

Basic Policy on Economic and Fiscal Management and Reform 2023

An Accelerating New Form of Capitalism: Expanding Investments for the Future and Realizing Structural Wage Increases

Provisional Translation

Cabinet Decision on
June 16, 2023

I. Basic Views on Macroeconomic Management

Proceed with bold reforms to overcome the historical and structural changes and challenges facing Japan, both internal and external, which may be referred to as “turning points in the times.”

- With pay hikes at 30-year highs and a strong appetite for investment in the corporate sector, now is the time to accelerate these positive movements and mindsets.
- While aiming for a virtuous cycle of wages and prices, which entails raising wages and ensuring appropriate price pass-through and markup of costs, achieve a virtuous cycle of growth and distribution, by sustainably expanding public-private partnership investments in areas such as investment in people, green projects, and economic security that are likely to be underinvested if left to the market or competition, thereby reviving the substantial middle class.
- In line with “Policy on Future Strategy for Children”, drastically strengthen government-wide efforts to reverse the trend of declining birthrate.
- At the G7 Hiroshima Summit, the importance of supply-side reforms aimed at sustainable growth through investment in people and private investment was reiterated. Lead discussions on building an international consensus on policy management and strengthening cooperation while achieving sustainable growth by mobilizing all budget and tax, regulatory and institutional reforms.

- The Government aims for a virtuous cycle of wages and prices and a virtuous cycle of growth and distribution, involving wage increases and appropriate price pass-through of costs.
- The Government expects the Bank of Japan to achieve the price stability target of two percent in a sustainable and stable manner, accompanied by wage increases.
- By working in close cooperation between the GOJ and the Bank of Japan, we will eliminate the long-running deflationary mindset and foster widespread recognition that will not fall back into deflation, leading to an end to deflation.
- Undertake bold administrative and financial reforms in line with the revolution of the digital society.
- Rebuild the economy and work toward fiscal health as public finances depend on the economy.

II. An Accelerating New Form of Capitalism

Realization of structural wage increases through the trinity labor market reforms, and strengthening investment in people, and creating a substantial middle class

- By strengthening investment in people and promoting labor market reforms, achieve sustainable and structural wage increases that will overcome high prices.
- **Trinity labor market reforms**
- Support for skill improvement through upskilling and reskilling (aiming for the majority of upskilling and reskilling support benefits being given to individuals within five years) as well as introduction of job-based pay on the reality of individual companies. Facilitate labor transfer into growth areas (via review of unemployment benefit system, amendment of The Model Rules of Employment, revision of retirement income tax system, etc.).
- **Growing household incomes and the formulation of a substantial middle class**
- Improve the treatment of non-regular workers, raise the minimum wage (a goal for achieving a national weighted average of 1,000 yen per hour was discussed this year, and a policy of raising wages more after achieving 1,000 yen per hour will be discussed this summer and thereafter) and reduce regional disparities, promote appropriate price pass-through and fair trading, realize a nation facilitating asset management, and implement the “Doubling Asset-based Income Plan.”
- **Promotion of diverse work styles**
- Study on expanding employment insurance coverage for part-time workers (to be implemented by FY2028), further promotion of work-style reforms, etc.

Drastic strengthening of measures to cope with the declining birthrate and child policy

- **Promotion of Acceleration Plan for Child and Childrearing Support**
- Reverse the trend of declining birthrate by drastically strengthening child and childrearing policies.
- Based on “Policy on Future Strategy for Children”, promote “Acceleration Plan for Child and Childrearing Support” without requiring the people to bear any substantial additional burden.
- **General Principles for Child-Related Measures**
- Create “Ibashi” (places where one feels comfortable, safe and accepted) for children and prevent child abuse and child poverty. Marriage support, etc.
- Beyond segmentation, coordinate children’s policies with diverse measures such as education and housing.

