MAKE JAPAN STRONGER AND MORE PROSPEROUS

The First Year of Responsible and Proactive Public Finances: Launching Japan's New Challenge!

"It is not a choice between "growth" and "fiscal discipline," but rather the achievement of both —that is the true meaning of "responsibility" as embodied in this phrase. "
- Prime Minister TAKAICHI Sanae

Published in September 2026

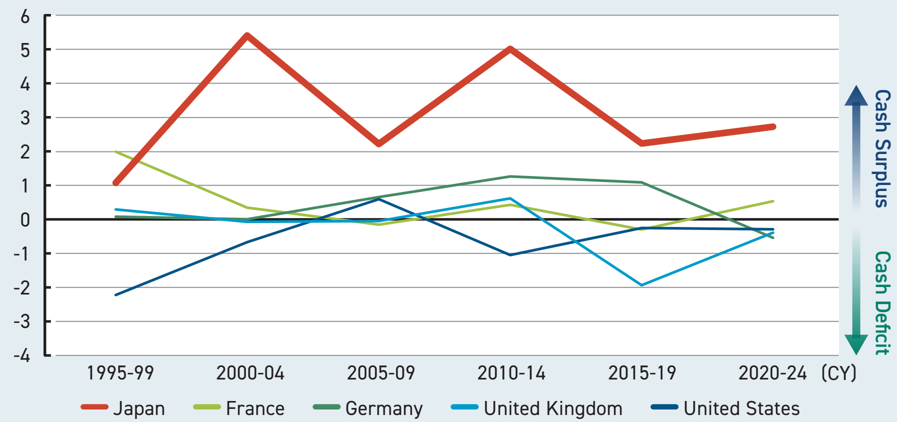
日本列島を、強く豊かに。 JAPANGOV THE GOVERNMENT OF JAPAN

What Caused Japan's Prolonged Period of Low Growth?

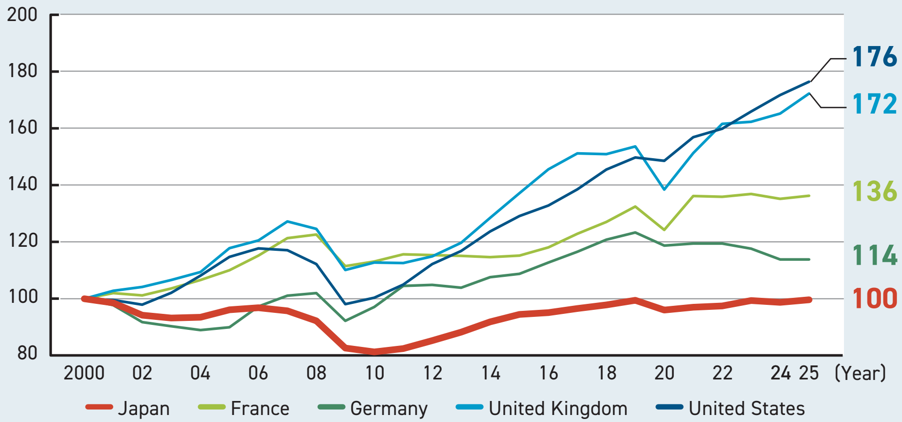
Japan's prolonged economic stagnation is not due to a lack of technological capability, but to years of "underinvestment" stemming from, longstanding austerity orientation. Years of deflation entrenched a static view of prices and wages among companies and households, curbing domestic investment and innovation.

For this reason, the Takaichi administration is tackling "underinvestment" to reverse 30 Years of structural issues. See pages 5– for details

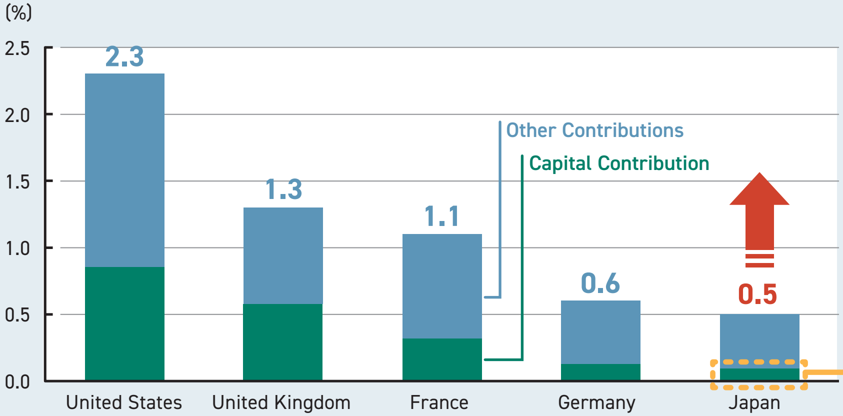
Cash Surplus/Deficit(-) in Non-financial Firms [1]



Public and Private Investment (Real Gross Fixed Capital Formation) [2]



Contributions of Potential Growth Rates (2025) [3]



Japan's low potential growth stems from a lack of capital accumulation. The Takaichi administration has set out **a new public-private target to achieve ¥250tn ($1.573tn/€1.345tn) in domestic private investment by FY2040**, aiming to strengthen medium- to long-term growth potential through investment in strategic sectors.

See page 5 for details on the reforms

Sources:
1.Cabinet Office "Economic White Paper 2025"
2.Cabinet Office "National Accounts" and OECD materials
3.Cabinet Office "GDP Gaps and Potential Growth Rates" and OECD materials

Note:
Amounts in the U.S. dollar and euro based on the Japanese yen have been converted using the average exchange rates for August 2026.

