipal bonds recorded a year-on-year decrease of 13.2 billion yen.

As a result of planned efforts to control headcount, payroll expenditures are on the decline.

The general account for FY 2013 shows a major 2.4-fold increase over FY 1997 with respect to welfare payments and assistance targeting the elderly and child-rearing families, etc.

While debt servicing has shown increases and decreases depending on the fiscal year, since FY 2010, debt servicing has remained flat.

Investment expenditure seems to be on the decline as a result of temporary decrease in services and consolidation of services.

<table>
<thead>
<tr>
<th>Revenue (Billion yen)</th>
<th>Fiscal year</th>
<th>Municipal tax</th>
<th>Municipal bonds</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,105</td>
<td>9</td>
<td>464</td>
<td>136</td>
<td>505</td>
</tr>
<tr>
<td>1,041</td>
<td>14</td>
<td>450</td>
<td>133</td>
<td>458</td>
</tr>
<tr>
<td>979</td>
<td>19</td>
<td>377</td>
<td>85</td>
<td>517</td>
</tr>
<tr>
<td>1,029</td>
<td>24</td>
<td>465</td>
<td>92</td>
<td>472</td>
</tr>
<tr>
<td>1,026</td>
<td>25</td>
<td>459</td>
<td>79</td>
<td>488</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditure (Billion yen)</th>
<th>Fiscal year</th>
<th>Payroll</th>
<th>Assistance</th>
<th>Debt servicing</th>
<th>Investment expenses</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,107</td>
<td>9</td>
<td>489</td>
<td>191</td>
<td>198</td>
<td>193</td>
<td>169</td>
</tr>
<tr>
<td>1,042</td>
<td>14</td>
<td>428</td>
<td>108</td>
<td>127</td>
<td>193</td>
<td>169</td>
</tr>
<tr>
<td>980</td>
<td>19</td>
<td>380</td>
<td>100</td>
<td>137</td>
<td>193</td>
<td>169</td>
</tr>
<tr>
<td>1,029</td>
<td>24</td>
<td>391</td>
<td>139</td>
<td>148</td>
<td>172</td>
<td>169</td>
</tr>
<tr>
<td>1,026</td>
<td>25</td>
<td>383</td>
<td>139</td>
<td>139</td>
<td>172</td>
<td>169</td>
</tr>
</tbody>
</table>
Municipal Tax Revenue

(Billion yen)

*Tax revenue up to FY 2012 is the settled amount, while FY 2013 budget figures are based on post-June adjustments
*Totals inside parenthesis include decreases in tax revenue due to tax cuts
*Individual amounts are rounded off, so totals for each fiscal year, etc. may not agree with the sum of items shown.
Overview of 5% Residential Tax Cut (From FY 2013 Onward)

1. Purpose of Tax Cut
To support the lives of the citizens and revitalize the local economy as well as its future potential with respect to current economic conditions.

2. Tax Rate After Tax Cut

① Residential tax (individual)
   (Per capita) Before tax cut: 3,000 yen → After: 2,800 yen
   (By income) Before tax cut: 6% → After: 5.7%

② Residential tax (corporate)
   (Per capital) Before tax cut: 50,000 - 3 million yen
   → After: 47,500 - 2.85 million yen
   (By corporate tax) Before tax cut: 14.7% → After: 13.965%
   12.3% → 11.685%

3. Application

① Residential tax (individual)
   From FY 2012 (applied from June)

② Residential tax (corporate)
   From the fiscal year ending after April 1, 2012

4. Effects of Tax Cut

<table>
<thead>
<tr>
<th>Category</th>
<th>Per capita basis</th>
<th>Per income/corporate tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential tax (individual)</td>
<td>8.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Residential tax (corporate)</td>
<td>6.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Residential tax (corporate)</td>
<td>1.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Settlement for FY 2012 (Billion yen)

Settlement for FY 2013 (following post-June adjustments)

<table>
<thead>
<tr>
<th>Category</th>
<th>Per capita basis</th>
<th>Per income/corporate tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential tax (individual)</td>
<td>11.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Residential tax (corporate)</td>
<td>7.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Residential tax (corporate)</td>
<td>3.4</td>
<td>0.6</td>
</tr>
</tbody>
</table>

5. Other

- Supplementary provisions stipulate that evidence of verification is to be shown within three years after April 1, 2012.
Overview of 10% Residential Tax Cut (From FY 2010 Onward)

1. Purpose of Tax Cut
To support the lives of the citizens and revitalize the local economy with respect to current economic conditions.

