Table I – 1

Types of Local Bond Management

Type	Overall description	Characteristics
①Administrative control	The central government is empowered with direct control over the borrowing of subnational governments, including the setting of annual limits on subnational debt and authorization of subnational borrowing.	From the perspective of macroeconomic controls, it is significant to have central government controls over borrowing abroad. However, as decentralization advances, it is considered to be a method that is not necessarily desirable, since it contains an aspect that impedes the decision making of subnational governments.
②Market discipline	The borrowing of subnational governments relies solely on the market. Conditions for borrowing are determined by ratings or evaluation by the market, and risk premium. These serve to discipline the fiscal operations of subnational governments. The central government does not impose restrictions, such as limits on borrowing, or supervise.	Subnational governments conduct fiscal operations based on market principles; it can said to be a desirable style that facilitates fiscal discipline. However, in order for market discipline to fully function, several preconditions must be met.
③Cooperative control	approach whereby the global debt limit as well as the specific breakdown for individual subnational governments are arrived at through negotiation between the central and subnational government.	It can said to be a desirable style that complements the shortcomings of ① and ②, in the sense that mutual dialogue is exchanged between the central and subnational government. However, when the position of the subnational government is weaker, its actual operation will have a style similar to the administrative control approach.
④Rules-based control	A method of subnational borrowing control based on standing rules. Such rules included limits on the absolute level of indebtedness, permitting new borrowing up to a level consistent with a maximum allowed service ratio in relation to revenues and so forth, restriction on borrowings that involve greater macroeconomic risks (such as borrowing from abroad), and the golden rule, which restricts borrowing to investment purposes, such as infrastructure development.	Because it is operated through standing rules, it is high in transparency and can be easily trusted by the market. Most of the rules are established by the proper state/provincial governments. When rulemaking is central government-led, it will become similar to the administrative control approach.

Source) Ter-Minassian/IMF (1997)

Table I – 2

The Trend of Local Government Fiscal Discipline in Each Country (Excerpt of Industrialized Countries)

	Overall description
Japan	The Ministry of Internal Affairs and Communication supervises and controls all local authority borrowing.
United Kingdom	Domestic borrowing approvals are issued annually by the government on the amount that a local authority may borrow. No borrowing from the central bank is permitted, and restrictions may be placed on a number of aspects of loans raised, including the terms and type of loan instruments. Local governments cannot borrow abroad without the consent of the Treasury (In practice, local authorities rarely borrow in foreign currency except in connections with EU schemes).
France	Historically, deficits at subnational level have been small. Following the introduction of Decentralization Laws, subnational authorities are free to contract domestic loans on terms and conditions negotiated with lenders.
Germany	Budget laws specify the conditions under which subnational borrowing can be undertaken. The extent of market discipline is muted by the fact that the federal government has provided assistance to *Länder* experiencing debt-service problems.
Italy	Subnational governments are subject to legal borrowing limits. Regions are permitted to borrow domestically with the provision that debt charges cannot exceed 25 percent of the sum of regional own revenue. Regions cannot borrow to fund current expenditure. Foreign borrowing is not permitted.
United States	All states and local governments are required "balanced budgets," but the effective borrowing constraint imposed by such requirements, is often limited. Effectively, market discipline plays an important role in discipline.
Canada	Each province in Canada is free to borrow overseas or domestically without limit. Markets therefore play a crucial discipline on overall borrowing levels by provinces. By contrast, provinces impose strict limits on borrowing by local governments.
Sweden	Domestic borrowing is subject to only two restrictions: (1) real estate cannot be used a collateral for mortgages; and (2) in principle, loans should only be made for investment purposes. In practice, temporary loans can be made to cover cash flow deficiencies. There are no additional restrictions on overseas borrowing.
Australia	Annual debt ceilings are set with state governments within a National Loan Council established for that purpose. The limits have been administered flexibly and market disciplines plays a major role on final decisions on borrowings.
Austria	*Länder* have rules on the purposes for which loans can be raised, and local governments must seek the approval by the supervisional body for each *Land*, except for short-term loans and loans for public enterprises. Loans must be used to finance investment. The Ministry of Finance must approve overseas loans.

