

**CREDIT OPINION**

24 March 2026

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

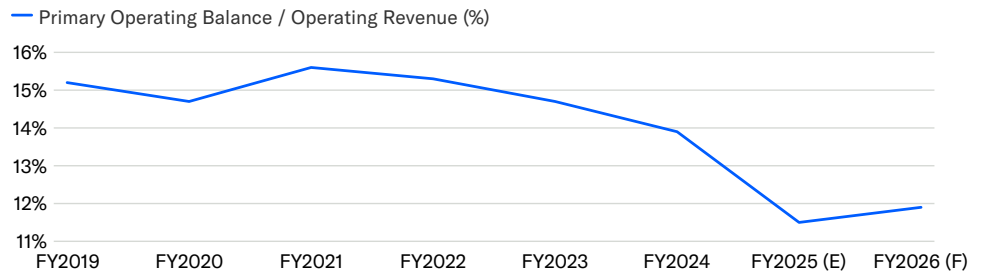
### Summary

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 Japanese 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 reflects Yokohama's prudent management practices and stable tax base, as well as its moderately high debt burden resulting from infrastructure development obligations and increased expenditure due to an aging population. Despite these challenges, Yokohama maintains a positive operating margin (see Exhibit 1).

Exhibit 1

### High expenditure will reduce Yokohama's operating margin



The fiscal year starts in April and ends in March of the following year. Fiscal 2025 is the estimate based on the budget, and fiscal 2026 is the projection based on the initial budget.

Sources: Yokohama City, Moody's Ratings

### Credit strengths

- » Strong institutional framework, supported by its close relationship with the Japanese government
- » Prudent management practices, which contain expenditure
- » Stable tax base, supported by a high-income population and a firm property market

### Credit challenges

- » Increasing social spending for an aging population
- » 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 Japanese government could exert downward pressure on the rating.

## Key indicators

Exhibit 2

### City of Yokohama

Yokohama, City of	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025 (E)	FY2026 (F)
Net Direct and Indirect Debt / Operating Revenue (%)	176.6%	157.5%	141.2%	139.9%	141.8%	136.6%	134.9%	134.3%
Interest Payments / Operating Revenue (%)	1.9%	1.6%	1.3%	1.2%	1.2%	1.1%	1.1%	1.1%
Primary Operating Balance / Operating Revenue (%)	15.2%	14.7%	15.6%	15.3%	14.7%	13.9%	11.5%	11.9%
Cash and Cash Equivalents / Operating Revenue(%)	0.3%	0.4%	1.1%	1.1%	1.9%	1.7%	2.4%	1.8%
Capital expenses/total expenses (%)	16.1%	14.4%	16.7%	13.2%	13.2%	12.5%	12.3%	13.0%
Cash Financing Surplus / total revenues (%)	3.7%	5.0%	4.8%	7.0%	5.8%	6.6%	4.7%	4.4%

The fiscal year starts on 1 April and ends on 31 March of the following year.

Sources: City of Yokohama and Moody's Ratings

## Profile

Yokohama is a residential suburb of the Tokyo Metropolitan Area, housing more than 3.7 million residents — the largest population among the ordinance-designated cities<sup>1</sup> in Japan<sup>2</sup>.

The city is internationally recognized for its efficient public transportation system and robust infrastructure, facilitating seamless commutes to its business districts and those in Tokyo and attracting global corporations. Notably, companies such as [Nissan Motor Co. Ltd.](#) (Ba2 negative) and [Isuzu Motors Limited](#) (A3 stable) have established their headquarters in Yokohama.

These urban characteristics underpin Yokohama's stable and well-diversified service sector, households with relatively higher income levels, and high market value of taxable properties. Compared with that of other ordinance-designated cities, the city's tax revenue structure features a relatively high proportion of individual income taxes and property taxes, which comprise around half and one-third of the total municipal tax revenue, respectively. This reflects the concentration of higher-income households, the steady incorporation of recent wage growth into tax revenue, and the stability of property tax revenue supported by the high market value of taxable properties in the city.

Moreover, Yokohama's tax revenue structure insulates its finances from the direct impact of the shifts in the tariff policy of the [United States of America](#) (Aa1 stable), which are more likely to affect corporate profitability than employment conditions or the property market. We project corporate tax receipts to constitute only about 2% of the city's operating revenue for both the fiscal year ending in March 2026 (fiscal 2025) and fiscal 2026.

