

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: OECD Local currency - Japanese Yen (JPY)

#### POPULATION AND GEOGRAPHY

AREA: **373 530** km<sup>2</sup>

POPULATION: **127.120** million inhabitants (2014), a decrease of -0.2% per year (2010-2014)

DENSITY: **340** inhabitants/km<sup>2</sup>

URBAN POPULATION: **93%** of national population

CAPITAL CITY: **Tokyo** (29.8% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **4 655.5** billion (current PPP international dollars) i.e. 36 623 dollars per inhabitant (2014)

REAL GDP GROWTH: **-0.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **9 070** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **22%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.891** (very high), rank 20

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>1 741</b>	<b>-</b>	<b>47</b>	<b>1 788</b>
1 718 MUNICIPALITIES (SHI) AND 23 SPECIAL WARDS WITHIN TOKYO AVERAGE MUNICIPAL SIZE: 72 715 INHABITANTS		PREFECTURES (TODOKUEN)	

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Japan has two tiers of local government with no hierarchical link. The prefectural level consists of one metropolitan district (Tokyo), two urban prefectures (Kyoto and Osaka), one "district" or "circuit" (Hokkaido), and rural prefectures. Regionalisation plans have been considered for decades, the prefectures being almost 150 years old. New regionalisation projects were proposed in the 2000s, under the term Doshusei but reorganisation has not been scheduled yet. The municipalities are not uniform, being subdivided into 20 designated cities, 42 core cities, 40 special cities, and 688 other cities. They also include 745 towns (*machi*) and 183 villages (*mura*). The 20 designated cities (*shitei toshi*) and the 23 Metropolitan Tokyo special wards enjoy more administrative and fiscal autonomy than the other municipalities, whose major differences are population size. Several waves of mergers (Great Shōwa from 1953 to 1999, Great Heisei consolidation, new "Basic Policy for Promoting Municipal Mergers" since 2006) have drastically reduced the number of municipalities, from 9 868 in 1953 to 1 718 today, a division by almost 6. In the 1990s and 2000s, several decentralisation reforms took place in Japan encompassing changes to SNG' functions, an increase in their autonomy and a revision of their financing.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** There is no clear-cut separation between the responsibilities of prefectures and municipalities. The prefectures have considerably stronger administrative powers than the municipalities. Prefectures are responsible for a range of functions in the fields of economic development, public infrastructure (roads, some national highways, rivers, and harbours), public housing, education (secondary schools), social assistance policies, public health, agriculture, environment and employment. The municipalities also have extensive responsibilities for urban planning, local roads, local harbours, public housing, education (pre and primary schools), social welfare (child welfare, elderly, national health insurance, and ageing insurance), water, waste and fire-fighting.

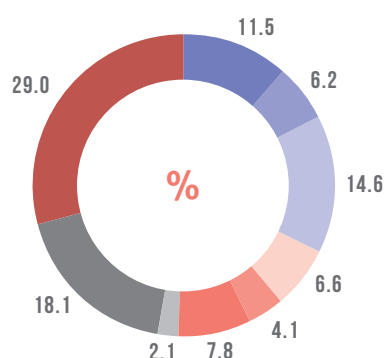
### SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	16.7%	39.6%	100%
CURRENT EXPENDITURE	13.2%	-	78.8%
STAFF EXPENDITURE	4.6%	77.1%	27.5%
INVESTMENT	2.9%	76.7%	17.2%

As a unitary country, Japan stands out in the weight of SNG spending in GDP and in overall public spending, being in line with the OECD average (16.6% and 40.0% in 2013), and significantly above the OECD average for unitary countries (13.4% and 29.0% in 2013). SNG share in public staff spending is particularly high, compared to the OECD average (63% for all OECD countries and 45% for unitary countries) while the SNG share in public investment is also noteworthy, compared to the OECD average (59%), representing 2.9% of GDP vs 1.9% in the OECD. However, the level of decentralisation should not be overstated as SNG spending autonomy can be limited in certain areas delegated by central government. SNGs may be more paying "agents" of the central government implementing policies designed by the different ministries.