Belgium	Substantial changes in fiscal federalism arrangements were introduced in 1989. A High Finance Council supervised borrowing during the transition period and mapped out a program of deficit sharing between the central and subnational governments. The Council can initiate borrowing limitations if needed to meet commitments agreed to by the central and subnational governments.
Denmark	The central government engages in bilateral discussions with subnational governments leading up to the setting of limits on borrowing. Municipalities are allowed to borrow for investments in certain items (such as water, electricity, urban renewal, etc) without permission of the Ministry of Interior. Limited access to overseas markets is permitted.
Finland	No administrative or legal restraints apply to domestic or foreign borrowing. Market discipline is the main form of control.
Greece	The deficits incurred by subnational governments are very small, largely reflecting the administrative control on borrowing. In general, loans are linked to investment projects. No significant foreign borrowing has been undertaken at the subnational level.
Ireland	All domestic borrowing by local authorities is subject to the approval of the Minister of the Environment. Limits on terms and conditions of loans are often specified. Foreign borrowing is not undertaken.
Netherlands	The Municipalities Act requires a balanced current account. Loans cannot be denominated in a foreign currency.
Norway	All domestic borrowing must be approved by the authorities. Local authorities are not permitted to borrow in foreign currency except with the permission of the Ministry of Finance. Overseas borrowing in Norwegian kroner is permitted.
Portugal	Local governments are free to contract loans without limits. Although requests for debenture issues have be approved by the Ministry of Finance, few restrictions appear to apply in practice. Medium- to longer-term debentures may be contracted for investment purposes or to redress financial difficulties. There are some restrictions on the amounts raised as annuities.
Spain	The Ministry of Finance approval is generally required for domestic borrowing but there are some exceptions (including for those local authorities covered by Autonomous Communities). Long-term loans are generally restricted to investment needs. Overseas loans require Ministry of Finance approval.
Switzerland	Subnational borrowing is normally linked to investment needs. At the canton level, borrowing is normally restricted by laws that require balanced current budgets (including interest payments and amortization of debt).

Source) Ter-Minassian/IMF (1997)

Table I – 3

The Situation and Scope of Local Bond Issues

Country	Situation of Local Bond Issues	Scope of Local Bond Issues
Japan	The scale of local bond issues is about 13 percent of local revenue. It is about 15 percent for prefectures and 12 percent for municipalities (2002).	In principle, issues are restricted to expenditure for construction works, but according to the situation, there are bonds that are issued for operating expenditure.
UK	The scale of local bond issues is low, at about 3 percent of local revenue. Due to the fact that the fiscal size of local entities is small, among other reasons, it makes up for about 30 percent of the revenue source of capital expenditure (2000).	Restricted to capital expenditure (however, excludes short-term borrowing).
France	The scale of local bond issues is about 10 percent of local revenue. The level of issues is similar in *regions, departements* and *communes*. Local bond issues can be made only as capital expenditure; it makes up for about 30 percent of this (around 2002).	Restricted to issues in capital accounts. There is an obligation to budget costs for repayment of interest as well.
Sweden	The scale of local bond issues is about 10 percent of local revenue (around 2002).	In principle, it is restricted to capital expenditure. However, issues of deficit-covering local bonds are possible according to the situation.
Germany	The scale of local bond issues is about 15 percent of local revenue. The share is high in states – about 18 percent in states and 6 percent in municipalities (around 2002).	<State bonds> In principle, restricted to capital accounts (investment expenditure). Issues of deficit-covering local bonds are possible according to the economic and fiscal situation. <Municipal bonds> Restricted to investment expenditure. Issues are allowed only when there are no other means of raising revenues.
US	The scale of local bond issues is about 13 percent of local revenue (around 2000).	There is no special regulation by the federal government. Some states restrict the issuing of general revenue source bonds to social infrastructure development through state laws.
Canada	The scale of local bond issues is about 13 percent of local revenue. Provincial borrowing is roughly 10-fold of municipal borrowings; local bonds issued are mainly provincial bonds (around 2002).	<Provincial bonds> There is no special regulation by the federal government. The province establishes rules for bond issues. <Municipal bonds> In many cases the scope of bond issues is determined and controlled by the province.

