Basic Policy on Economic and Fiscal Management and Reform 2025: Toward a Society in which People can Feel "Tomorrow will be Better than Today"

Cabinet Decision on June 13, 2025

* Prepared by the Cabinet Office.

Provisional Translation

Chapter 1 Basic Views on Macroeconomic Management (Short Term/International)

(Coping with risks of the moment and realizing a growth-oriented economy driven by wage increases)

- Japan will urge the U.S. to reconsider its tariff measures and will persistently continue negotiations to strongly promote the cooperative relationship for the mutual growth of Japan and the U.S.
- Necessary support, including financing measures will be provided, on the assumption of the impacts of the tariff measures on domestic industries and the economy. In addition, every possible measure will also be provided, assuming all possible situations.
- Regarding the current price hikes, in addition to the relevant measures included in the FY2024 supplementary budget or the FY2025 budget, all possible policy measures will be implemented.
- Under the basic view that the wage hike measures should be the core of growth strategies, rather than the tax cut measures, spendable income will increase through future wage hikes, in addition to the already-implemented tax cut measures. To this end, while expanding the whole economy, wage increases above price hikes will be spread and kept to realize a "growth-oriented economy driven by wage increases" in which wages and income will keep growing in the present and future.

(Preparation for increasing uncertainties of the international situation)

- Amidst the changing international order, such as enhanced geopolitical risk, the rise of protectionism and authoritarian states, as well as the U.S.-China rivalry, the government will continue to make the policy efforts to maintain and strengthen the free and open international order based on the rule of law, while also addressing and participating in the creation of new international order and rules.

Chapter 2 Realizing a Growth-Oriented Economy Driven by Wage Increases

1. Spreading and keeping wage increases above price hikes —Implementing all possible policy measures to support wage increases—

(1) Implementing the Five-year Plan for Promoting Wage Increases at Small- and Medium-sized Enterprises and Small-scale Business Operators

- Establishing the annual real wage increase of 1% by FY2029
- Policy package for price pass through in public-sector demand, publicizing the Guidelines on Price Negotiation for Appropriate Pass-Through of Labor Costs
- Support for enhancing productivity ("Labor-Saving Investment Promotion Plan" , spreading the "Vice President Once a Week" project and promoting side business / by-business at the regional level, a new policy package concerning business succession/M&A)
- Fostering advanced essential workers, improving treatment by measures such as raising official prices
- Raising the minimum wage: a national average of 1,500 yen in the 2020s

(2) Trinity labor market reforms and supporting wage increases at leading medium-sized and small enterprises

- Support for re-skilling and upskilling (expanding the digital skills-related courses eligible for educational training benefits, etc.)
- Job-based personnel management (enhancement of information disclosure regarding human capital, etc.)
- Facilitating labor mobility (strengthening the functions of occupational information websites, reinforcing the Hello Work (Japan's public employment service) system, etc.)
- The "1.3-million-yen barrier," reviewing the legal regime of labor standards
- Working towards wage increases in the sectors of construction, transportation, security, healthcare, long-term care, and disability welfare
- Providing support for R&D and capital investment for leading medium-sized enterprises/SMEs, backing wage increases by leading medium-sized enterprises/SMEs through the improvement of their financing environment

2. Promoting Regional Revitalization 2.0 and addressing regional social issues

(1) Promoting Regional Revitalization 2.0 - the Reiwa Era remodeling of the Japanese archipelago

- Basic concept of Regional Revitalization 2.0
  (i) Creation of regional living environment where people can work and live with peace of mind; (ii) Creation of a new regional economy to enhance earning power and create added value - regional innovation revitalization Initiatives - ; (iii) Decentralization of people and businesses - revitalization through industry-government-academia relocation to regional areas and exchanges between urban and rural areas, etc.; (iv) Infrastructure development for the new era and full utilization of new technologies such as AI and digital; (v) Wide-area regional partnerships