2. Tax Rate After Tax Cut

① Residential tax (individual)
   (Per capita) Before tax cut: 3,000 yen → After: 2,700 yen
   (By income) Before tax cut: 6% → After: 5.4%

② Residential tax (corporate)
   (Per capital) Before tax cut: 50,000 - 3 million yen
   → After: 45,000 - 2.70 million yen
   (By corporate tax) Before tax cut: 14.7% → After: 13.23%
   12.3% → 11.07%

3. Application

① Residential tax (individual)
   Portion for FY 2010 (applied from June)

② Residential tax (corporate)
   For fiscal year portions from April 1, 2010 to the end of March 31, 2011

4. Effects of Tax Cut

<table>
<thead>
<tr>
<th>Category</th>
<th>Per capita basis</th>
<th>Per income/corporate tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax cut</td>
<td>16.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Residential tax (individual)</td>
<td>13.5</td>
<td>13.2</td>
</tr>
<tr>
<td>Residential tax (corporate)</td>
<td>2.5</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Settlement for FY 2013

<table>
<thead>
<tr>
<th>Category</th>
<th>Per capita basis</th>
<th>Per income/corporate tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax cut</td>
<td>5.8</td>
<td>5.4</td>
</tr>
<tr>
<td>Residential tax (individual)</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Residential tax (corporate)</td>
<td>3.9</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Total

<table>
<thead>
<tr>
<th>Category</th>
<th>Per capita basis</th>
<th>Per income/corporate tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax cut</td>
<td>21.8</td>
<td>20.4</td>
</tr>
<tr>
<td>Residential tax (individual)</td>
<td>15.4</td>
<td>15.1</td>
</tr>
<tr>
<td>Residential tax (corporate)</td>
<td>6.4</td>
<td>5.3</td>
</tr>
</tbody>
</table>
Nagoya did not receive ordinary tax grants for the six years between 1956 and 1961, in 1988, for the three years between 1991 and 1993, and for the four years between 2006 and 2009.

Ordinary tax grants are provided when the standard administrative costs (amount of basic fiscal demand) of individual local governments exceed the standard local tax revenue (amount of basic fiscal revenue), to compensate for the revenue shortfall.

Special tax grants are provided for special administrative costs not covered by ordinary tax grants (costs incurred for disasters such as earthquake and wind/flood damage and fund transfers to public enterprises such as hospitals and bus services).

*Figures used for tax grants are the settled amounts up to FY 2012. FY 2013 figures are budget estimates.
Financial Indicators

- While the internal revenue source ratio remained in the 70% range between FY 2007 and FY 2008, after FY 2009 it dropped below 70% and fell to 67.1% in FY 2012. However, this is still the highest figure among all designated municipalities.

- The internal revenue source ratio is the ratio of overall revenue attained from sources which independently generate revenue (such as municipal taxes and charges and fees) via local public entities. Fundamentally speaking, the higher the ratio the more stable the fiscal structure and the more solid the financial cornerstones of the municipality.

- The financial capability index is calculated by dividing standard revenue used for calculating ordinary tax grants by standard expenditure. If the index is greater than 1, the government has the capability to implement standard fiscal management without ordinary tax grants. Three year average is used in this chart.

- Although Nagoya did not receive ordinary tax grants from FY 2006 to FY 2009, it started receiving grants in FY 2010.
Municipal Bond Issuance of General Account and Dependence on Public Bonds

As a result of curbing the issuance of municipal bonds by reducing investment expenses, the amount of municipal bonds of general accounts totaled 83.6 billion yen in FY 2012.

