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Implementing the "Medium- to Long-Term Economic and Fiscal Plan" Based on Responsible and Proactive Public Finances — Flexible Economic and Fiscal Management Based on Multifaceted Analysis and Verification —[1]

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The Basic Policy 2026 positioned the fundamental reform of budget formulation and the direction of medium- to long-term economic and fiscal management as the "Medium- to Long-Term Economic and Fiscal Plan," and set targets including growth exceeding 1% in real terms and 3% in nominal terms, annual domestic private non-residential investment of 250 trillion yen in FY2040, GDP approaching 1,100 trillion yen in FY2040, and a steady reduction in the debt-to-GDP ratio. What is important going forward is **to promote the various strategies consistently toward achieving these targets, while reviewing and verifying policies in each field**, and thereby to implement and manage the Medium- to Long-Term Economic and Fiscal Plan.

Furthermore, in economic and fiscal management, it is important to analyze a wide range of possibilities using various economic and fiscal indicators and multiple cases based on different assumptions, rather than relying on a single outlook or a single indicator, to identify changes in actual outcomes and outlooks and the factors behind them, and to link the results to necessary policy revisions. It is necessary to make this cycle of economic and fiscal management function effectively and to put into practice **economic and fiscal management that achieves both economic growth and fiscal sustainability**. From this perspective, we offer the following recommendations.

1. Consistent Promotion of the Various Strategies and Response to Priority Issues

(Toward Building a "Strong Economy")

- With regard to **Japan's Growth Strategy, the Strategy for the Future of Regions, the Comprehensive Population Strategy** and other key strategies of the Takaichi Cabinet, **it is important to promote each strategy consistently** with the target macroeconomic and fiscal vision, and **the Council on Economic and Fiscal Policy should actively discuss them from the perspective of taking a comprehensive view of the economy, public finances and social security.** In doing so, the Council should assess from multiple angles whether private-sector growth expectations and willingness to invest are rising, and whether funds are flowing to growth areas in capital markets, as seen in the AI field.
- In particular, in order to **link government support measures for building a "strong economy" to the expansion of private investment**, **the Council should also follow up to ensure that mechanisms are established in the year-end budget formulation process** for **fleshing out the 5W1H (who, what, when, where, why and how) framework** in initiatives under Japan's Growth Strategy and the Strategy for the Future of Regions, **managing the progress of investment by**

[1] This document is a policy proposal submitted for discussion by the expert members at the Council on Economic and Fiscal Policy.

field (including overall progress management of the cumulative public-private investment of more than 370 trillion yen through FY2040), and linking the results to reviews in the following fiscal year and beyond.

(Responding to Priority Issues in Each Field toward Achieving the Plan)

- To increase the level of detail of the Medium- to Long-Term Economic and Fiscal Plan, it is necessary, from the perspective of **ensuring growth-oriented sustainability in both social security and non-social security fields**, to conduct **analysis and verification from macro and semi-macro perspectives** on priority themes such as those below, also taking into account targets set by the relevant ministries and agencies, and to build a cycle for reflecting the necessary initiatives in each fiscal year's budget and in the basic plans, basic policies and other documents of each field.

<Examples of Priority Themes for Ensuring Growth-Oriented Sustainability>

[**Labor]** Raising added value through the maximum use of AI and robotics, and responding to **labor demand** that still remains unmet

[Social Security] Balancing the securing of social security services with reducing the burden on the working-age generation; a sustainable long-term care system

[Education and Research] Promoting education and research capabilities that respond to the AI era (strengthening core funding, the future scale of universities, etc.)

[Social Infrastructure] Selective consolidation and renewal of infrastructure through strategic urban development and the use of technology

[Local Public Administration and Finance] Targets for maintaining local government functions; **division of roles among the central government, local governments and the private sector**

- The Medium- to Long-Term Economic and Fiscal Plan set out in the Basic Policy 2026 should be given concrete scheme not merely as a future outlook, but as a government-wide management framework for regularly and continuously implementing, reviewing and revising policies. To this end, **the functions of managing and reviewing reform progress** performed to date by the Committee for Promoting the Integrated Economic and Fiscal Reforms **should be further developed and restructured into a framework for promoting the Medium- to Long-Term Economic and Fiscal Plan**. In doing so, the functions of verifying the implementation status of growth investments, their effects in inducing private investment and their economic and fiscal impacts, and of linking the results to a review of overall macroeconomic and fiscal conditions and to the revision of policies and budgets, should be clarified. It is important to thoroughly practice wise spending, including by using the outcomes of EBPM (evidence-based policymaking) to identify best practices and roll them out more widely.

2. Economic and Fiscal Management that Achieves Both Economic Growth and Fiscal Sustainability

"Fiscal sustainability" is a fundamental prerequisite for advancing responsible and proactive public finances. The Basic Policy 2026 positioned a steady reduction in the gross debt-to-GDP ratio of the central and local governments as the core of its fiscal management targets, and provided for the primary balance (PB) to be managed over multiple fiscal years rather than on a single-year basis.