(2) Responding to social challenges through local initiatives

- Re-design of local transportation systems, eliminating transportation deserts, Shinkansen development, revitalization of the shipbuilding industry, strengthening of logistics functions
- Creation of sustainable tourism destinations
- Watt-Bit Collaboration (promoting the decentralization of data centers, etc.)
- Expanding the population with strong relationship to the areas, promoting dual residency

(3) Making agriculture, forestry and fisheries a growth sector through their structural transformation, and ensuring food security

- Strengthening the production base based on the new Basic Plan (consolidation and expansion of farmland parcels, reorganization/consolidation of cooperative shared facilities, development/implementation of smart technologies, fostering export-oriented production areas, etc.)
- Rice price measures (facilitating the distribution of rice including the government stockpiled rice, providing detailed information to consumers), reviewing the paddy field policy, land improvement, support for new farmers / corporate entry
- Expanding the wood use, making fisheries more resilient

(4) Promotion of culture, arts and sports

- Environment development to secure human resources in the content sector
- Revitalizing regional economies by utilizing cultural resources
- Promotion of martial arts"BUDO"/sport tourism and para-sports, support for holding large-scale international competitions

3. Increasing future wages and income through "Stimulating Japan's Investment Power" and "Promoting Japan as a Leading Asset Management Center"

(1) Promotion of Green Transformation (GX)

- More than 150 trillion yen GX-related investments over 10 years through public-private partnerships
- Restart of nuclear reactors with the understanding from local communities
- Circular economy

(2) Promotion of Digital Transformation (DX)

- Social implementation of digital technologies
- R&D and utilization of AI
- Mass production of next-generation semiconductors, development of digital skills
- Digital Administrative and Fiscal Reform, digital government
- DX of healthcare, long-term care, education, logistics, disaster management, etc.

(3) Developing frontiers (space and ocean)

- Support through the Space Strategy Fund
- Support for technological development of Autonomous Underwater Vehicles (AUVs)

(4) Promoting advanced science and technology

- Promotion of R&D on quantum, fusion energy, materials, etc.
- Establishment of international talent mobility and circulation, strengthening the development of scientific and technological human resources

(5) Support for startups

- Promotion of the Startup Development Five-year Plan

(6) Leveraging overseas vitality

- Expansion of trade and investment, promotion of foreign direct investment in Japan
- Support for SMEs' exports and overseas expansion, the Support Program for 10,000 New Exporters
- Overseas expansion of the content industry through the Creator Support Fund
- Expo 2025 Osaka, Kansai, Japan

(7) Promoting Japan as a Leading Asset Management Center

- Further enhancement of the NISA program, operational improvement of the corporate-type defined contribution pension plans and the iDeCo, corporate governance reform

4. Ensuring the safety and security of the people

(1) Promoting disaster management and mitigation and national resilience

- Drastically strengthening the disaster management system (establishment of agency for disaster management, improvement of the evacuation living environment, strengthening of local disaster management capabilities, etc.)
- Promoting the mid-term plan for enhancing national resilience

(2) Reconstruction and revitalization from the Great East Japan Earthquake, and recovery and reconstruction from the Noto Peninsula Earthquake, etc.

- Reconstruction and regeneration from the Great East Japan Earthquake
- Recovery and reconstruction from the Noto Peninsula Earthquake

(3) Strengthening diplomacy and security

- Strengthening of the diplomatic power, fundamental reinforcement of defense capabilities
- Implementation of the Cyber Response Capability Strengthening Act, etc.

(4) Strengthening economic security

- Consideration of reviewing the Economic Security Promotion Act
  (Ensuring stable supply of critical goods, supporting the overseas expansion of businesses, such as those on ports and repair docks projects, that contribute to maintaining/strengthening the economic connectivity with an ally / like-minded countries, etc.)

(5) Realization of an orderly society and harmonious coexistence with foreign nationals

- Introducing JESTA, conducting the effective/ efficient detection of illegal residents and speeding up deportation of illegal residents
- Appropriately using the foreign driving license conversion procedures and the social security system, etc., implementation of the Act on Real Estate Surrounding Important Facilities and on Remote Territorial Islands, etc.