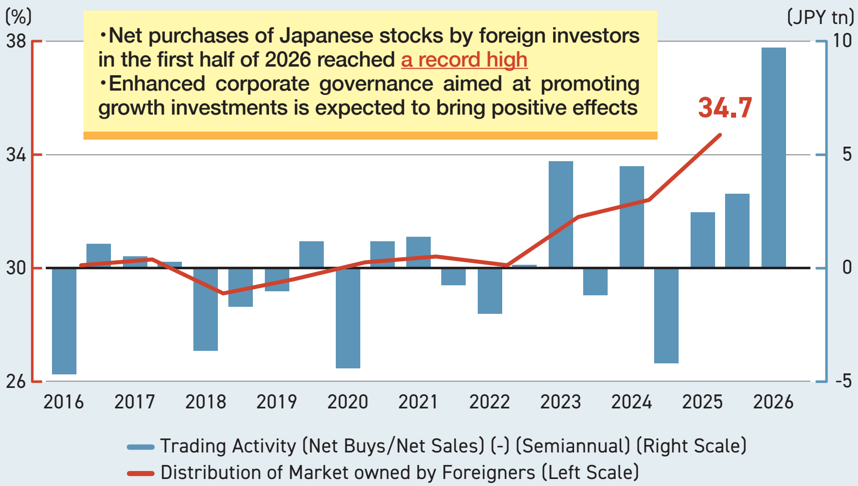
Now is the Time for Global Investment in Japan to Take Off

In recent years, Japanese companies and markets have been gaining renewed global attention.
Still, there is significant room for further capital inflows from overseas, and now that Japan is expanding the new investments open to global investors, offering opportunities to reap the benefits.

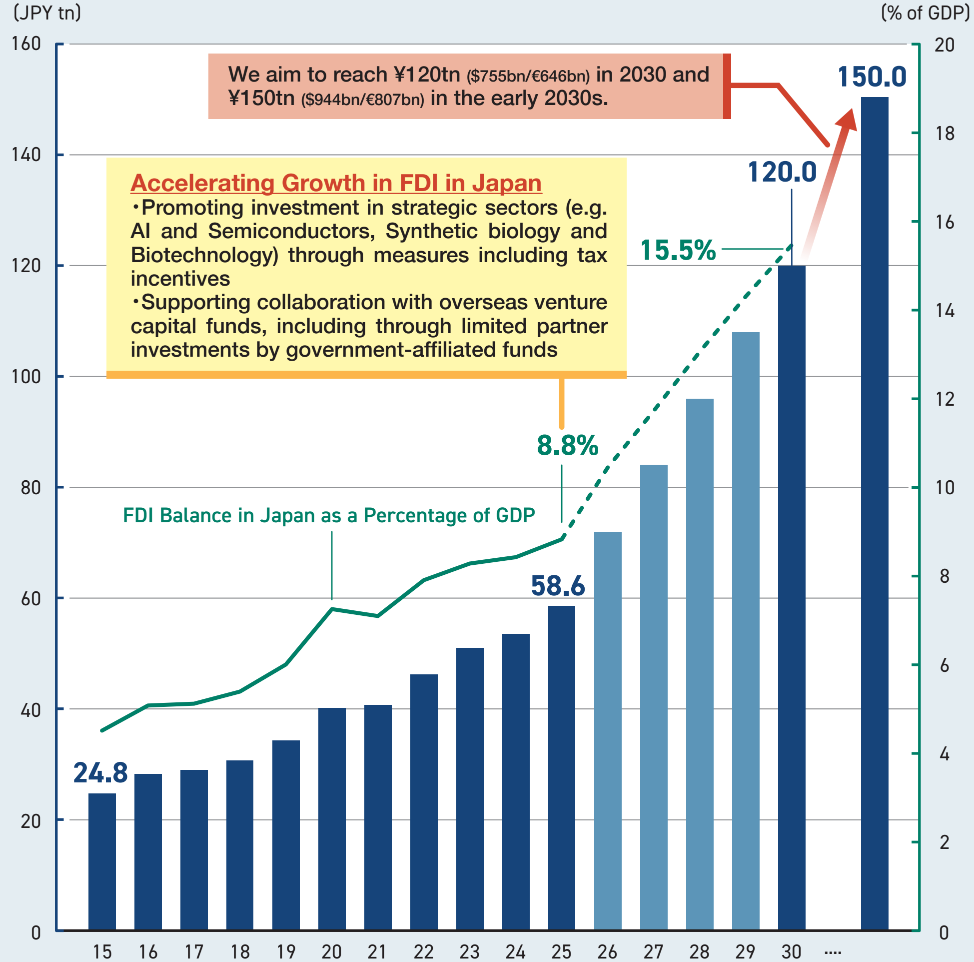
FDI Confidence Index [4]

Rank	2026		2016	
1	United States	2.24	United States	2.02
2	Canada	2.14	China*	1.82
3	Japan	2.13	Canada	1.80
4	China*	2.11	Germany	1.75
5	Germany	2.11	United Kingdom	1.73
6	United Kingdom	2.07	Japan	1.73

Investments in Japanese Stocks by Foreign Investors [5]



FDI Balance in Japan [6]