Both the amount of municipal bonds issued and the dependence on public bonds increased in FY 2009 and FY 2010 due to issuance of bonds for extraordinary fiscal measures to cover local tax grants and special municipal bonds such as bonds to supplement tax cuts and bonds to promote reforms to quasi-public corporations as a result of economic slowdown. Subsequently, these figures decreased and the dependence on public bonds in FY 2012 was 8.2%.
Outstanding Municipal Bonds

As a result of curbing the issuance of municipal bonds by reducing investment expenses, outstanding municipal bonds of general accounts declined in FY 2005 for the first time in 46 years since FY 1959.

Outstanding municipal bonds increased three years in a row until FY 2011 due to the increase in issuance of special municipal bonds (including bonds for extraordinary fiscal measures) (general account).

Outstanding municipal bonds declined in FY 2012 for the first time in four years, and they are expected to further decline in FY 2013 (general account).

*Outstanding balance up to FY 2012 is the settled amount, while an estimate is used for FY 2013.
*Because bonds for Nagoya City University are included in the general account from FY 2006 due to its transformation into an independent administrative institution, bonds for Nagoya City University before FY 2005 are also reclassified in the general account for the purpose of comparison.
*Individual amounts are rounded off, so the total may not agree with the sum of items shown.
Debt expenditure rapidly increased from 1998. However, recently it has leveled out and is expected to remain at the present level.
To ensure future redemptions, Nagoya funds the municipal bonds redemption fund with an annual rate of 6% for bullet bonds. Consequently, there are no problems related to redemption such as funding shortages.

Funding exceeded withdrawals until FY 2011 except for FY 2005 and FY 2006. Withdrawals again exceeded funding in FY 2012 due to the progressing shift from government funding to private funding and the fact that a significant portion of municipal bonds to be funded were redeemed.

*Data from the general account has been used.
The primary balance indicates the relationship between benefits and burdens among generations and is calculated by the formula: (Revenue – Bond revenue) – (Expenditure – Debt Expenditure).

The primary balance is adequate with balanced benefits and burdens among generations when expenditure (excluding debt expenditure) is covered by revenue (excluding bond revenue).

A negative primary balance means the current generation receives more administrative services than their burdens which places a burden on future generations. Nagoya has maintained a positive primary balance since FY 2003.

*Primary balance up to FY 2012 is the settled amount, while a budget has been used for FY 2013.
Nagoya passed all standards for the ratio determining fiscal soundness in FY 2012. Nagoya is committed to promoting well-planned fiscal management without placing an excessive burden on future generations, while taking care to ensure equitable burden-sharing among generations.

Regarding the financial shortfall ratio of public enterprises in FY 2012, the city bus operation account faced a fund shortage. Although the hospital account and high-speed rail account also faced fund shortages under the Local Government Finance Act, the resolvable amount of fiscal shortfall was larger and therefore a shortfall ratio did not occur.
Actual Debt Expenditure Ratio in Nagoya

- Actual debt expenditure ratio: 25% or above (Entities exceeding the standard for early rehabilitation)
  ⇒ Must submit a fiscal rehabilitation plan to obtain approval for issuing municipal bonds.

- Actual debt expenditure ratio: Between 18% and 25% (Entities in this range must formulate plans to optimize burden of debt expenditure)
  ⇒ Must submit a plan for optimizing the burden of debt expenditure to obtain approval for issuing municipal bonds.

- Actual debt expenditure ratio: Less than 16% (Entities in this range are outside the sphere of concerned discussions)
  ⇒ No need to consult with the Minister for Internal Affairs and Communications about private fund bonds and possible to issue simply by prior notification (However, must meet all of five standards together with actual deficit)

Actual debt expenditure ratio is the ratio of redemption money for principal and interest and the expenditure equivalent to such money paid from the general account to the standard fiscal scale.
Future Fiscal Management

### Policy
- To implement well-planned fiscal management without placing excessive burden on future generations, while striving to ensure equitable burden-sharing among generations.

