CREDIT OPINION
7 April 2025

Update

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RATINGS

Yokohama, City of

Domicile	Yokohama, Japan
Long Term Rating	A1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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City of Yokohama (Japan)

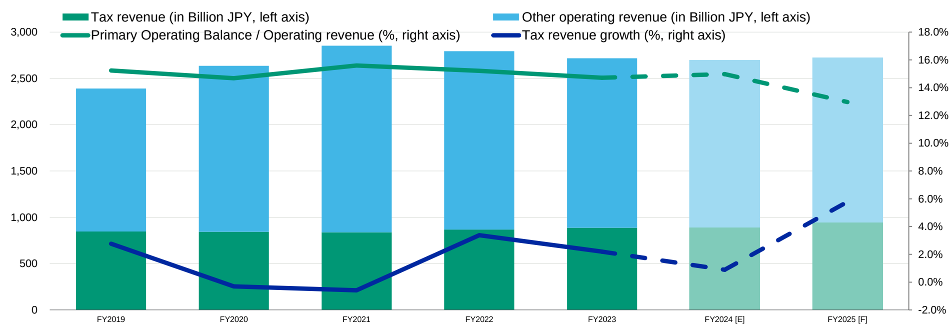
Update to credit analysis

Summary

The credit profile of the City of Yokohama (Yokohama, A1 stable) reflects our view that the rating of the Government of Japan (A1 stable) and those of the regional and local governments (RLGs) in Japan should be at the same level because of their close links. The considerable level of oversight and supervision exercised by the central government, as well as the well-developed equalization system of transfers through the local allocation tax (LAT) system, ensures that credit issues at the RLG level are identified and addressed early. We also assess that there is a very high likelihood of the Japanese government stepping in to provide immediate financial assistance.

The rating also balances Yokohama's prudent management practices and our expectation of its continued sound fiscal performance against a moderately high debt burden because of its infrastructure development responsibilities.

Exhibit 1
City of Yokohama



The fiscal year starts in April and ends in March of the following year. Our estimates are based on the budgets for fiscal 2023 and 2024.
Sources: City of Yokohama and Moody's Ratings

Credit strengths

» Strong institutional framework, supported by its close relationship with the central government

» Prudent management practices, which contain expenditure

» Continued strong performance in the fiscal year that ended March 2025 (fiscal 2024) and fiscal 2025

Credit challenges

» High debt burden because of its responsibility for infrastructure development

Rating outlook

The rating outlook is stable, reflecting the outlook on Japan's sovereign rating.

Factors that could lead to an upgrade

An upgrade of the sovereign rating would lead to an upgrade of Yokohama's rating.

Factors that could lead to a downgrade

A downgrade of the sovereign rating would lead to a downgrade of Yokohama's rating. Furthermore, any policy changes that significantly weaken the highly centralized system or the level of oversight provided by the central government could exert downward pressure on the rating.

Key indicators

Exhibit 2

City of Yokohama

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024 [E]	FY2025 [F]
Net Direct and Indirect Debt / Operating Revenue (%)	176.6%	157.5%	141.2%	139.9%	140.3%	140.8%	139.2%
Interest Payments / Operating Revenue (%)	1.9%	1.6%	1.3%	1.2%	1.2%	1.2%	1.2%
Primary Operating Balance / Operating Revenue (%)	15.2%	14.7%	15.6%	15.3%	14.7%	15.0%	13.0%
Cash and cash equivalent / Operating Revenue (%)	0.3%	0.4%	1.1%	1.1%	1.9%	1.7%	1.7%
Capital Spending / Total Expenditures (%)	16.1%	14.4%	16.7%	13.2%	13.2%	13.3%	12.9%
Social Spending / Total Expenditure (%)	19.4%	18.7%	20.1%	20.7%	21.9%	22.5%	23.7%
Population growth rate (%)	0.3%	0.0%	−0.2%	0.0%	−0.1%	−0.1%	N/A
Nominal GDP growth rate (%)	0.0%	−1.4%	3.3%	N/A	N/A	N/A	N/A