Table I – 4

Central Government Involvement and Rules Concerning Local Bond Issues in Major Countries

Country	Central government involvement over local bond issues	Rules concerning local bond issues	Central government bailout for local governments in financial crisis	Rules concerning bankruptcy of local governments
Japan	Local bond permit system is applied (will shift to a system of consultation in fiscal 2006).	Local bond issues are restricted when debt expenditure ratio used at permission to issue local bonds exceeds a certain weight.	Reconstruction assistance program exists through the Local Public Financial Reconstruction Program.	not provided (system of specific mediation is used by public corporations, the third sector and so forth)
UK	System of permission by the central government is applied (however, it is headed for easing of the permission system through the Local Government Act of 2004.	Regulations such as limits on the absolute level of debt, obligation to deposit Provision for Credit Liability, control on the limit of bond issues, restriction to issue under capital expenditure revenue source, etc.	Preventive measures for financial crisis are intended through numerous means as listed to the left.	not provided
France	Central government involvement is greatly reduced (the system of prior permission was abolished in 1982, supervision by the local representative has been amended to be ex post supervision).	The balanced budget rule in real terms, budgeting government bond spending, restriction to issue under capital expenditure revenue source, etc	There is a special subsidy program for local governments facing financial difficulties (extremely restricted, since the total annual amount is only 2.6 million euros).	not provided
Sweden	No particular central government involvement.	Although rules such as the principle of balanced budget and restriction to issue under capital expenditure exists, regulations are relatively mild.	In some cases bailout of local governments facing financial difficulties is provided, in accordance with the case.	not provided

Germany	No involvement of the federal government. The states authorize a comprehensive amount for bond issues by municipalities.	There are no particular rules set for state bonds. As to municipal bonds, in some cases states attach conditions such as the reduction of expenditure for approving bond issues.	Although in principle, fiscal administration by self-responsibility is required by states, in some cases federal supplementary grants (special supplementary grants for fiscal reconstruction) are provided. - Equally for local governments, in some cases bailout is provided by states.	not provided
US	There is no federal involvement over states. In some cases there is involvement of the state over municipalities.	Regarding general revenue source bonds, in many cases, there are regulations such as issuing limits, obligation of local assembly voting and/or referendum, and regulation on limits for the interest rate on bond. For revenue bonds, in principle there are no restrictions as those applied to general revenue source bonds.	In principle, bailout measures for states are not taken by the federal government. For local governments, in some cases, the state provides bailout on its own.	Bankruptcy Code can be applied. (Ch.9)
Canada	There is no federal involvement. In many cases permission by provinces is required for municipalities.	In principle, provinces do not have regulations on bond issues (limits, etc). Each province has established rules concerning fiscal balance and so forth after mid-1990s. As to municipalities, in many cases provinces have established rules on limits.	There are no bailout measures for provinces. For local governments, states establish bailout programs and such of their own.	not provided

Table I – 5

Classification of the Way Local Bonds are Issued in Major Countries

Country	Government funds	Private funds	
		Publicly-offered bonds	Borrowing from financial institutions
Japan	★	○	★
UK	★	–	▲
France	–	○	★
Sweden	–	○	★
Germany	–	○	★
US	–	★	▲
Canada	–	★	▲

Note) ★: the principal way for raising funds in the corresponding country(a share of 50 percent or more of the total amount of funding)

○: the way for raising funds with a certain share (around 10 percent of total funding)

▲: the way for raising funds with a low share (around 5 percent or less of total funding)

–: the way for raising funds not applied or with an extremely low share (around 1 percent or less of total funding)

Table I – 6

The Way Local Bonds are Issued and Underwriters

Country	Way local bonds are issued	Underwriters of local bonds
Japan	Government funds including loans by the JFM make up for about 40 percent. Around 18 percent are publicly-offered bonds, and the rest is direct borrowing from financial institutions (most borrowings are in the form of debentures) (as of 2002).	As to private funds, financial institutions from which direct borrowings are obtained are authorized financial institutions such as regional banks, secondary regional banks and credit associations.
UK	Nearly 90 percent are government funds and private funds are near zero. Bond issues remain as only 2 percent of outstanding debt (as of 1999).	Government funds are in the form of borrowing from the Public Works Loan Board.
France	A large part is direct borrowing from private financial institutions, accounting for almost 90 percent. Under current circumstances, government funds are near zero. Public offerings are limited to regions and major cities. It stands at about 15 percent at the regional level and under 5 percent at the commune and department levels (1998)	Through privatization of governmental financial institutions since the 1980s, private financial institutions such as Dexia and Credit Agricol provide most loans to local entities.
Sweden	Publicly-offered bonds are about 15 percent (of which half is foreign bonds). The rest is direct borrowing from financial institutions.	Of financial institutions from which direct borrowing is made, there is a high share of borrowing from *kommun invest* (the Swedish local government funding agency), in the form of joint funding by municipalities.
Germany	Nearly all are direct borrowing from financial institutions, accounting for about 90 percent. Public offering is limited to states and major cities, and the share of securities financing is about 18 percent at the state level and 1 percent at the municipal level. A large part is issued in the form of debentures (as of 1998)	Savings banking groups and securities banking groups are the major funding institutions.
US	A large part of funds are raised through public offerings, basically in the form of securities.	In many cases, the competitive bidding method is applied for general obligation bonds and the negotiated sales method is applied for revenue bonds. According to region, bond banks* have been set up to lend to municipalities.
Canada	A large part of funds are raised through public offerings, basically in the form of securities.	According to province, bond banks have been set up, playing the role of a joint issuance institution that lends to municipalities.