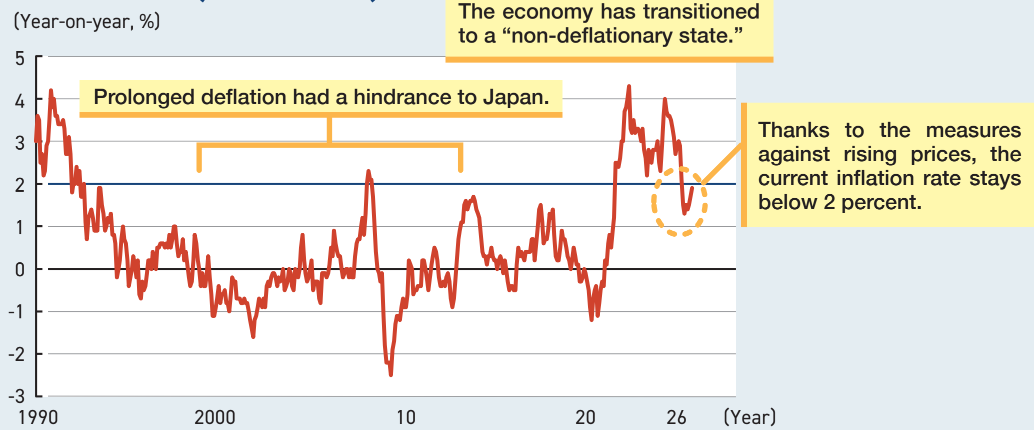


Sources: 4."The Kearney FDI Confidence Index" is an annual survey of global business executives that ranks markets that are likely to attract the most investment in the next three years. *Includes Hong Kong.
5.JPX
6.Ministry of Finance and the Bank of Japan "International Investment Position," Cabinet Office "National Accounts," and "Economics and Fiscal Projections for Medium to Long Term Analysis"

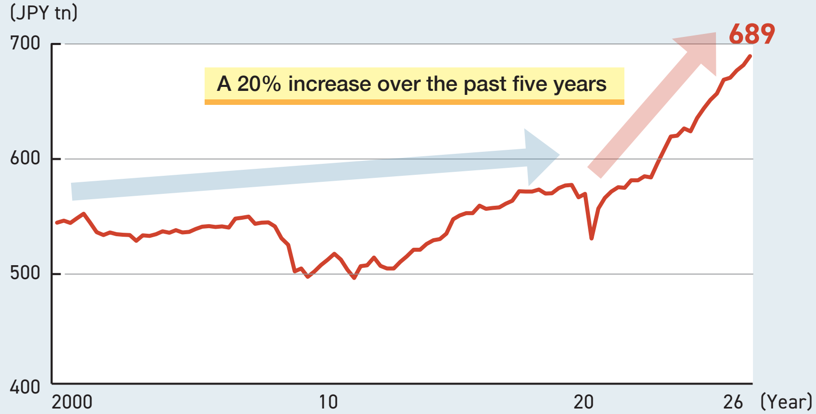
Japan is Back: A Historic Opportunity to Address 30 Years of Structural Issues

Japan has transitioned to a "non-deflationary environment," and prices are currently rising at the moderate pace of around 2 percent. Against this backdrop, a virtuous cycle has begun to take hold, with the ROE of Japanese companies reaching their highest levels since the 1980s and wage increases continuing to outpace inflation.

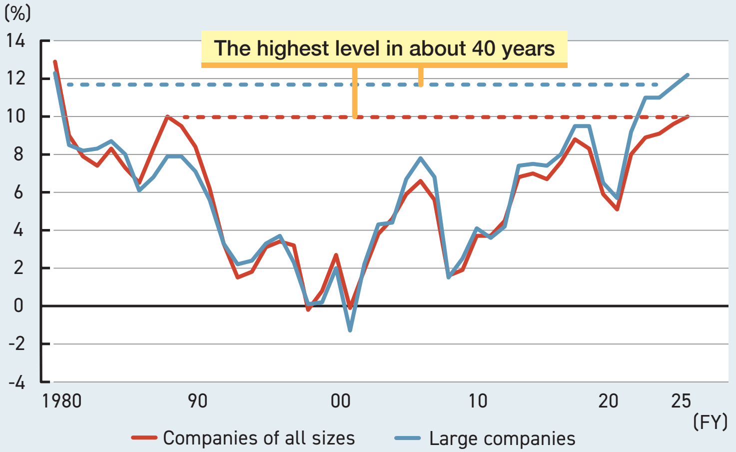
Inflation Rates (Headline CPI) [7]



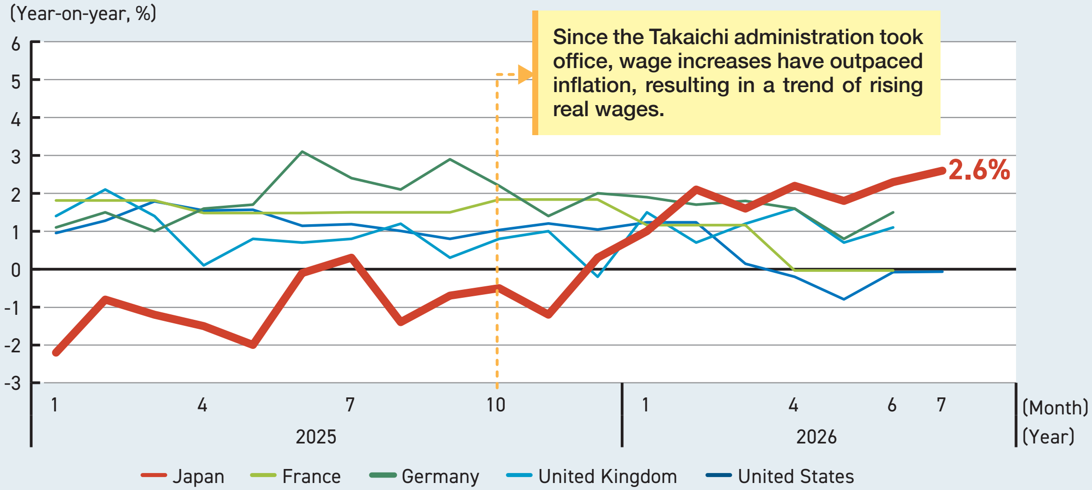
Nominal GDP [9]