The fiscal year starts on 1 April and ends on 31 March of the following year. Fiscal 2024 is our estimate based on the budget, and fiscal 2025 is our projection based on the budget.
Sources: City of Yokohama and Moody's Ratings

Detailed credit considerations

The credit profile of Yokohama, as expressed in its A1 rating, combines its Baseline Credit Assessment (BCA) of a3 and the very high likelihood of extraordinary support from the central government in the event that the entity faces acute liquidity stress.

Baseline Credit Assessment

Strong institutional framework is supported by the close relationship with the central government

RLGs in Japan benefit from a highly developed, predictable and stable institutional framework. This protective arrangement contributes notably to credit strength through the central government's oversight of RLGs' performance and the provision of fiscal transfers that reduce fiscal disparities.

RLGs' fiscal performance is overseen by the central government under the New Revival Law, which relies on various fiscal indicators. If an entity's indicators exceed defined thresholds, it is identified as either an “early correcting entity” or a “revival entity”, and must then carry out plans to improve its fiscal situation. This law, which covers a wide range of RLG activities, reflects the central government's strong resolve to reduce the risk of a financial crisis at the local level and bolster the local sector's credit risk profile.

Exhibit 3
Yokohama city meets all ratios

Fiscal 2023	Actual deficit ratio	Consolidated actual deficit ratio	Adjusted debt service ratio	Future adjusted debt burden ratio
Yokohama City	**-**	**-**	**9.50%**	**127.20%**
Require an approval of MIC to issue bond	2.50%～10.00%	-	18.00%	
Early Correcting Entity	11.25%～15.00%	16.25%～20.00%	25.00%	400.00%
Revival Entity	20.00%	30.00%	35.00%	-
Average of 20 Ordinance-designated cities	-	-	6.85%	91.57%

Ratio explanation[1]
In the table, "-" indicates that no such deficit is reported. No capital shortage is reported in the city's corporate accounts.
Sources: Yokohama city, Ministry of Internal Affairs and Communications (MIC), and Moody's Ratings

Japanese RLGs have limited flexibility with respect to own-source revenue. The country's local tax law determines the tax base available to RLGs and limits the range of permitted tax rates. For each major local tax, RLGs may apply the standard rate or a higher rate, up to a prescribed maximum.

Depending on the tax, the maximum rate is typically 10%-50% higher than the standard rate, although in some cases (for example, the inhabitants tax on individuals and property tax), there is no legal maximum. While an RLG may impose a tax not specified in the local tax law, the Ministry of Internal Affairs and Communications must first approve it.

Because of insufficient tax revenue, which is used to fund the LAT, the central government has allocated specific amounts of rinzai-sai debt (an operating debt approved by the Ministry of Internal Affairs and Communications) that are to be issued by the RLGs in place of the LAT cash transfers from the central government. The larger RLGs, in particular, have been apportioned larger rinzai-sai amounts because the market access of small RLGs is more limited.

The amounts required for rinzai-sai debt service will be included in each RLG's future LAT subsidy. However, as the central government has recorded shortfalls in sources that fund the LAT, we are monitoring the sustainability of the LAT transfer model, including the rinzai-sai debt service. The issuance of rinzai-sai debt has slowed over the past few years because of the improvements in local tax revenue, with the exception of a temporary increase during the coronavirus pandemic. For the first time in rinzai-sai history, the central government budget has scheduled zero issuance for fiscal 2025.

Other than the regular support mentioned above, the central government provides extraordinary support to RLGs when needed. During the pandemic, the central government provided various types of subsidies to cover related expenditure or support local businesses, which limited the strain on the RLGs' finances. In addition, inflationary pressures from a weak yen and higher energy prices have had a limited effect on RLGs because of the central government subsidies that supported affected local businesses and households.