* In states where bond issuance by local governments is difficult, a government financial institution called bond banks are established by the state government for the purpose of promoting the development of social capital of the local government. Bond banks jointly issue local bonds for local governments of that state.

Table I – 7

Bankruptcy Systems for Local Entities

Is bankruptcy of local entities legally recognized?
(European countries)

A. Bankruptcy of local entities is legally recognized	5 countries
B. Bankruptcy of local entities is not legally recognized	22 countries
Subtotal	27 countries

Source) Council of Europe (2002), "Recovery of Local and Regional Authorities in Financial Difficulties"

Table II – 1

Terms for Issuing Publicly – Offered Bonds in fiscal 2002

	Yield rates for applicants		Gap
	Tokyo bond	Other bonds	
April 2002	1.453%	1.471%	0.018%
May 2002	1.463%	1.480%	0.017%
June 2002	1.440%	1.443%	0.003%
July 2002	1.348%	1.352%	0.004%
August 2002	1.331%	1.328%	-0.003%
September 2002	1.309%	1.309%	0.000%
October 2002	1.303%	1.303%	0.000%
November 2002	1.120%	1.120%	0.000%
December	1.080%	1.080%	0.000%
January 2003	0.890%	0.890%	0.000%
February 2003	0.895%	0.895%	0.000%
March 2003	0.803%	0.803%	0.000%

Data) Japan Local Government Bond Association

Table III – 1

Cumulative Default Rate by Credit Rating

(unit: %)

Credit rating	Private Companies	Municipalities	Municipalities (excluding general obligation bonds and revenue bonds of principal services)
Aaa	0.6750	0.0000	0.0000
Aa	0.8029	0.0327	0.1503
A	1.4721	0.0084	0.0374
Baa	4.8649	0.0590	0.3024
Ba	21.2927	1.3390	6.0399
B	47.3825	3.9760	13.4901
Caa-C	76.7930	10.5455	15.9469

Source) Moody's Investors Service (2002)

Table III – 2

Types of Response to Chapter 9 of the Federal Bankruptcy Code

Type	Response to the Federal Bankruptcy Code	Number of states	Corresponding states
1ST type: Type with unconditional authorization	Petition under the Federal Bankruptcy Code is authorized unconditionally	14	Alabama, Arizona, Arkansas, California, Colorado, Florida, Idaho, Missouri, Montana, Nebraska, Oklahoma, South Carolina, Texas, Washington
2nd type: Type with preconditions for authorization	Petition under the Federal Bankruptcy Code is authorized with preconditions	6	Connecticut, Iowa, Kentucky, Louisiana, North Carolina, Ohio
3rd type: Type with state bankruptcy laws	The state law provides a system that corresponds to the Federal Bankruptcy Code Petition under the Federal Bankruptcy Code is also possible	6	Illinois, Michigan, Nebraska, New Jersey, New York, Pennsylvania
4th type: Type prohibiting bankruptcy	Strict regulations that prevent the debt adjustment of municipalities Prohibition of petition under the Federal Bankruptcy Code	3	Georgia, Kansas, Massachusetts
5th type: Type without provisions	No specific provision concerning petition under the Federal Bankruptcy Code	21	Alaska, Delaware, Hawaii, Indiana, Maine, Maryland, Minnesota, Mississippi, Hew Hampshire, New Mexico, North Dakota, Oregon, Rhode Island, South Dakota, Tennessee, Utah, Vermont, Virginia, West Virginia, Wisconsin, Wyoming

Table III – 3
Situation of Default of US Municipal Bonds
(Default rate/on the basis of number of cases)

Period	Number of defaults	Number of long-term bonds issued	Default rate
1940-49	79	40,907	0.19%
1950-59	112	74,592	0.15%
1960-69	294	79,941	0.37%
1970-79	202	77,620	0.26%
1980-94	1,333	130,092	1.02%
Total	2,020	403,152	0.50%