### Creating a Discipline
- Municipal bonds play the role of ensuring equitable burden-sharing among generations for projects that provide benefits over the long term such as construction of facilities, leveling fiscal expenditure, and temporary supplements for tax revenue shortage. Meanwhile, because repaying municipal bonds places a burden on fiscal management as debt expenditure, Nagoya established a specific discipline for current outstanding municipal bonds.
- Nagoya also established a target amount for the financial adjustment fund from the perspective of securing fiscal resilience between fiscal years.

(Established September 2010)

### Details of the Discipline

<table>
<thead>
<tr>
<th>Details of the Discipline</th>
<th>Settlement for FY 2012</th>
<th>Budget for FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>To maintain current outstanding municipal bonds of the general account at less than 1,900.9 billion yen, the highest level thus far (as of the end of FY2004) (See Page 18)</td>
<td>1,823.8 billion yen</td>
<td>1,777.3 billion yen</td>
</tr>
<tr>
<td>To maintain a positive primary balance every fiscal year (See Page 21)</td>
<td>Surplus of 66.4 billion yen</td>
<td>Surplus of 60.6 billion yen</td>
</tr>
<tr>
<td>To maintain the future burden ratio at less than 250% (See Page 22)</td>
<td>(Settlement for FY 2011: 202.5%)</td>
<td>(Settlement for FY 2012: 188.4%)</td>
</tr>
<tr>
<td>To maintain the actual debt expenditure ratio at less than 18% (See Page 22)</td>
<td>(Settlement for FY 2011: 12.0%)</td>
<td>(Settlement for FY 2012: 12.1%)</td>
</tr>
<tr>
<td>To aim for 10-billion-yen funding for the financial adjustment fund</td>
<td>14.6 billion yen</td>
<td>14.6 billion yen</td>
</tr>
</tbody>
</table>

*Arrows indicate change from previous fiscal year*

- : Improved
- : Unchanged
- : Worsened
Nagoya compiles the budget to allocate financial resources based on the fiscal balance outlook.

With regard to the fiscal balance outlook for FY 2014 to FY 2018 (created to assist in compiling the budget for FY 2014) although municipal tax is expected to increase, a shortage in net balance is expected each fiscal year due increased assistance expenses which exceed the municipal tax.

Nagoya will eliminate this shortage by continuing to undertake administrative and fiscal reforms including review of administrative activities and ensuring sufficient revenue via the sale of unnecessary land, etc.