ROE of Japanese Companies [8]



Real Wage Growth Rates by Country [10]

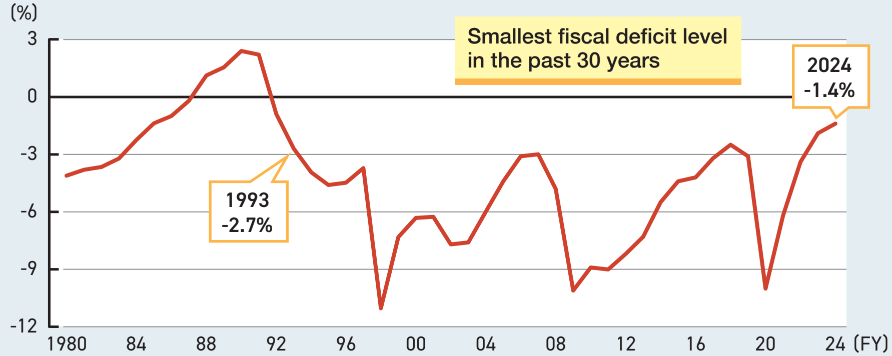


Sources: 7.Ministry of Internal Affairs and Communication
8.Ministry of Finance "Financial Statements Statistics of Corporations by Industry (annual survey)" (excluding the finance and insurance industries)
9.Cabinet Office
10.Statistics from the above countries

Japan’s Public Finances Improve as the Economy Gains Momentum

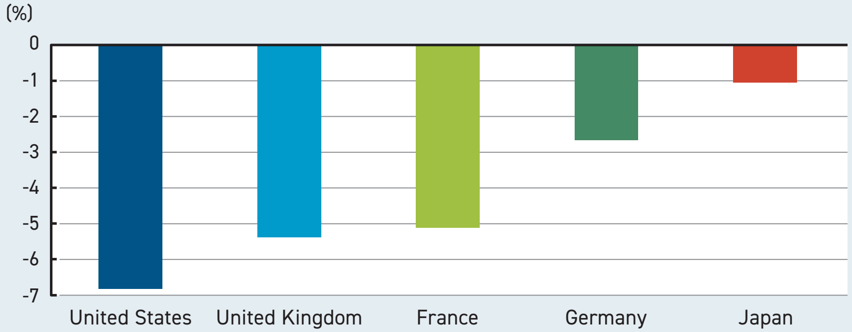
As a virtuous economic cycle takes hold, Japan’s fiscal situation is improving, with a fiscal deficit having reached the smallest level since FY1993 and among major economies.
Since FY2023, Japan’s bond dependency ratio has remained at its lowest level since FY1998, and while other major economies’ debt-to-GDP ratios have not yet recovered to pre-pandemic levels, Japan’s ratio has returned to its pre-pandemic level.

General Government Fiscal Balance [11] (% of GDP) (Actual Figures)



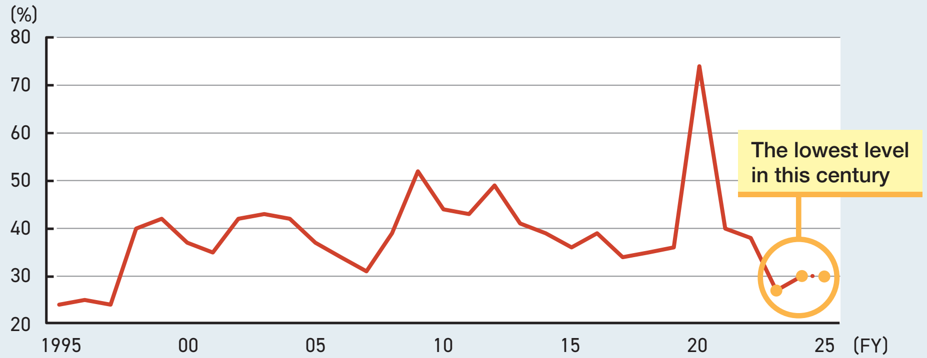
General Government Fiscal Balance by Country [12]

(% of GDP) (IMF, 2025)



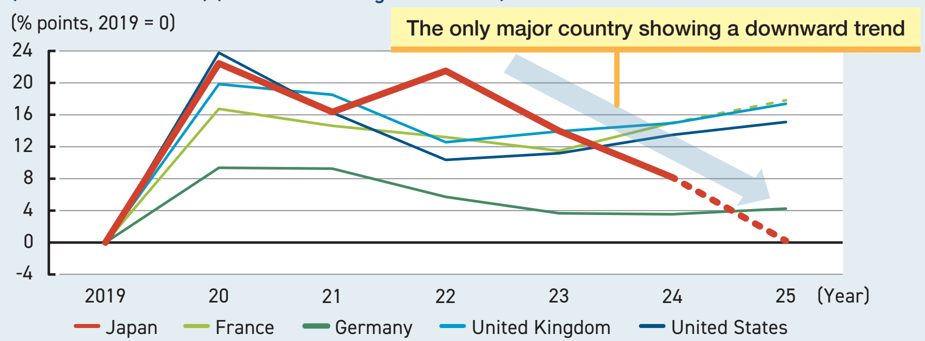
Bond Dependency Ratio (General Account of National Government) [13]

(Bond Issuance / Total Expenditure)



Recent Debt-to-GDP Ratios [14]

(General Government) (Cumulative Change Since 2019)



In 2019, debt-to-GDP ratios were as follows: France: 116.0%, Germany: 62.9%, Japan: 206.5%, the United Kingdom: 102.3%, and the United States: 123.9%.