Yokohama's role as a residential suburb and its high livability support stable demographics

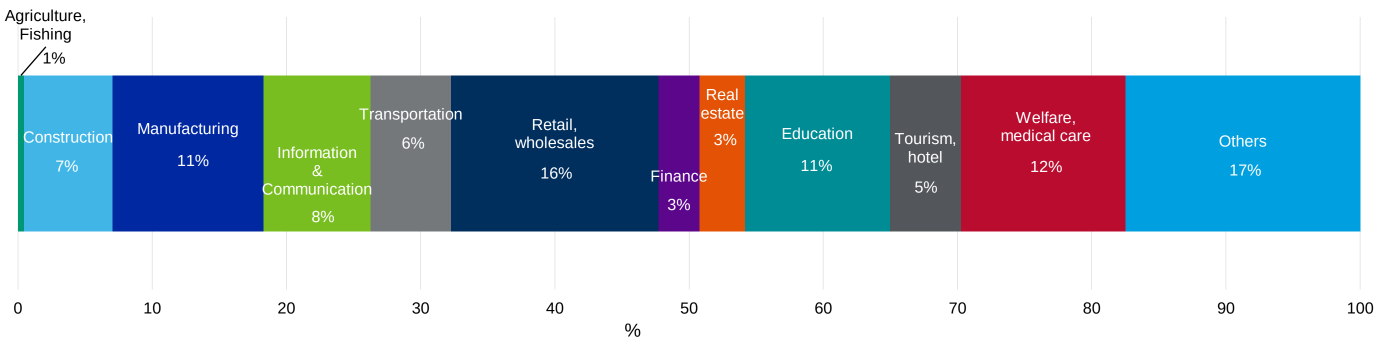
Yokohama is a residential suburb of the Tokyo Metropolitan Area, housing more than 3.7 million residents — the largest population among ordinance-designated cities[2] in Japan[3].

This city is internationally recognized for its efficient public transportation system and robust infrastructure, facilitating seamless commutes to its business districts and attracting global corporations. These features, along with its comprehensive access to essential services, underscore the city's high livability under social considerations. Additionally, the presence of rich cultural landmarks, such as Chinatown, enhances its international appeal. Collectively, these factors underscore the city's economic dynamism and cultural richness.

Despite the overall decline in Japan's population, Yokohama's population has remained relatively stable, with a minimal decrease in the past couple of years. This stability is largely explained by the migration from other cities within Kanagawa Prefecture, complemented by an influx of foreign residents. In terms of demographic composition, the working-age population (15 to 64 years) constitutes 63.7% of the total population in 2024, surpassing the national average of 59.5%. This proportion has declined from the 2014 figure of 64.6%.

Conversely, the elderly population (65 years and above) is 25.1%, lower than the national average of 29.1% but up from 22.5% in 2014. This indicates that the population of Yokohama, like that of the rest of Japan, is aging.

Exhibit 4
Yokohama city has a diversified industrial structure
Employment by industry, 2020



2020 census basic tabulation on employment status.
Sources: Statistic Bureau of Japan and Moody's Ratings

These strengths underpin its stable, well-diversified service base and higher-income households. We expect the city to maintain a broader and more stable tax base (the high market value of taxable properties will support its property taxes, which are relatively stable compared with corporate taxes) than those of other municipalities in Japan.

Disciplined financial policies curb spending
Yokohama city has a track record of fiscal discipline, managing operating and capital spending through strong internal controls and planning, which helps it better control its spending through the cycles. The city's fiscal discipline is further demonstrated through its medium-term plan for 2022-25 and strategic long-term projection extending to 2065, detailing future revenue and expenditure plans. These forward-looking plans are designed to proactively address the budgetary challenges likely to arise from an aging population and demographic decline.