Expanding investment and implementing economic and social reforms

- **Increasing domestic investment and strengthening supply chains through public-private partnerships**
- By mobilizing all budgetary, tax, regulatory, and institutional reforms, quickly realize 115 trillion yen in private capital investment, induce private investment, create quality jobs in the region, and increase the income of young people. Actively address issues, including antitrust laws.
- Aggressively attract people, goods, money and ideas from overseas to achieve the inward FDI target of 100 trillion yen at earliest date.
- Aim to become the core of the global supply chain, including next-generation semiconductors, and work to expand investment with the government-wide efforts.
- **Acceleration of GX, DX, etc.**
- (GX) Promotion of thorough energy efficiency improvement, application of renewable energy as main power sources (implementation of next-generation solar cells, etc. in society), utilization of nuclear power (embodiment of reconstruction to next-generation innovative reactors, etc.), early construction of supply chain of hydrogen and ammonia, realization of public and private GX investment of 150 trillion yen for 10 years, initial investment leveraging GX Economy Transition Bonds, and prompt realization and implementation of the Pro-Growth Carbon Pricing Concept.
- (DX) Review of administrative services of national and local governments in the context where the national government supports local areas by leveraging the power of digital technology. Make efforts to ensure the safety and trust of the Individual Number Card system, to improve convenience and functionality, and to create an environment in which people can obtain the card smoothly. Implement the Cybersecurity Strategy, etc. Realize a decentralized digital society.
- (AI) Leading international discussions on AI, including through the Hiroshima AI Process. Responding appropriately to diverse risks. Strengthening of optimal use and development capabilities.
- **Driving Startups and Converting to New Industrial Structure Promoting Impact Investment**
- In order to increase the size of investment by more than 10 times in five years, promote a “Global Startup Campus,” strengthen the supply of funds and diversify exit strategies in accordance with our Startup Development Five-Year Plan. Facilitate startups to easily enter and exit markets.
- **Promoting Science, Technology and Innovation through Public-Private Partnerships**
- Drastic expansion of science and technology investments through public-private partnerships in the fields of AI, quantum technology, health and medicine, fusion energy, and biotechnology, and strengthening of initiatives in the fields of space and ocean, etc.
- **Developing Inbound Strategies**
- The recovery of international exchange in Japan. The establishment of international brain circulation, the revival of Japan as a tourism nation (such as the early achievement of 5 trillion yen in inbound consumption), the acceptance of highly-skilled foreign professionals, and the review of the ideal form of Technical Intern Training Program and Specified Skilled Worker System. Set-up of an international financial center in Japan as a nation facilitating asset management.

III. Responding to the Environment Changes Surrounding Japan

Responding to changes in the international environment

- **Strengthening of diplomacy and security**
- Actively engage in diplomacy based on the outcomes of the G7 Hiroshima Summit. The G7 bands together and strengthens its engagement in the Global South. Steadily implement the Hiroshima Action Plan toward a world without nuclear weapons.
- Expand ODA in various ways based on the Development Cooperation Charter.
- Fundamentally reinforce our defense capabilities within the next five years and strengthen comprehensive defense architecture. Strengthening collaboration with like-minded countries and others.
- **Promotion of economic security policies**
- Steady implementation and reinforcing efforts of the Economic Security Promotion Act.
- **Strengthening of energy security**
- Shift to a resilient energy supply and demand structure that can withstand energy crises.
- **Strengthening of food security and promotion of sustainable growth of agriculture, forestry and fisheries**
- Establishment of food supply base and sustainable food systems, promotion of exports, implementation of smart agriculture, forestry and fisheries.
- **Promotion of international economic partnerships, and promotion of overseas business investments by Japanese companies**
- Maintaining and strengthening the multilateral trading system, including leading the UK’s CPTPP accession procedures. Flexible and bold, uniquely Japanese support for the reconstruction of Ukraine.

Disaster prevention and mitigation, national resilience, reconstruction from the Great East Japan Earthquake, etc.

Safety and security of people’s lives

IV. Medium- and Long-Term Economic and Fiscal Management

Sustainable economic and fiscal management from a medium- to long-term perspective

- Get out of the COVID pandemic and return the spending structure to normal.
- Focus fiscal policy on raising the potential growth rate and resolving social issues. Promote medium- to long-term scheduled investment to tap private demand and solve social issues. Promote high-quality and efficient administrative and fiscal reforms by maximizing wise-spending efforts.
- The government will resolutely pursue fiscal consolidation and work on achieving the current target.
- Consider financial resources of scheduled multi-year investments in an integrated manner to balance expenditures and revenues over multiple years.
- Consider the ideal progress indicators for the virtuous cycle of growth and distribution and a framework for achieving both economic revival and fiscal consolidation with an eye on administrative and fiscal reform in the digital age, in order to develop a medium-term economic and fiscal framework.
- Strengthen EBPM effort in order to clarify priorities in expenditures and ensure outcome-oriented spending.

Building a sustainable social security system

- Realize social security system for all generations, strengthen drug discovery capability, and realize medical DX.
- Take necessary measures in the next revision of medical fees, etc. considering an increase in prices and wages, business conditions of care providers, the need to secure human resources amid a decrease in the number of workers and the impact on patients, users, and the burden of insurance premiums.

Development of infrastructure that enhances productivity and supports the economy and society

New division of roles between national and local governments, etc.

Promotion of education and research activities that support economic and social vitality

- Revitalize high-quality public education, etc. (enhancing the attractiveness of the teaching profession, promoting the GIGA School Program as a national policy, reducing the households’ burden of higher education expenses, etc.).

V. Policy for Near-term Economic and Fiscal Management and FY2024 Budget Formulation

- Continue to respond flexibly based on price and economic trends.
- Integrated economic and fiscal reforms will be promoted based on this Basic Policy, the Basic Policy 2022, and the Basic Policy 2021. However, this should not lead to narrowing the range of available options for important policies.