Sources: 11.Cabinet Office “National Accounts”
12 and 14. IMF “World Economic Outlook” (April 2026)
13.Ministry of Finance “Debt Management Report” (The 2025 figure is preliminary.)

■ A Message by Prime Minister TAKAICHI

“The core target of fiscal management is to steadily reduce the gross debt-to-GDP ratio.
In that context, we will scrutinize the fiscal scale that is viable while steadily reducing the debt-to-GDP ratio, and in future budget formulation, **we will specify the annual issuance amount of government bonds, as well as paying attention to securing market confidence.”**
(July 21, 2026, Joint Meeting of the Council on Economic and Fiscal Policy and Japan’s Growth Strategy Council).

Promoting Investment Under “Responsible and Proactive Public Finances”

Under the Takaichi administration, to break the cycle of underinvestment, guided by the principle of “responsible and proactive public finances,” the government will take the lead in promoting investment in strategic sectors through public-private collaboration totaling over ¥370tn ($2.328tn/€1.991tn) by FY2040. To catalyze private investment, the government will carry out the fundamental reform of budget formulation to enhance its predictability.

Fundamental Reform of Budget Formulation to Achieve Policy Objectives:

Establishment of the ‘“Strong and Prosperous Japan” Investment Framework’

1 | Enhanced support for investments that promote growth

These measures target initiatives outlined in “Japan’s Growth Strategy” and “Strategy for the Future of Regions” among others.

2 | Removal of the Upper Limit on Budget Requests

To ensure that truly effective investment support measures can be implemented with predictability, necessary funds are adequately requested.

3 | Multi-year budgetary measures

To enhance predictability for the private sector, budgetary measures based on multi-year plans will be the norm.

4 | Fiscal Sustainability

Carefully assess the scale of fiscal spending that is feasible even while steadily reducing the government debt-to-GDP ratio.

Furthermore, supplementary budgets will be limited to items of high urgency, and regular measures will, in principle, be covered by the initial budget, thereby enhancing predictability.

Fully leverage this new Investment Framework to advance the Public-Private Investment Roadmap for the 17 strategic fields and initiatives addressing the eight cross-sectoral challenges, with the goal of achieving ¥250tn ($1.573tn/€1.345tn) in annual domestic private investment by FY2040.

Public-Private Investment Roadmap:

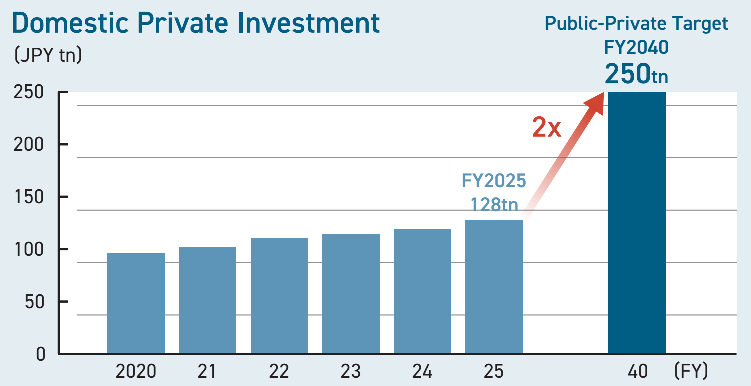
Over ¥370tn in Cumulative Public-Private Investment by FY2040

We will thoroughly bolster strategic investments that enhance resilience against potential crises (“Resilience-enhancing investments”), which contribute to solving commonly-shared global risks, and investments that promote growth (“Growth investments”), which help cutting-edge technologies flourish.

Cross-sectoral challenges:

Addressing Challenges to Expand Investment and Growth Across Japan

Initiatives to Address Eight Cross-Sectoral Challenges
(1). A new kind of technology-driven nation and strengthening competitiveness, (2). Startup (3). Unleashing the latent potential through finance (4). Fostering human resources (5). Labor market reforms (6). Easing the burdens of household chores and so on (7). Developing an environment for wage increases (8). Cybersecurity