The city has focused its fiscal strategy on controlling spending because of its relatively lower level of tax revenue from the business sector than that of other cities we rate. In some other jurisdictions, faster tax revenue growth tended to accelerate expenditure growth, which could not be easily curbed when tax revenue growth declined.

Yokohama has clear and prudent debt management and investment policies to minimize the financial risk related to investments and debt. The city also provides high-quality information with disclosures that are transparent, timely and accurate. In addition, the city's audit process is in line with the national legal framework.

Yokohama will maintain sound fiscal performance
Yokohama generally benefits from stable revenue trends. Its tax revenue is less volatile than that of most prefectures and other large cities, because of the city's higher share of individual income tax (close to 50% of its tax revenue) and property tax revenue (one-third of its tax revenue), and lower reliance on more volatile sources of tax revenue related to the business sector.

Based on the ordinary account[4] financial results for fiscal 2023, Yokohama city's tax revenue was ¥886 billion, up 2.2% from that in fiscal 2022. Following a 3.4% increase in fiscal 2023, Yokohama reported tax revenue growth for two consecutive fiscal years. This growth reflects a recovery in individual income tax from the effects of the pandemic, as well as an increase in property tax, driven by the revival of the local property market. For fiscal 2024, the projected municipal tax revenue growth rate is roughly 1.0%. This modest increase takes into account the impact of the income tax reduction measures[5] introduced in 2024, which are largely offset by the special transfers from the central government.

Operating revenue will decline in fiscal 2023 and fiscal 2024 because the central government will be phasing out the subsidies that reached their peak during fiscal 2020 and fiscal 2022, aimed at mitigating pandemic-related expenses. However, operating revenue will continue to exceed the pre-pandemic levels because the subsidies introduced as part of the government's measures to combat inflation will remain high.

Yokohama city has implemented many social measures to prevent the decline in its working-age population. Social spending accounted for 22% of total expenditure in fiscal 2023, which is still relatively lower than that for other major cities like Osaka (28%) but similar to that of Nagoya (22%). Because the city budgets higher social spending for fiscal 2025, the primary operating margin, measured as primary operating balance/operating revenue, will decline to 13% in fiscal 2025 from 15% in fiscal 2023 and fiscal 2024. This operating margin is still higher than the average for the cities that we rate, reflecting Yokohama's good expense management.

For fiscal 2024 and fiscal 2025, the city plans to fund its budget deficit by allocating ¥13 billion-¥15 billion annually from its debt sinking funds to the general account. However, we estimate that higher tax revenue and stable operating revenue would have eliminated the deficit factored in the budget. Yokohama's liquidity ratio is 1.7%, lower than that of international peers, but within the average range of its domestic peers that we rate.

Debt burden remains high because of infrastructure development responsibilities

The city's net debt balance across all accounts declined to ¥3.8 trillion in fiscal 2023 from ¥4.3 trillion in fiscal 2013. The city's debt burden — net direct and indirect debt as a share of operating revenue — was more than 280% in fiscal 2013; however, it significantly declined to 140% in fiscal 2023 on the back of the city's diligent fiscal planning and efforts to reduce debt, and the growing subsidies from the central government to increase operating revenue, especially during the pandemic.

Like other ordinance-designated cities with large populations in Japan, Yokohama's debt profile reflects the cost of infrastructure investments, such as water, sewage, mass transport, roads, ports and land redevelopment projects. An example of a major project in the past was the ring roads (Yokohama Ringed Northwest Line), which started operating in 2020. The city's investment expenditures reached a peak of ¥315.9 billion in 2021 and have been decreasing since then. The proportion of investment expenditure to total expenditure dropped from 16.7% in fiscal 2021 to 13.2% in fiscal 2023, but it remains higher than the average of 11%-12% for other rated ordinance-designated cities. This high level of capital spending is likely to continue.

The city has allocated around ¥200 billion for annual capital spending for fiscal 2024 and fiscal 2025. These budgets are directed toward new redevelopment plans in preparation for the International Horticultural Expo 2027 and enhancements to infrastructure, including railway extensions and pier improvements.