(6) Realization of Japan as the world's safest country

- Making the investigation methods more sophisticated, eliminating anonymous and fluid criminal groups
- Security measures in the transportation sector

(7) Realization of a society where no one is left behind

- inclusive and cooperative society, support for the employment ice-age generation, etc., active participation of women/the elderly

Chapter 1 Basic Views on Macroeconomic Management (Medium and Long Term)

(Building a sustainable economic society under population decline)

- **In order to ensure the sustainability of Japan's economy, public finance, and social security, even amidst the accelerating working-age population decline, consistent economic growth exceeding 1% in real terms over the medium and long term should be secured. Even higher growth rates are aimed. Once the economy reaches this state, the Price Stability Target of 2% inflation will be achieved, and an economic scale of some 1,000 trillion yen nominal GDP will be within reach by around 2040.**
- **Based on the "Economic and Fiscal Plan for New Stage", policies that put emphasis on raising the potential growth rate will be carried out with the understanding that the economy is the foundation of public finance, while continuing reforms in terms of both expenditures and revenues.**

(Human-centered nation-building)

- **In a society where human resources are becoming scarce, a people-centered nation will be built to construct a society where human resources are valued through measures such as dispelling people's anxiety, enhancing the public education, developing an environment that enables self-fulfillment, and revitalizing regions.**
- **It is aimed to build a vibrant economic society where each and every Japanese person can feel a sense of oneself, with a high level well-being, abundance, safety/security, and freedom.**

Chapter 3 Realizing a Sustainable Economy and Society over the Medium and Long Term

1. Promoting the "Economic and Fiscal Plan for New Stage"

- Based on the understanding that the economy is the foundation of public finance, macroeconomic policy options in line with the circumstances, including the response to the U.S. tariff measures, and appropriate response to price hikes, should not be distorted by giving priority to the fiscal consolidation target. In a rising interest rate phase, we secure public finances to respond to large-scale disasters or emergency situations and ensure the sustainability of the future economy/finance/social security.
- Over the period from FY2025 to FY2026, we aim to achieve a primary surplus of the central and local governments as early as possible. However, since impacts of the U.S. tariff measures are unclear, we should examine their economic and fiscal impacts and respond to them appropriately. So, we will recheck the target years as necessary. Then, throughout the period of the "Economic and Fiscal Plan for New Stage", while securing a certain surplus margin of the PB, we firstly aim to steadily reduce the public debt-to-GDP ratio toward the level before the COVID-19 pandemic and move further forward with efforts to achieve both economic revival and fiscal consolidation.
- Until FY2027, we will continue expenditure reform efforts, and as being clear that the Japanese economy is entering a new stage, we will adequately reflect the details in the budget formulation process in each fiscal year in light of economic and price trends and other developments.
- We will also begin examining the establishment of a rule whereby, if a primary balance turns into a surplus and exceeds a certain level, it will be returned to the economy and society by expanding policies that contribute to economic growth and other objectives.

2. Priority issues and engagement policies for major policy sections

(1) Building a social security system for all generations

- Improving the treatment of workers in the sectors of healthcare, long-term care, and disability welfare, reducing the operational burdens, etc.
  Carrying out the reform for a sustainable social security system, reducing the people's burdens, including the insurance premium burden on the generations still working
- Securing the long-term care provision system for the medium to long term : partnerships between healthcare and long-term care, partnerships among multiple job types, social implementation of care technologies, partnerships/collaboration among business operators or their scale-up, securing/keeping care human resources
- Securing the medium- and long term-healthcare-provision system: the primary care doctor's function, promotion of appropriate online medical examinations, new initiatives for regional healthcare, addressing the uneven distribution of doctors, reducing the economic burdens of pregnancy/delivery/postpartum care, pediatric perinatal-period healthcare, refill prescriptions
- Building a work-style-neutral pension system: further expansion of employees' insurance coverage, addressing the so-called "annual income barriers"
- Measures, etc. according to advancing diseases: cancer control, cardiovascular disease control, chronic kidney disease control, etc., health support for women, sleep control, lifelong dental checkups and rehabilitation to support independent living, home reintegration and social integration
- Disease prevention and health promotion, aggravation prevention: collaboration health based on the Data Health Plans, evidence-based PHR and/or KENKO Investment for Health, promoting workplace cancer screening, prevention of worsening diabetic renal disease
- Strengthening drug discovery and development capabilities and promoting innovations: establishing world-class clinical trial systems, ensuring stable supply of pharmaceuticals