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



SNGs are responsible for principal spending areas in social protection (child, elderly, public assistance and disaster relief), education (primary, secondary and high school), economic affairs (notably transport infrastructure) and general public services. In addition, SNGs are responsible for the large majority of total public spending in the areas of environmental protection, recreation and culture as well as housing and community amenities.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	16.7%	49.2%	100%
"REGIONALLY-GENERATED" REVENUE	7.4%	42.1%	44.5%
GRANTS AND SUBSIDIES	7.7%	-	46.2%
OTHER REVENUES	1.6%	-	9.3%

SNGs depend on central government transfers for almost half of their revenue which are based on a tax sharing system established by the 2004 Trinity Reform. However, the share of taxes in SNGs has increased significantly thanks to fiscal reforms.

**TAX REVENUE.** The primary SNG tax by far is the resident tax which is a combined prefectural and municipal tax levied both on individuals and businesses (around 40% of their tax revenue). It is calculated on the basis of the income earned in the previous year. The tax rate is 10% of income, regardless of the amount of income. For the prefectures only, other local taxes include enterprise tax (18% of prefectural tax revenue), a local consumption tax (18%) and the automobile tax. For the municipalities, the second highest tax is the fixed asset tax (property tax on land and buildings i.e. around 40% of municipal tax revenue), followed by a city planning tax. They each accounted for around 2% of GDP in 2013.

**GRANTS AND SUBSIDIES.** Major central government transfers are based upon the sharing of national taxes. The most important one is the Local Allocation Tax Grant (LAT) based on revenues from the five major national taxes (PIT, CIT, consumption tax, liquor tax and tobacco tax), SNGs receiving between 25% and 34% of the receipts. The LAT is broken down into an "ordinary" LAT (94% of funds) and a "special" LAT (6%). The former guarantees local services and has also an equalisation function. The special LAT is dedicated to extraordinary and emergency expenses such as damages from natural disasters. Another transfer is the Local Transfer Tax (LTT) which is made up of the local gasoline transfer tax and other national taxes redistributed to SNGs as general grant. The National Treasury Disbursements include transfers on the basis of cost allotment, mandatory cost sharing, consignment costs and subsidies for the promotion of specific policies and support for public finances. Other transfers include for example the Special Grants to Local Governments and transfers for reconstruction after the Great East Japan Earthquake. In 2013, around one-quarter of all grants was for capital expenditure.

**OTHER REVENUES.** Other revenues include charges and fees (around 6% of SNG revenue), revenues from property (sales of assets, rents, dividends) and social contributions.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	37.3%	15.6%

The 2009 Act on Assurance of Sound Financial Status of Local Governments established new deficit and debt ratios to monitor the financial soundness of SNGs. In addition, the 2010 Fiscal Management Strategy introduced numerical targets for the short, medium and long term to reduce the primary budget deficit of the central and local governments. SNGs may borrow freely but only to finance capital expenditure. A consultation system with the central government replaced a prior approval system in 2006 for the issuance of local bonds. SNG borrowing is very high by international standards, well above OECD averages in terms of GDP (23.7% for all OECD and 15.1% for unitary countries only). The SNG share in public debt is however below the OECD average (20.2%), the level of Japanese public debt being significant, 236% of GDP in 2013). Outstanding debt is made up of loans (60%) and bonds (40%). Other accounts payable are negligible.

A joint-study of:



**Sources:** • OECD National Accounts Statistics • OECD (2015 and 2016), Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • OECD (2016), OECD Territorial Reviews: Japan 2016 • Japanese Ministry of Internal Affairs and Communications (2015) White Paper on Local Public Finance • Tokyo Metropolitan Government (2013): "Tokyo's Financial System" • UN-Habitat (2012), Fiscal decentralization in Japan.