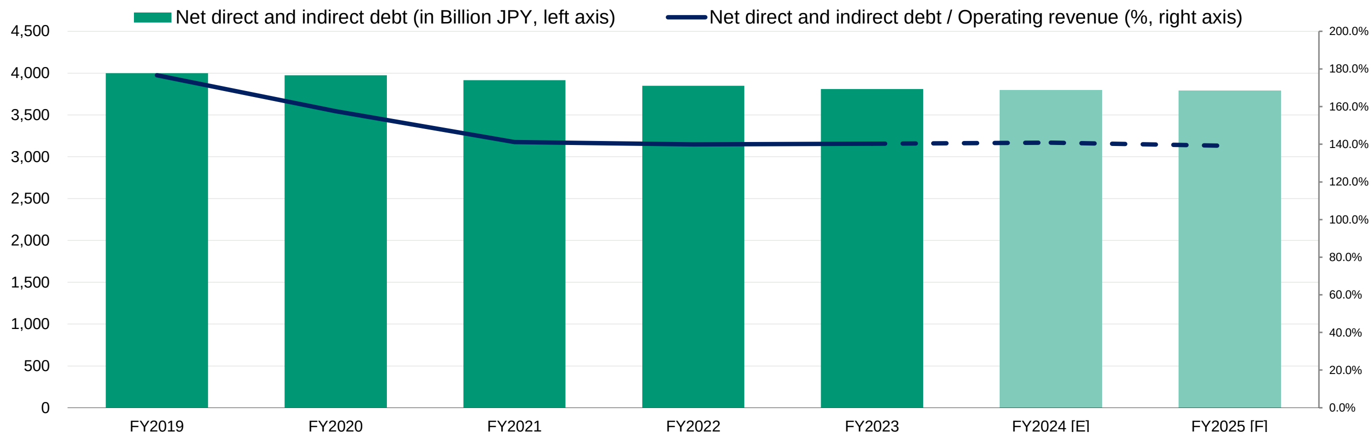
On the other hand, under its strategic plan announced in fiscal 2022, city targets to limit the annual municipal bond issuance amount to ¥130 billion, with the issuance budget for municipal bonds set at ¥102.7 billion-¥106.6 billion for fiscal 2024-25. We expect the net debt balance to gradually decrease, given the projected increase in tax revenue and the planned capital expenditure, which is capped at ¥200 billion annually, as previously outlined.

Despite gradual improvement, the city's debt burden remains high compared with that of its international peers and other cities in Japan that we rate (an average of 130%), and continues to represent a key constraint to its credit profile. However, if the city maintains its policy to reduce debt, the debt burden is likely to recover to around 130% by fiscal 2028, close to the average level of other ordinance-designated cities that we rate.

The city manages the debt sinking fund's balance to ensure the availability of adequate resources for future debt repayments. As of the end of fiscal 2024, this fund's balance will be around ¥183 billion, sufficient to cover debt servicing in the city's general account, including principal payments of ¥73 billion (excluding fund contributions) and interest of ¥22 billion, planned for fiscal 2025.

The city continues to have strong access to Japan's deep and mature capital markets. It has short-term bank facilities that can cover its annual debt service.

Exhibit 5
The debt balance is gradually declining and will remain below the pre-pandemic level