## 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 Japanese government in the event that the entity faces acute liquidity stress.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Baseline Credit Assessment

### Strong institutional framework is supported by the close relationship with the Japanese government

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

RLGs' fiscal performance is overseen by the Japanese government under the 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 implement plans to improve its fiscal situation. This law, which covers a wide range of RLG activities, reflects the Japanese government's strong resolve to reduce the risk of a financial crisis at the local level and bolster the local sector's credit profile.

Exhibit 3

### Yokohama city meets all ratios

Fiscal 2024	Actual deficit ratio	Consolidated actual deficit ratio	Adjusted debt service ratio	Future adjusted debt burden ratio
<b>Yokohama city</b>	-	-	<b>9.20%</b>	<b>114.90%</b>
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	-	-	6.69%	88.23%

Ratio explanation<sup>3</sup>

In the table, "-" indicates that no such deficit is reported. No capital shortage is reported in the city's corporate accounts.

Sources: City of Yokohama, 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. Although an RLG may impose a tax not specified in the local tax law, the Minister of Internal Affairs and Communications (MIC) must first approve it.

Because of insufficiency in the central government's tax revenue, which is used to fund LAT, the central government allocated specific amounts of rinzai-sai debt<sup>4</sup> (an operating debt approved by the MIC) in the past that are to be issued by the RLGs in place of LAT cash transfers from the central government. The larger RLGs, in particular, have been apportioned larger rinzai-sai amounts as they have greater market access.

The amounts required to service rinzai-sai debt will be included in each RLG's future LAT subsidy. However, as the Japanese government has historically recorded shortfalls in sources that fund LAT, we are monitoring the sustainability of the LAT transfer model, including the debt-servicing costs for rinzai-sai. Notwithstanding a temporary rise during the coronavirus pandemic, rinzai-sai debt issuance slowed thereafter in fiscal 2024 alongside an improvement in local tax revenue, contributing to a general reduction in debt ratios among RLGs. Because of improvements in the Japanese government's fiscal position, rinzai-sai debt issuance fell to zero in fiscal 2025 after the LAT cash transfer obligations were fully met. Initial budgets for central and local governments in fiscal 2026 also show no planned rinzai-sai debt issuance, marking a second consecutive year of zero issuance.

Support from Japanese government to RLGs to mitigate the financial impact of various social events on RLGs takes different forms. During the pandemic, earmarked subsidies were provided to RLGs to cover pandemic-related expenditures or to support weakened local businesses. Additionally, the Japanese government extended transfers and subsidies to RLGs when inflationary pressures from a weak Japanese yen and higher energy prices affected local businesses and households. RLGs also have access to [Japan Finance Organization for Municipalities](#) (A1 stable), a government agency, for loans.

**High debt burden will be reduced by tax revenue growth and absence of any incremental rinzai-sai debt issuance**

Similar to 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.

We estimate Yokohama's debt burden ratio to decrease to 134.9% in fiscal 2025 and 134.3% in fiscal 2026, from 136.6% in fiscal 2024, supported by continued growth in tax revenue and no issuance of rinzai-sai debt. Based on the general account budget for fiscal 2026, the city's tax revenue will increase by 3.5% mainly because of wage growth in households, which we expect to lead to higher operating revenue and a consequent reduction in debt burden.

Yokohama has allocated ¥200 billion-¥230 billion in annual capital spending for fiscal 2025 and fiscal 2026. These budgets focus on new redevelopment plans in preparation for the International Horticultural Expo 2027 and infrastructure enhancements.

In the draft of its next medium-term plan for fiscal 2026-29, Yokohama aims to restrain capital spending and reduce the withdrawals from the debt sinking fund. Proposed measures include cutting expenditure, privatizing facilities and selling assets. We consider these efforts credit positive.

Despite a gradual improvement, Yokohama's debt burden remains high compared with that of other cities that we rate in Japan (an average of 120%), and continues to represent a key constraint to its credit profile.