Building on the discussions at the previous meeting of the Council, it is important to firmly establish, from the next fiscal year onward, this cycle of economic and fiscal management, including the review and revision of policies. Going forward, mechanisms should be given concrete scheme to make this cycle function effectively, to continuously assess economic and fiscal conditions and policy effects, and to link the results to subsequent policy decisions, budget formulation and medium- to long-term economic and fiscal management.

In doing so, the basic approach to economic and fiscal management should be not to manage the plan in a fixed manner, but to continuously implement and manage the Medium- to Long-Term Economic and Fiscal Plan while identifying changes in actual outcomes and outlooks, analyzing the factors behind them, and reviewing policies as circumstances require.

(Mechanisms for Linking Multifaceted Analysis and Verification to Policy Decisions)

- Based on multifaceted analysis and verification, a framework should be established for **accurately assessing current economic and fiscal conditions** in a consistent manner using multiple economic and fiscal indicators, **verifying policy effects and uncertainties, and linking the results to better policy decisions**.
- Each fiscal year, economic and fiscal outcomes, policy effects, medium- to long-term outlooks and the progress of the plan should be assessed and analyzed. The framework for reporting the results to the Council on Economic and Fiscal Policy and reflecting them in necessary policy revisions and budget formulation should be fleshed out, including the implementation structure, the timing of reviews and the method of publication. In addition, in the comprehensive verification conducted, in principle, every five years, the medium- to long-term assumptions and the overall design of the plan should also be verified and reviewed in light of the outcomes and policy effects up to that point.

(Continuous Economic and Fiscal Management Based on a Wide Range of Possibilities)

- With regard to the medium- to long-term economic and fiscal outlook, rather than assuming a single outlook only, it is important to analyze in advance multiple cases based on different assumptions—including cases in which the Growth Strategy will not fully deliver its expected effects and in which productivity, growth rates and other factors will differ from what are assumed—and to grasp the wide range of possible economic and fiscal outcomes, including expenditures and revenues, interest payments, the amount of government bonds issued and the debt-to-GDP ratio. The Projection of Current Trend Case in the Cabinet Office's "Economic and Fiscal Projections for Medium to Long Term Analysis" should also be used as a reference for such analysis. In addition, the analytical methods of these projections should be improved through comparison with, and verification against, actual outcomes.
- On that basis, it is important to avoid being forced into abrupt adjustments later as a result of waiting until the debt-to-GDP ratio rises before reviewing policies. Where significant signs emerge indicating that the targets may become difficult to achieve in the future, the underlying factors should be analyzed. **A management framework should be established to link the results, as necessary, to policy responses such as restructuring the Growth Strategy and reviews on both expenditure and revenue sides.**

- Through a continuous management cycle that integrates such reviews, factor analysis and policy revisions, the Medium- to Long-Term Economic and Fiscal Plan should be implemented and managed. By flexibly reviewing necessary policies in response to changing circumstances, **the economic growth potential should be strengthened and a steady reduction in the debt-to-GDP ratio should be ensured.**
- In addition, transparent and consistent explanations should be provided to the public and to domestic and overseas market participants regarding this approach to economic and fiscal management, the assumptions underlying the analysis and subsequent policy decisions, thereby helping to secure market confidence.

(Ensuring Flexibility to Respond to Various Shocks)

- One of the important roles required of fiscal policy is to smooth business cycle fluctuations in response to various shocks and to achieve economic growth that is as stable as possible. For this reason, it is **widely regarded internationally as standard practice** to strive to **achieve both economic growth and fiscal sustainability** by clarifying the guiding principles to be referred to in budget formulation while **ensuring a certain degree of flexibility in fiscal management**.
- Rather than strictly managing public finances on a single-year basis using indicators fluctuated by business cycles and market developments, it is important to take a multi-year perspective and **conduct economic and fiscal management responsive to economic and fiscal conditions and uncertainties**.
- Even if **the debt-to-GDP ratio temporarily rises** due to low-probability but large-scale risks, such as a global economic crisis, a pandemic, or disasters including a major earthquake, **efforts should be made systematically to bring it back down in line with the economic recovery.** This general approach should also be made clear in advance.
- Many **other countries** **assess fiscal positions not solely on the basis of single-year fiscal results or a single indicator, but by combining medium-term economic and fiscal outlooks, multiple fiscal indicators, analysis based on different assumptions and a broad range of uncertainties**, and have adopted **frameworks that ensure flexibility to respond to large-scale shocks and other events**. In Japan, too, the basic approach should be to examine a variety of fiscal indicators, not just the PB, from multiple angles, and to conduct economic and fiscal management from a multi-year perspective.