Outstanding municipal bonds is expected to gradually decrease year by year

---

### Outlook for Future Fiscal Balance of General Account

#### (Billion yen)

<table>
<thead>
<tr>
<th>Category</th>
<th>Budget for FY 2013</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal tax</td>
<td>488.0</td>
<td>496.2</td>
<td>492.3</td>
<td>499.1</td>
<td>505.2</td>
<td>503.1</td>
</tr>
<tr>
<td>Before tax cut</td>
<td>499.3</td>
<td>507.7</td>
<td>503.9</td>
<td>510.9</td>
<td>517.1</td>
<td>515.2</td>
</tr>
<tr>
<td>5% tax cut amount</td>
<td>-11.3</td>
<td>-11.5</td>
<td>-11.6</td>
<td>-11.8</td>
<td>-11.9</td>
<td>-12.1</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>78.8</td>
<td>91.1</td>
<td>85.6</td>
<td>84.3</td>
<td>81.1</td>
<td>79.9</td>
</tr>
<tr>
<td>Bonds for extraordinary fiscal measures</td>
<td>(38.0)</td>
<td>(38.0)</td>
<td>(38.0)</td>
<td>(38.0)</td>
<td>(38.0)</td>
<td>(38.0)</td>
</tr>
<tr>
<td>Other</td>
<td>459.1</td>
<td>457.0</td>
<td>460.3</td>
<td>465.4</td>
<td>470.7</td>
<td>479.4</td>
</tr>
<tr>
<td>Local tax grants</td>
<td>(6.5)</td>
<td>(6.5)</td>
<td>(6.5)</td>
<td>(6.5)</td>
<td>(6.5)</td>
<td>(6.5)</td>
</tr>
<tr>
<td>Total</td>
<td>1,025.9</td>
<td>1,044.3</td>
<td>1,038.2</td>
<td>1,048.8</td>
<td>1,057.0</td>
<td>1,062.4</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll expenses</td>
<td>168.8</td>
<td>168.3</td>
<td>167.9</td>
<td>167.1</td>
<td>166.1</td>
<td>167.4</td>
</tr>
<tr>
<td>Assistance expenses</td>
<td>259.4</td>
<td>270.2</td>
<td>278.3</td>
<td>288.1</td>
<td>298.6</td>
<td>309.9</td>
</tr>
<tr>
<td>Debt servicing</td>
<td>139.4</td>
<td>137.6</td>
<td>132.3</td>
<td>132.6</td>
<td>133.2</td>
<td>134.7</td>
</tr>
<tr>
<td>Investment expenses</td>
<td>75.5</td>
<td>98.9</td>
<td>88.6</td>
<td>87.8</td>
<td>87.6</td>
<td>84.5</td>
</tr>
<tr>
<td>Other</td>
<td>382.8</td>
<td>377.8</td>
<td>381.6</td>
<td>386.4</td>
<td>388.9</td>
<td>387.9</td>
</tr>
<tr>
<td>Total</td>
<td>1,025.9</td>
<td>1,052.8</td>
<td>1,048.7</td>
<td>1,062.0</td>
<td>1,074.4</td>
<td>1,084.4</td>
</tr>
<tr>
<td><strong>Net balance</strong></td>
<td>—</td>
<td>-8.5</td>
<td>-10.5</td>
<td>-13.2</td>
<td>-17.4</td>
<td>-22.0</td>
</tr>
</tbody>
</table>

(Reference)

**Expected outstanding municipal bonds (general account)**

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected outstanding municipal bonds</td>
<td>1,793.1</td>
<td>1,775.2</td>
<td>1,751.6</td>
<td>1,729.4</td>
<td>1,721.8</td>
</tr>
</tbody>
</table>
Current Simulation of Changes in Outstanding Municipal Bonds (General Account)

The bar chart indicates the simulation of changes in current outstanding municipal bonds (general account) for FY 2012 associated with future redemption assuming that municipal bonds will not be issued from FY2013.

The line chart indicates the simulation of changes in current outstanding municipal bonds (general account) considering amount of issue from FY2013.

*Figures are general account figures.
Nagoya developed the “Management Improvement Plan” in September 1995 to make overall improvements in administration and finance while aiming to achieve a shift in thinking.

In December 1997, Nagoya drew up the “Administrative Reform Execution Plan” to deal with social changes such as the falling birth rate and the aging population and severe fiscal conditions due to weak growth in municipal tax revenue which produced results in the amount of 119.6 billion yen before FY2001.

Nagoya actively introduced new ideas such as enhancing measures by utilizing the administration evaluation system, achieved improvements in efficiency, administrative-related cost reductions, and budget compilation system reforms under the “Finance Health Plan” established in September 2001. The economic benefits of these changes amounted to 156.6 billion yen in five years. In addition, Nagoya achieved the immediate target of refraining from borrowing from the fund for redemption of public bonds in FY2005.

Under the “New Finance Health Plan” established toward further strengthening of public finances in March 2007, together with the “Third Administrative and Financial Reform Plan,” Nagoya implemented administrative and financial system reforms to achieve sound financial management without placing excessive burden on future generations and establish a sustainable and firm financial base.
### II. Fiscal Condition