**Operating margin will stay positive despite growing expenditure**

We project that the operating margin, defined as primary operating balance divided by operating revenue, will decline to 11.5% in fiscal 2025 and 11.9% in fiscal 2026 from 13.9% in fiscal 2024, due to expenditure growth outpacing revenue growth. Based on the budget, the city's personal expenditure will continue to rise as a result of base wage increases and the extension of the retirement age for government employees, while higher costs in the child care and education sectors will push up social expenditure.

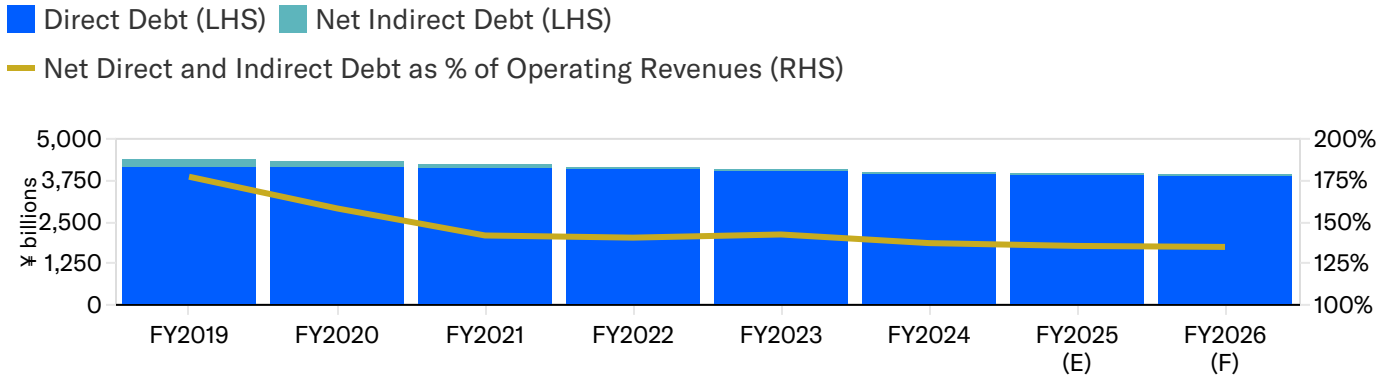
Yokohama has long experienced significant expenditure pressure due to increasing social costs related to the demographic challenges of an aging society. Nonetheless, the city has an established track record of expenditure reforms, which is credit positive. Under its medium-term plan for fiscal 2022-25, Yokohama has pursued expenditure discipline by using subsidies, effectively leveraging city-owned assets to secure funding and engaging in public-private partnerships (PPPs). The draft of the next medium-term plan for fiscal 2026-29 also indicates the city's intention to continue pursuing expenditure reforms.

**Liquidity will remain constrained because of high capital spending**

We estimate Yokohama's liquidity rate to fluctuate between 2% and 3% in fiscals 2025 and 2026, remaining higher than the pre-pandemic level of less than 1.0%. The city plans to maintain its fiscal adjustment fund balance at around ¥45 billion for this period, with around 40% of the fund allocated to cover retirement benefit payments due to the extension of the retirement age for government employees.

Yokohama maintains short term credit lines with local banks that is sufficient to cover one year bond payments to ensure liquidity. In addition, 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 4  
Debt balance will decline gradually but still remain high

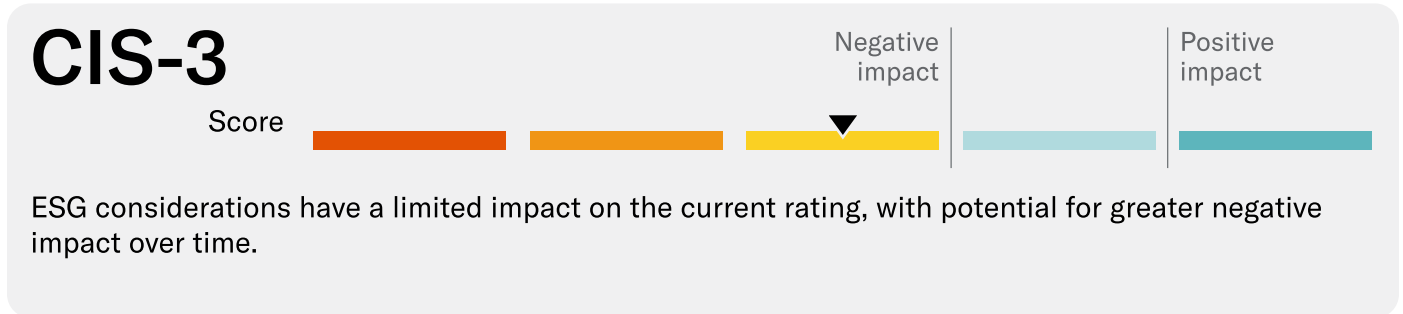


The fiscal year starts in April and ends in March of the following year. Our estimates are based on the budgets for fiscal 2025 and 2026.  
Source: Moody's Ratings