Source) TBMA data

Table IV – 1
Outstanding Debt per Resident by Size of Subnational Entity

(euros)

	2000	2001	2002	2003
Region	**143**	**136**	**132**	**130**
Departement	**256**	**328**	**314**	**316**
Commune : Total	**885**	**885**	**881**	**875**
less than 500	372	379	375	369
500 or more, less than 2,000	520	525	527	513
2,000 or more, less than 3,500	686	689	686	688
3,500 or more, less than 5,000	763	769	764	726
5,000 or more, less than 10,000	863	854	873	869
10,000 or more, less than 20,000	892	888	888	884
20,000 or more, less than 50,000	1,037	1,046	1,046	1,047
50,000 or more, less than 100,000	1,271	1,221	1,234	1,206
100,000 or more, less than 300,000	1,053	1,035	1,020	997
300,000 or more	985	935	851	821

Source) DGCL,(2004) " Les Collectivités locales en chiffres"

Table IV – 2

Funding Sources of Subnational Entities

	Commune		Departement		Region	
	92	96	92	98	92	98
CLF(Presently DCL)	32.6%	38.5%	36.7%	42.1%	29.7%	32.2%
CDC	28.4%	19.5%	16.7%	5.6%	26.4%	12.0%
Caisse d'Epargne	7.1%	10.7%	4.0%	8.4%	3.7%	9.5%
Crédit Aglicole	9.8%	10.7%	7.7%	9.1%	4.0%	7.1%
Crédit Foncier	2.7%	4.6%	4.6%	3.1%	0.5%	2.6%
Insurance Companies	1.0%	0.4%	3.1%	0.9%	0.3%	0.0%
Banks and Others	5.4%	8.4%	16.4%	21.2%	21.1%	16.4%
Public Offerings	0.4%	2.1%	1.8%	4.2%	3.5%	15.3%
Others	12.6%	5.0%	9.0%	5.5%	10.8%	4.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note) Commune in 1992 does not include Paris.

Source) DGCL,(1997) "Les Collectivités locales en chiffres"

Table IV – 3
Fiscal Balance of the City of Paris

(Million euros)

	2000	2001	2002	2003
Total Expenditure	**4, 824**	**4, 846**	**4, 900**	**5, 197**
Current expenditure	3, 887	3, 910	4, 129	4, 384
Operating expenses	3, 729	3, 729	3, 962	4, 238
Other expenditures	158	181	166	146
Capital Expenditure	937	936	771	813
Projects, acquisition of land, etc	630	569	736	787
Redemption expenses	307	306	141	183
Total Revenue	**4, 759**	**4, 757**	**5, 048**	**5, 413**
Current revenue	4, 513	4, 565	4, 609	5, 105
Tax revenues	2, 784	2, 732	2, 678	2, 694
Grants	911	994	1, 131	1, 284
Capital revenue	246	192	439	308
Grants	176	157	161	149
Local bonds	0	0	230	115

Source) City of Paris (2003) "Rapport financier"

Table IV – 4
Rating Status of France's Subnational Entities
(and Affiliated Companies) (March 2004)

Entity	Rating
Champagne-Ardenne (Region)	AA/stable/A-1
Ili-de-France (Region)	AAA/stable/A-1+
Lorraine (Region)	AA+/Stable/--
Nord-pas-de-Calais (Region)	AA-/Stable/A-1
LaRéunion (Region)	BBB+/Stable/--
French Polynesia (Overseas territory)	1/Stable/--
Haut-Rhin(Department)	AA+/Stable/--
Haut-de-Seine (Department)	AA+/Positive/--
Loire(Department)	AA+/Stable/--
Marne (Department)	AA+/Stable/--
Meuse (Department)	+ /Stable/--
Seine et Marne (Department)	AA/Stable/--
Avignon(City)	BBB/Stable/--
Boulogne Billancourt (City)	AA/Stable/A-1+
Paris(City)	AAA/Stable/--
Toule (City)	A/Stable/--
Dunkerque (Urban Community)	+ /Stable/--
Lille (Urban Community)	A/Stable/--
Sytral (Public Transport Authority)	A+ /Stable/--
SMTC : Pubic Transport Organizing Authority of Greater Toulouse(Public Transport Authority)	AA-/Stable/--

Source) Standard&Poor's Data