#### Financial Condition of Extra-governmental Organizations

<table>
<thead>
<tr>
<th>Name</th>
<th>Capital</th>
<th>Investment by Nagoya</th>
<th>Total assets</th>
<th>Total liabilities</th>
<th>Net assets or net worth</th>
<th>Ordinary profit and loss*1</th>
<th>Profit and loss for the period *2</th>
<th>Loan by Nagoya</th>
<th>Loss compensation and loan guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nagoya International Center</td>
<td>345</td>
<td>321</td>
<td>1,579</td>
<td>171</td>
<td>1,408</td>
<td>34</td>
<td>34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya City Land Development Corporation</td>
<td>20</td>
<td>20</td>
<td>62,664</td>
<td>61,281</td>
<td>1,383</td>
<td>-65</td>
<td>0</td>
<td>6,905</td>
<td>52,169</td>
</tr>
<tr>
<td>Nagoya Meat Market Co., Ltd.</td>
<td>480</td>
<td>216</td>
<td>3,283</td>
<td>5,200</td>
<td>-1,916</td>
<td>251</td>
<td>187</td>
<td>800</td>
<td>3,384</td>
</tr>
<tr>
<td>Nagoya Citizen Leisure Facility Management Public Corporation</td>
<td>10</td>
<td>10</td>
<td>294</td>
<td>275</td>
<td>19</td>
<td>0</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya Philharmonic Orchestra</td>
<td>10</td>
<td>10</td>
<td>343</td>
<td>225</td>
<td>118</td>
<td>32</td>
<td>36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya City Small &amp; Medium Enterprise Mutual-aid Project Association</td>
<td>120</td>
<td>120</td>
<td>26,748</td>
<td>26,586</td>
<td>161</td>
<td>4</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya City Cultural Promotion Agency</td>
<td>60</td>
<td>30</td>
<td>1,737</td>
<td>986</td>
<td>751</td>
<td>50</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya Convention &amp; Visitors Bureau</td>
<td>1,055</td>
<td>500</td>
<td>1,484</td>
<td>62</td>
<td>1,421</td>
<td>-8</td>
<td>-8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Design Center NAGOYA</td>
<td>12,147</td>
<td>4,005</td>
<td>7,366</td>
<td>939</td>
<td>6,427</td>
<td>-32</td>
<td>-104</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya Meat Public Corporation</td>
<td>105</td>
<td>90</td>
<td>296</td>
<td>230</td>
<td>66</td>
<td>309</td>
<td>309</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Nagoya Industries Promotion Corporation</td>
<td>215</td>
<td>120</td>
<td>2,864</td>
<td>2,019</td>
<td>845</td>
<td>43</td>
<td>26</td>
<td>1,084</td>
<td>484</td>
</tr>
<tr>
<td>Nagoya City Rehabilitation Agency Social Welfare Corporation</td>
<td>30</td>
<td>30</td>
<td>1,226</td>
<td>908</td>
<td>318</td>
<td>15</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya Showa Tatemono Service Co., Ltd.</td>
<td>50</td>
<td>16</td>
<td>59</td>
<td>38</td>
<td>21</td>
<td>5</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya Urban Development Public Corporation</td>
<td>1,010</td>
<td>1,010</td>
<td>18,014</td>
<td>10,102</td>
<td>7,912</td>
<td>198</td>
<td>143</td>
<td>2,830</td>
<td>5,173</td>
</tr>
<tr>
<td>Nagoya City Housing Supply Corporation</td>
<td>50</td>
<td>50</td>
<td>30,724</td>
<td>26,389</td>
<td>4,335</td>
<td>9</td>
<td>90</td>
<td>16,456</td>
<td>2,880</td>
</tr>
<tr>
<td>Nagoya Expressway Public Corporation</td>
<td>316,162</td>
<td>158,081</td>
<td>1,670,348</td>
<td>1,355,336</td>
<td>315,012</td>
<td>0</td>
<td>0</td>
<td>100,792</td>
<td>340,800</td>
</tr>
<tr>
<td>Wakamiya Park</td>
<td>1,063</td>
<td>602</td>
<td>3,419</td>
<td>2,572</td>
<td>847</td>
<td>5</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya GuideWay-Bus Co., Ltd.</td>
<td>3,000</td>
<td>1,900</td>
<td>1,144</td>
<td>1,915</td>
<td>-771</td>
<td>-16</td>
<td>-17</td>
<td>1,787</td>
<td></td>
</tr>
<tr>
<td>Saka Park Promotion Co., Ltd.</td>
<td>1,500</td>
<td>788</td>
<td>2,517</td>
<td>786</td>
<td>1,731</td>
<td>37</td>
<td>22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya Rinkai Rapid Transit Company</td>
<td>100</td>
<td>77</td>
<td>4,866</td>
<td>2,002</td>
<td>2,864</td>
<td>93</td>
<td>166</td>
<td></td>
<td></td>
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<tr>
<td>Nagoya City Construction Services Foundation</td>
<td>30</td>
<td>30</td>
<td>502</td>
<td>80</td>
<td>422</td>
<td>46</td>
<td>38</td>
<td></td>
<td></td>
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<tr>
<td>Meisei Soil Recycling System Co., Ltd.</td>
<td>200</td>
<td>82</td>
<td>994</td>
<td>54</td>
<td>940</td>
<td>197</td>
<td>128</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya-city Education and Sports Association</td>
<td>120</td>
<td>60</td>
<td>3,180</td>
<td>2,049</td>
<td>1,131</td>
<td>49</td>
<td>49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya Water and Sewage General Service Co., Ltd.</td>
<td>630</td>
<td>600</td>
<td>1,847</td>
<td>940</td>
<td>908</td>
<td>196</td>
<td>148</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nagoya Transportation Development Organization</td>
<td>100</td>
<td>100</td>
<td>11,434</td>
<td>9,012</td>
<td>2,423</td>
<td>298</td>
<td>139</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Capital and investment by the City are as of July 1, 2013, and others are as of FY 2012. *Individual amounts are rounded off, so the total may not agree with the sum of items shown.