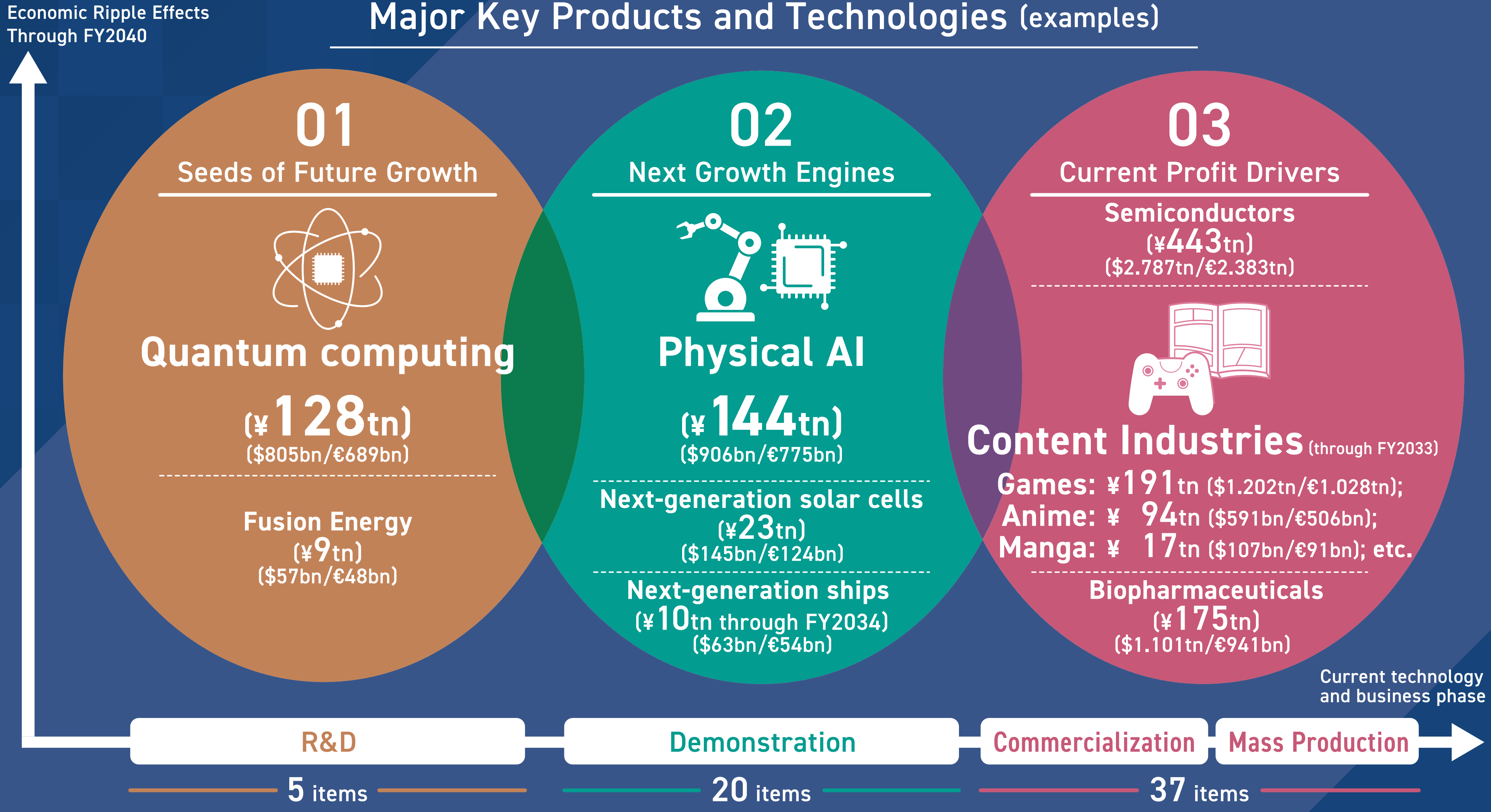


Source: Cabinet Office,“National Accounts”

Where Japan Can Succeed

Identify 62 “key products and technologies” in which Japan can outperform the world across the 17 strategic fields, and prioritize investment using three tiers: “Current Profit Drivers,” “Next Growth Engines,” and “Seeds of Future Growth.”

Major Key Products and Technologies (examples)



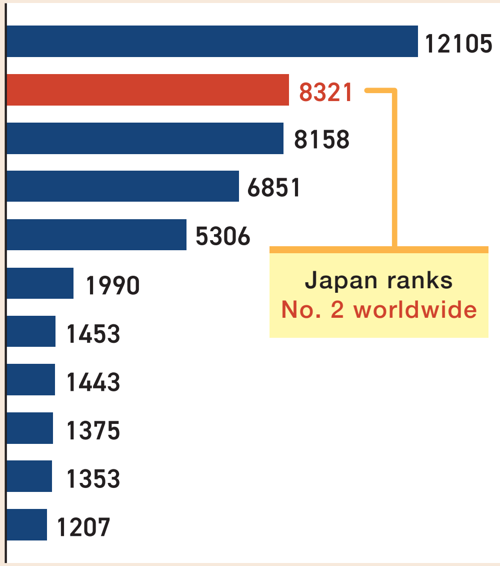
Growth Area 01

Seeds of Future Growth

Quantum computing

Quantum computing accelerates complex calculations and drives innovation across industries.
The global market, including adjacent industries, could reach ¥128tn ($805bn/€689bn) by 2040.
Leveraging the world's second-largest quantum patent portfolio and strengths in hardware and research, Japan aims to establish secure, practical domestic quantum computing infrastructure by 2040.

Quantum-Computing-Related Patents Granted

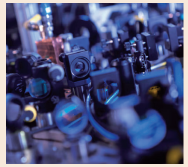


Source: McKinsey "Quantum Technology Monitor 2025"

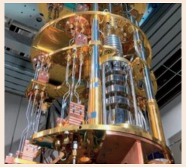
World-Leading Quantum Hub

AIST Global Research and Development Center for Business by Quantum-AI Technology (G-QuAT)

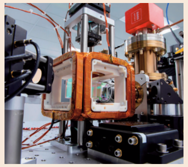
Established in July 2023
(Tsukuba, Ibaraki)



Photonic OptQC
(University of Tokyo spin-off)



Superconducting
Fujitsu



Neutral atom QuEra
(U.S. startup)

Supercomputer ABCI-Q
NVIDIA GPUs

World-leading testbed combining three quantum platforms with a supercomputer—open to industry

Why Japan Can Succeed

Strength 1

World-Class Equipment and Components

Japan's capabilities in strategically critical equipment and components enable domestic production of quantum-computing hardware.