### ESG considerations

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

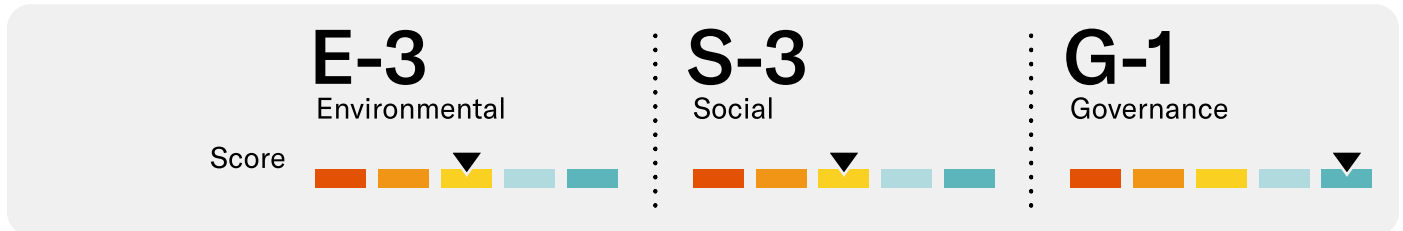
Exhibit 5  
ESG credit impact score



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 6  
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 moderate 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. For details about our rating approach, please refer to our Regional and Local Governments rating methodology.

Exhibit 7

### City of Yokohama

Regional and local governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
<b>Factor 1: Economy</b>					<b>25%</b>	<b>1.47</b>
Regional Income [1]	4.78	46781.10	15%	0.72		
Economic Growth	12.00	ba	5%	0.60		
Economic Diversification	3.00	aa	5%	0.15		
<b>Factor 2: Institutional Framework and Governance</b>					<b>30%</b>	<b>0.90</b>
Institutional Framework	3.00	aa	15%	0.45		
Governance	3.00	aa	15%	0.45		
<b>Factor 3: Financial Performance</b>					<b>20%</b>	<b>1.54</b>
Operating Margin [2]	6.03	13.92%	10%	0.60		
Liquidity Ratio [3]	17.75	1.67%	5%	0.89		
Ease of Access to Funding	1.00	aaa	5%	0.05		
<b>Factor 4: Leverage</b>					<b>25%</b>	<b>1.66</b>
Debt Burden [4]	8.83	136.59%	15%	1.32		
Interest Burden [5]	3.39	1.13%	10%	0.34		
<b>Preliminary BCA Scorecard-Indicated Outcome (SIO)</b>						<b>(5.57) a2</b>
<b>Idiosyncratic Notching</b>						<b>0.0</b>
<b>Preliminary BCA SIO After Idiosyncratic Notching</b>						<b>(5.57) a2</b>
<b>Sovereign Rating Threshold</b>						<b>A1</b>
<b>Operating Environment Notching</b>						<b>0.0</b>
<b>BCA Scorecard-Indicated Outcome</b>						<b>(5.57) a2</b>
<b>Assigned BCA</b>						<b>a3</b>

[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 2024)

## Ratings

Exhibit 8

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

Source: Moody's Ratings

## Endnotes

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

- 4 Rinzai-sai debt is issued by RLGs to compensate for shortfalls in LAT provided by Japanese government, and not because the city is fiscally irresponsible. However, given the aforementioned context, rinzai-sai debt is included in the calculation of debt burden. We treat rinzai-sai as debt to be subsidized through future LAT transfers. Furthermore, the amount of rinzai-sai debt issued by each RLG is determined by a mechanical formula that tends to generate heavier debt levels for larger RLGs such as Yokohama city, which has excellent market access. Therefore, the level of rinzai-sai debt does not strictly reflect the actual fiscal position of Yokohama city. Consequently, the impact on the BCA is limited.

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