*1 Ordinary increase or decrease for the period for incorporated foundations, ordinary profit (loss) for stock companies and three regional public corporations, and current account for social welfare corporations.

*2 Increase or decrease for the period in general net assets for incorporated foundations, net income (loss) for stock companies and three regional public corporations, and net income and expenditure of activities for social welfare corporations.
This is a ratio-based comparison of outstanding municipal bonds to municipal tax revenue among cities. (Descending order in terms of municipal tax revenue starting from the left)

The amount of Nagoya’s outstanding municipal bonds is about 3.4 times higher than the city’s municipal tax revenue for FY 2012. Among the former five major cities, this is the second lowest after Yokohama City and compares favorably with other cities.
The fiscal independence ratio of Nagoya is 67.1%, the highest among government-designated cities.

The municipal tax collection rate of Nagoya is also the highest among government-designated cities.

The fiscal capability index of Nagoya (three-year average) is the second highest among government-designated cities.

Collection rate: The ratio of municipal tax revenue to the amount of money city-wide eligible for taxation, indicating the actual tax collection.
# Plan for Issuance of Public Subscription Bonds for FY 2013

## Plan for Issuance of Public Subscription Bonds for FY 2013

(Million yen)

<table>
<thead>
<tr>
<th>Category</th>
<th>Planned amount for issue</th>
<th>Monthly plan for issue</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Apr</td>
<td>May</td>
</tr>
<tr>
<td>Medium-term bonds</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-year bonds</td>
<td>60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Super-long bonds</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City resident bonds</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible bonds</td>
<td>40,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>143,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The figures for April to September are actual figures, and those from October are planned ones.*

*Total for each month from October excludes flexible-term bonds, and medium-term bonds and super-long bonds whose issuance schedule has not been decided.*

*The 20-year bonds shown in August were priced in August and issued in September.*

## (Reference) Actual Issuance in FY 2012

(Million yen)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount for issue</th>
<th>Monthly actual issuance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Apr</td>
<td>May</td>
</tr>
<tr>
<td>Medium-term bonds</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-year bonds</td>
<td>70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Super-long bonds</td>
<td>22,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City resident bonds</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible bonds</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>135,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Actual Issuance of Public Subscription Bonds (Nationwide)

Following Japanese national government decentralization, Nagoya terminated the joint issue system in FY 2007 and adopted a method to independently decide terms for public subscription bonds. Recently, Nagoya has been raising capital by balancing bonds with short maturities and those with long maturities, mainly 10-year bonds.