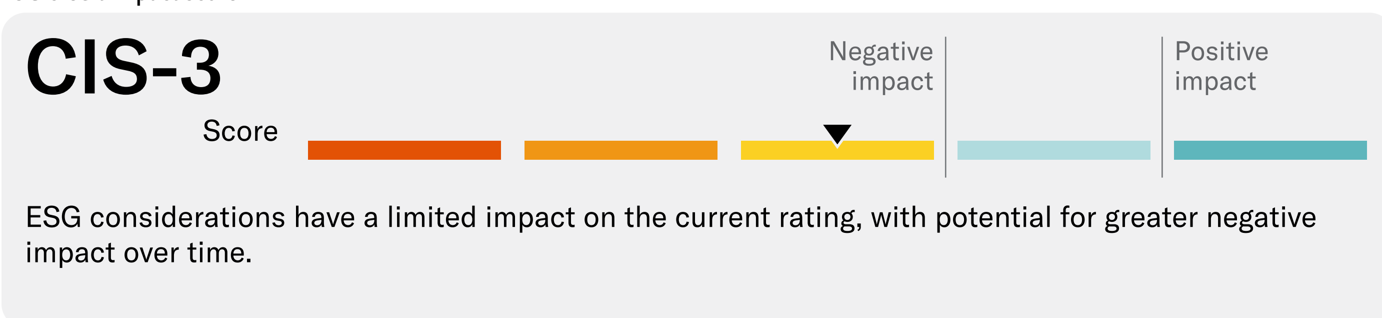


The fiscal year starts in April and ends in March of the following year. Our estimates are based on the budgets for fiscal 2024 and 2025.
Source: Moody's Ratings

ESG considerations

Yokohama, City of's ESG credit impact score is CIS-3

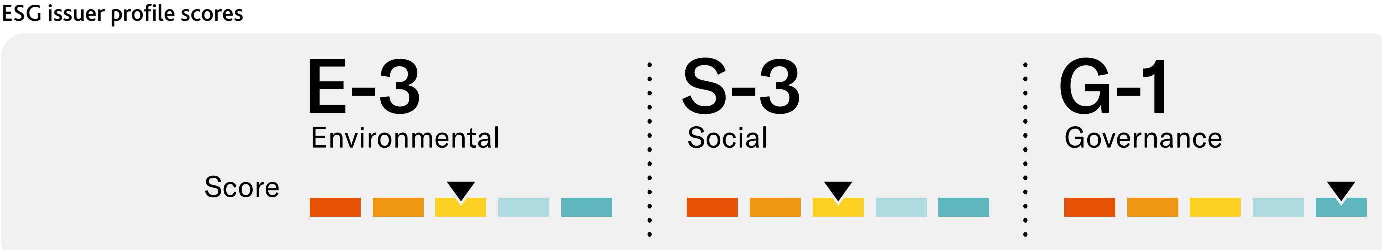
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

City of Yokohama's (Yokohama City) ESG Credit Impact Score is (**CIS-3**). Yokohama City's CIS is constrained by Japan's social risk – mainly ageing, declining demographics – which presents potential weakness over time in the central government's capacity to provide support through its institutional framework, which includes the equalization system. Nevertheless, this strong and predictable institutional framework for Japanese RLGs and the central government's support mechanisms for disaster recovery currently mitigate Yokohama City's ESG risks.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental
We assess Yokohama City's exposure to environmental risks as (**E-3** issuer profile score), with neutral to low exposures to physical climate risk. Our score on physical climate risk reflects Japan's exposure to natural disasters such as typhoons or heavy rains, that could become more frequent and severe from climate change. However, preventative measures, such as infrastructure fortification, diminish the economic and fiscal impact.

Social
Our overall assessment of social risk exposure is (**S-3** issuer profile score), with declining demographics mitigated by exposures to other social considerations. While Yokohama City's urban characteristics and proximity to Tokyo supports in-migration, its demographic score reflects an ageing, and declining population over time as a nationwide trend. Meanwhile, the city benefits from being part of the large economy in the Tokyo metropolitan area with access to high quality education, basic services from a well-developed infrastructure as well as health and safety.

Governance
Yokohama City's governance is (**G-1**) reflects a strong institutional structure with regards to the central government, featuring a stable and predictable cash transfer equalization system. Governance is also supported by strong policy credibility and effectiveness, transparency and disclosure and budget management.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Extraordinary support considerations
We assume a very high likelihood of extraordinary support for the city from the national government, reflecting our assessment of Japan's highly centralized system of local governments and the country's history of risk socialization.