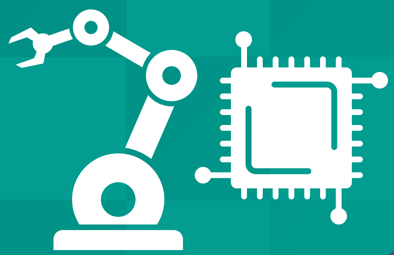
Strength 2

Deep Research Base and Industry Partnerships

Research in qubit control and algorithms, combined with partnerships in drug discovery, finance and other fields, accelerates commercialization.

Growth Area 02

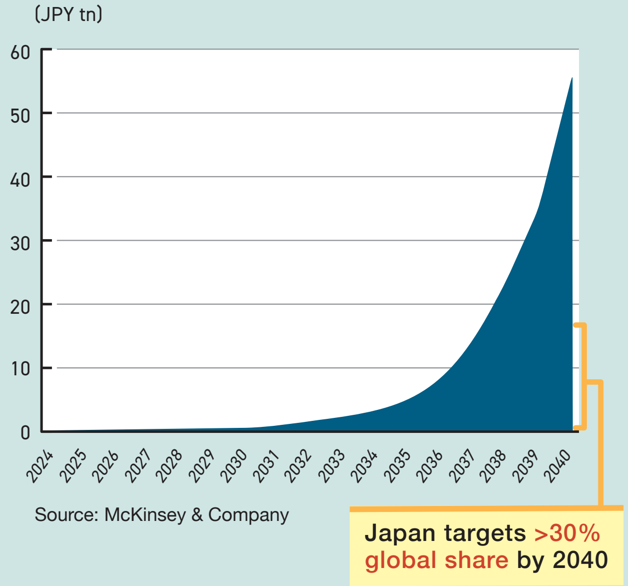
Next Growth Engines



Physical AI

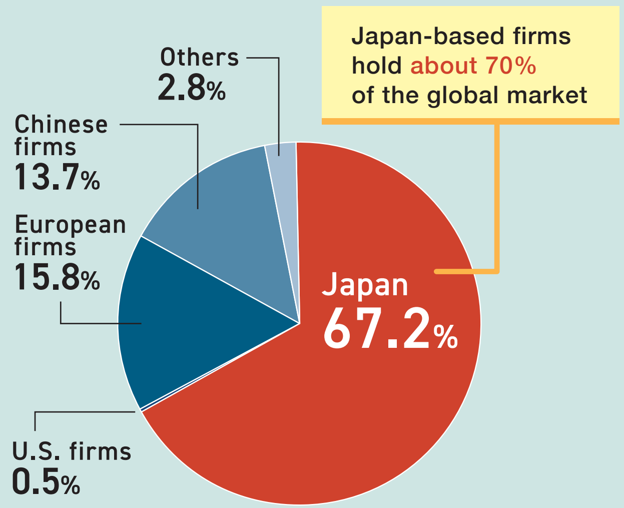
The global physical AI market is projected to reach approximately ¥60tn ($377bn/€323bn) by 2040. Japan has strengths in high-quality operational data and industrial robot manufacturing.
By investing in physical AI deployment across manufacturing, logistics, long-term care, and other sectors.
Japan aims to capture over 30% of the global market—worth ¥20tn ($126bn/€108bn)—by 2040.

Global AI Robot Market Outlook



Source: McKinsey & Company

Global Industrial Robot Market Share (2024)



Source: NEDO, FY2025 Final Report Database

Why Japan Can Succeed

Strength 1

Rich Real-World Operational Data

High-quality data from sectors such as manufacturing, logistics, healthcare and long-term care enables assistive robots, unmanned factories and autonomous logistics.

Strength 2

World-Class Manufacturing Base

Japan holds roughly 70% of the industrial robot market, backed by strengths in critical components and high-quality, highly reliable manufacturing.

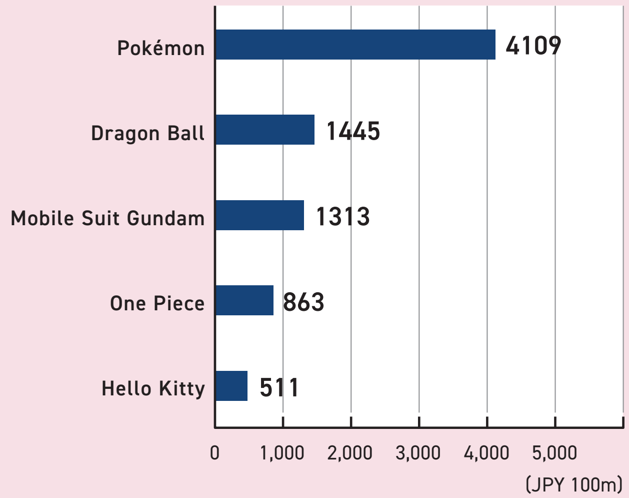
Growth Area 03
Current Profit Drivers

Content industry
(Games, Anime, Manga etc.)