(2) Promoting measures to cope with the declining birthrate and for children and young people

- A Children-Centered Society, reversing the declining birthrate while also enhancing the well-being of children/youths
- Substantially implementing the acceleration plan for Child and Childrearing Support and thoroughly examining the effects: improving the treatment of nursery staff, Improvement of the staff-to-child ratios, national rollout of the Connecting All Children to ECEC System, after-school children's clubs, smooth introducing the System of Child and Child-rearing Support Contribution
- Promoting the General Principles for Child-Related Measures: support for children facing difficulties and adolescent youths, etc. (shelters for children and young people, etc.), preconception care, elimination of Child Poverty, support for single-parent families, prevention of child abuse, support for young carers, suicide prevention measures for children/youths

(3) Revitalizing public education and vitalizing research activities

- It is aimed for further heights of Japan's school education through revitalizing high-quality public education.
- Revitalizing public education: revising the National Curriculum Standards, further accelerating work-style reforms for teachers and improving their treatment, improving the teacher quotas toward the realization of the 35-student class system at junior high schools, strengthening the support system for foreign pupils/students, collaboration among universities, strengthening the functions through the reorganization/consolidation, strategically utilizing the support measures to promote students mobility for both Japanese students and international students
- Building mechanisms to enhance the quality of research: promotion of strategically developing/sharing/upgrading advanced large-scale research facilities through public-private partnerships, fostering/securing highly specialized human resources, improving the treatment of students on doctoral courses and young researchers

(4) Promoting strategic infrastructure development

- To cope with aging infrastructure, the urgency and the economic/social impacts will be taken into account, in order to clarify the priority and advance countermeasures, while also visualizing their effects.
- Sustainable infrastructure management: utilization of new technologies/data, full shift to prevention/maintenance-oriented types
- Making public investment more efficient and more focused: automation/labor-saving of construction sites, ensuring and fostering bearers of the construction industry
- Promoting PPP/PFI
- Sustainable use/management of land and water resources: countermeasures for vacant houses and land with an unknown owner

(5) Enhancing fundamentals of sustainable local administration and public finance

- Discussions will be promoted to solve issues in executing local governments' official works, including the review of roles among central, prefectural, and municipal governments, from the viewpoints of coping with the shortages and the uneven distribution of resources, bearers of the respective regions in local governments, to provide administrative services in a sustainable form in the future.
- Ensuring that the total amount of local governments' general revenue sources shall be maintained substantially at the same level as that of the FY 2024 Fiscal Plan of Local Governments, and not below.
- DX for local governments (working on front-yard reforms and back-yard reforms in an integrated manner)

3. Strengthening efforts to promote plans

- Annually managing, checking and evaluating the progress of reforms based on the EBPM Action Plan, the Reform Implementation Plan, and the Table of Progress Management, Checking and Evaluation

4. Review and Revision of public systems in line with rising prices

- Conducting a comprehensive, cross-ministerial review and revision of the long-standing fixed benchmark amounts and thresholds in public systems related to the budget and tax system, so as to prevent serious adverse effects on people's lives

Chapter 4 Immediate Economic and Fiscal Management and Approach to Fiscal 2026 Budget Formulation

- **All the possible efforts will be made for the economic and fiscal management, including the response to the U.S. tariff measures, and responses to immediate price hikes. The FY2024 supplementary budget, the FY2025 budget, and related measures will be executed in a steady and prompt manner.**
- **In the FY2026 budget, based on this Basic Policy, and the Basic Policy on Economic and Fiscal Management and Reform 2024, a budget in line with the medium-term economic and fiscal framework will be formulated.**