Rating methodology and scorecard factors

The assigned BCA of a3 is close to the scorecard-indicated BCA of a2.

Exhibit 8

City of Yokohama

Regional and local governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					**25%**	**1.52**
Regional Income [1]	5.11	45362.65	15%	0.77		
Economic Growth	12.00	ba	5%	0.60		
Economic Diversification	3.00	aa	5%	0.15		
Factor 2: Institutional Framework and Governance					**30%**	**0.90**
Institutional Framework	3.00	aa	15%	0.45		
Governance	3.00	aa	15%	0.45		
Factor 3: Financial Performance					**20%**	**1.49**
Operating Margin [2]	5.73	14.71%	10%	0.57		
Liquidity Ratio [3]	17.40	1.90%	5%	0.87		
Ease of Access to Funding	1.00	aaa	5%	0.05		
Factor 4: Leverage					**25%**	**1.71**
Debt Burden [4]	9.01	140.28%	15%	1.35		
Interest Burden [5]	3.57	1.19%	10%	0.36		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						**(5.62) a2**
Idiosyncratic Notching						**0.0**
Preliminary BCA SIO After Idiosyncratic Notching						**(5.62) a2**
Sovereign Rating Threshold						**A1**
Operating Environment Notching						**0.0**
BCA Scorecard-Indicated Outcome						**(5.62) a2**
Assigned BCA						**a3**

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars.
[2] Primary operating balance/operating revenue.
[3] Cash and cash equivalents/operating revenue.
[4] Net direct and indirect debt/operating revenue.
[5] Interest payments/operating revenue.
Source: Moody's Ratings (fiscal 2023)

Ratings

Exhibit 9

Category	Moody's Rating
YOKOHAMA, CITY OF	
Outlook	Stable
Baseline Credit Assessment	a3
Issuer Rating	A1
Senior Unsecured	A1

Source: Moody's Ratings

Endnotes

1 The "actual deficit ratio" represents the magnitude of the deficit occurring in an RLG's general account, the principal account of RLGs, as a percentage of their standard fiscal revenue. The "consolidated actual deficit ratio" refers to the magnitude of the deficit occurring across all accounts of an RLG, including public companies such as public hospitals and sewage services, expressed as a percentage of the standard fiscal revenue. The "adjusted debt service ratio" indicates the magnitude of the repayment amount (public bond cost including interest) of borrowings (local bonds) by RLGs as a percentage of their standard fiscal revenue. The "future adjusted debt burden ratio" shows the size of the current debt, including borrowings (local bonds) and other liabilities, which RLGs carry as a percentage of their standard fiscal revenue. Standard fiscal revenue or "Hyoujyun zaisei kibo" refers to the total of the regular general financial resources of RLGs, including tax revenue and the Local Allocation Tax, to which the issuance limit for rinzai-sai debt is also added. The detailed calculation method is available on the MIC website. The ratios are audited by the RLG before announcement.

2 An ordinance-designated city, per Article 252-19, Paragraph 1 of the Local Autonomy Act, refers to a city with a population of more than 500,000, which is designated by government ordinance. While an ordinance-designated city is a municipal local public body included within the boundaries of a prefecture, under the current system, its organization and authority are treated differently from those of a general city.

3 Tokyo is considered a metropolitan district, which is a special kind of prefecture in Japan, and not a designated city.

4 The general account is the consolidation of the basic expenses of RLGs. The ordinary account is a comprehensive account type used for statistical analysis reported to the Ministry of Internal Affairs, encompassing general account, public health insurance and special accounts for housing fund lending, but excluding public enterprise accounts like water supply, sewage, hospital and port management. In our analysis, we consolidate all these accounts for a unified view.

5 One-off tax reduction program applied to consumers' income tax and resident tax, effective from June 2024.

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