

## Outlooks On Three Japanese Local And Regional Governments Revised To Positive Following Sovereign Action

**Primary Credit Analyst:**

Kensuke Sugihara, Tokyo (81) 3-4550-8475; kensuke.sugihara@spglobal.com

**Secondary Contact:**

Satoru Matsumoto, Tokyo (81) 3-4550-8673; satoru.matsumoto@spglobal.com

- S&P Global Ratings reviewed its long-term issuer credit ratings on TMG, Aichi, and Osaka following the revision to positive from stable of the outlook on the sovereign rating on Japan.
- We are revising to positive from stable our outlooks on the long-term issuer credit ratings on TMG, Aichi, and Osaka. We are affirming our issuer credit ratings on the three LRGs.
- We do not believe the ratings on TMG, Aichi, and Osaka will exceed the sovereign ratings on Japan because we think the creditworthiness of Japanese local and regional governments would be strongly affected under a stress scenario in which the sovereign defaults.

TOKYO (S&P Global Ratings) April 16, 2018--S&P Global Ratings today said it has revised to positive from stable the outlooks on its long-term issuer credit ratings on Tokyo Metropolitan Government (TMG), Prefecture of Aichi (Aichi), and City of Osaka (Osaka). At the same time, we affirmed the 'A+' long-term issuer credit ratings on the three local and regional governments (LRGs). We also affirmed the 'A-1' short-term issuer credit ratings on Aichi and Osaka.

The rating actions follow our revision of the outlook on the sovereign credit rating on Japan (A+/Positive/A-1) (see "Japan Outlook Revised To Positive As Stronger Economy Sets The Stage For Fiscal Improvement; 'A+/A-1' Ratings Affirmed," published April 13, 2018). We revised the outlooks on TMG, Aichi, and Osaka to positive, the same as the outlook on Japan. Our long-term issuer

credit ratings on the three LRGs are also the same as the long-term sovereign credit rating on Japan.

The stand-alone credit profiles (SACPs) for the three LRGs are currently above our sovereign credit rating on Japan. However, we do not believe the ratings on the three LRGs will exceed the sovereign ratings on Japan because we think the creditworthiness of Japanese LRGs would be strongly affected under a stress scenario in which the sovereign defaults.

LRGs in Japan have limited financial flexibility due to the nation's centralized tax structure and their rigidly defined mandatory expenses. LRGs also rely heavily on the domestic bond market for financing; the viability of their financing in the domestic bond market is fundamentally rooted in market confidence in Japanese government bonds. In addition, given Japanese LRGs generally have high levels of debt, a stressed banking system under a sovereign default scenario would likely lead to extreme pressure to repay debt in a timely manner. In light of these elements, we do not believe the ratings on Japan's LRGs will exceed the sovereign ratings on Japan unless the operating environment changes drastically, allowing LRGs to carry out financial management with more autonomy and independence.

The positive outlooks on the three LRGs' issuer credit ratings reflect the outlook on the long-term sovereign credit rating on Japan. We may consider upgrading the three LRGs if we raise the long-term rating on Japan. Conversely, we are more likely to downgrade the three LRGs or revise downward the outlooks on them if we downgrade the sovereign rating on Japan or make a downward revision to the outlook on Japan.

#### RATINGS LIST

##### Outlook Actions; Ratings Affirmed

	To	From
Tokyo Metropolitan Government		
Issuer Credit Rating	A+/Positive/--	A+/Stable/--
Aichi (Prefecture of)		
Issuer Credit Rating	A+/Positive/A-1	A+/Stable/A-1
Osaka (City of)		
Issuer Credit Rating	A+/Positive/A-1	A+/Stable/A-1

#### RELATED CRITERIA

- Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

*Outlooks On Three Japanese Local And Regional Governments Revised To Positive Following Sovereign Action*

- Use Of CreditWatch And Outlooks, Sept. 14, 2009

RELATED RESEARCH

- Public Finance System Overview: Japanese Prefectures And Cities, Feb. 17, 2016
- 2016 Annual Non-U.S. Local And Regional Government Default Study And Rating Transitions, May 8, 2017

A Japanese-language version of this media release is available on S&P Global Research Online at [www.researchonline.jp](http://www.researchonline.jp), or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>. Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.