Nagoya introduced flexible bonds in FY 2009, allowing a flexible response to fiscal conditions.

*Amount issued each fiscal year is used.

III. Issuance of Municipal Bonds

- **10-year bonds**
- **6-year bonds**
- **30-year bonds**
- **3-year bonds**
- **15-year bonds**
- **Jointly-issued bonds (10 years)**
- **5-year bonds**
- **20-year bonds**
Efforts on Nagoya Public Subscription Bonds

III. Issuance of Municipal Bonds

FY 2011

- **Promotion of the lead manager system**
  Introduce the lead manager system in addition to the existing syndication negotiation system for 10-year bonds in order to further promote issuance meeting the market conditions

- **Issuance of 3-year and 5-year bonds at the same time (by the same lead manager)**
  Issue 3-year and 5-year bonds at the same time in order to provide investors with the wide range of choices. It is the first time that two regional bonds are issued by the same lead manager at the same time

- **Diversification of maturities**
  Issue 3-year bonds

FY 2012

- **Invitation of all syndications under the lead manager system (10-year bonds)**
  Invite all syndications (securities firms) under the lead manager system aimed at expansion of investor bases of core maturities, consideration for regular buyers and activation of syndications

- **Further diversification of maturities**
  Issue 6-year and 15-year bonds meeting investor needs

- **Issuance of two super-long bonds at the same time (by the same lead manager)**
  Issue 15-year and 20-year bonds at the same time. It is the first time that two super-long regional bonds are issued by the same lead manager at the same time

- **Issuance of “5-years and 1-month bonds”**
  For 5-year zone in which the government bonds’ interest rate has been the lowest in the past, issue “5-year and 1-month bonds” whose redemption is (along with government bonds) to be redeemed in March, later than the corresponding month
  Aim to produce high yields for investors and realize clear pricing responding to the government bonds

FY 2013

- **Expansion of flexible bonds**
  Increase flexible bonds from 20 billion yen in FY 2012 to 40 billion yen to promote flexible and responsive bond issuance

- **Issuance of 7-year, 10-year and 12-year bonds at the same time**
  Respond to the maturity needs by investors by diversifying maturities and issuing 3-year bonds at the same time, which is the first case for regional bonds, against the government bond yields which violently fluctuate after carrying out new quantitative and qualitative monetary easing measures

- **Issuance of 6-year bonds upon the maturity hearing**
  Issue 6-year bonds in the first methods for the regional bonds under which the maturity is not determined in advance and it is determined upon hearing of investment maturity investors prefer

- **Pricing on the day before the end of the month to address the diversify needs (20-year bonds)**
  Against pricing of regional bonds which concentrates at the beginning to the middle of the month, issue 20-year bonds by pricing on the day before the end of the month, which is the first case for regional bonds, meeting the investor requests to diversify the purchase opportunities within a month
Nagoya started to issue public subscription bonds in 1952. Municipal bonds in Nagoya have a longer postwar history than national government bonds.

Before the war, in 1909, Nagoya issued foreign bonds denominated in pound sterling.

Nagoya has diversified maturities since 2000.
Nagoya obtained a rating from Moody’s Investors Service Inc. (currently Moody’s Japan K.K.) on November 7, 2007.

### Rating

**Aa3**

*(Stable) = Same as Japanese Government Bond*

**Basis for rating**

- Relatively affluent local economy lead by automotive industry, commercial transactions and strong tax base supported by a stable local economy
- Nagoya’s solid reserved liquidity such as sinking fund (208.1 billion yen as of the end of FY 2012)
Reminder

- This material explaining the fiscal conditions of the City of Nagoya is intended for investors considering purchasing Nagoya City municipal bonds. It is not related to the sale or offer of any particular bond.

- The content of this material are as of October 2013, based on the settlement of accounts for FY 2012, and are subject to change in the event of future developments in the local fiscal system and/or economic conditions.

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