The global content market already exceeds petrochemicals and semiconductors and could surpass ¥400tn ($2.517tn/€2.152tn) by 2033 at 5% annual growth.
Japan's game, anime and manga IP offers strong cross-media monetization potential. With the games market projected to exceed ¥60tn ($377bn/€323bn), Japan targets ¥12tn ($75bn/€65bn) in overseas sales and ¥20tn ($126bn/€108bn) for the content sector overall by 2033.

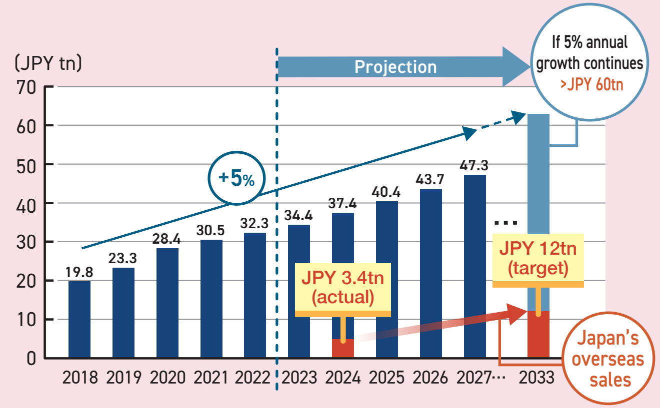
Japanese IP Generates Global Revenue

Annual Sale of Major Japan-Originated IP (2024)



Source: Compiled from IP-related sales disclosed by The Pokémon Company, Bandai Namco Holdings and Sanrio.

Global Games Market Outlook and Japan's Overseas Sales Target



Japan's overseas sales as a share of the projected global market: **9%** (2024) → **20%** (2033)

Source: Based on PwC Global Entertainment & Media Outlook 2023–2027 (converted at ¥150 = US$1).

Why Japan Can Succeed

Strength 1
Globally Popular Content IP

Japan expands monetization across platforms by extending globally popular IP into video, music and merchandise—for example, adapting game-originated IP such as Pokémon into animation and character businesses.

Strength 2
Console-Honed Game Development Capabilities

Japan's world-class game creators, developed through leadership in the console market, are expanding into mobile and PC gaming.

The public-private investment roadmaps covering 62 key products andtechnologies formulated this time represent just the starting point.
Going forward, we will continuously refine them through the PDCA cycle, further clarifying winning strategies in light of market conditions and technological trends.

Fiscal Sustainability Through a New Fiscal Management Framework

Based on discussions at the Council on Economic and Fiscal Policy with prominent economists (Olivier Blanchard, Professor Emeritus (Massachusetts Institute of Technology); Kenneth Rogoff, Professor (Harvard University)), we decided on budget formulation reforms, setting fiscal management targets, and other measures as a part of a new approach to fiscal management for achieving both a "strong economy" and "fiscal sustainability."

A New Fiscal Management Framework

Budget Formulation Reform

・Budget formulation that strengthens investment in strategic fields with the potential to enhance economic growth. See p.5 for details

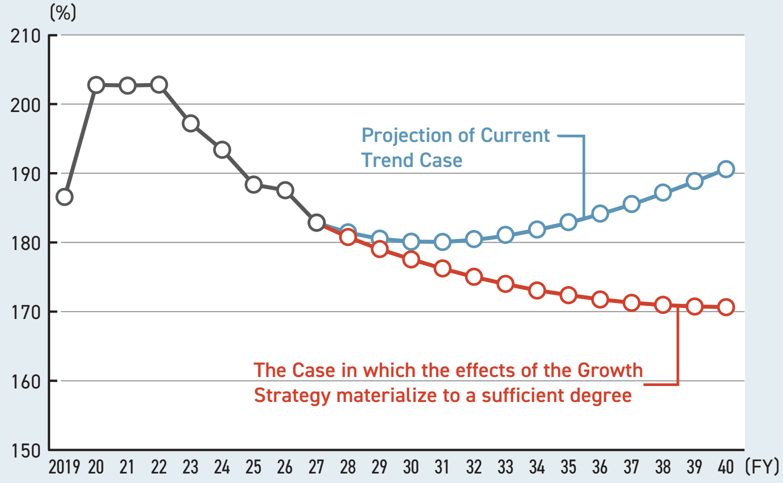
Setting Fiscal Management Targets

・The core target of fiscal management is to steadily reduce the gross debt-to-GDP ratio.
・Using the primary balance as an indicator to monitor progress toward reducing the debt-to-GDP ratio and managing and improving it in a manner consistent with a steady downward trend over multiple years.

Securing Market Confidence and Enhancing Analysis and Verification

・Conduct multifaceted analyses and verification of both economic trends, including economic growth, interest rates, and sectoral balances, and fiscal indicators, including the debt-to-GDP ratio, the primary balance, the overall fiscal balance, interest payments, the degree of reliance on government borrowing, the amount of issued government bonds, and tax revenues.

Outstanding debt-to-GDP ratio of the central and local governments



Source: Cabinet Office "Economic and Fiscal Projections for Medium- to Long-Term Analysis"

A Message by Prime Minister TAKAICHI

・In the context of ongoing efforts to reform expenditures across the entire budget, we will establish a framework for achieving **disciplined resource allocation that draws a sharp distinction between expenditures to be increased and those needing review.** We will also conduct the **review and revision of special tax measures and subsidies**, **identify policy priorities, and boldly prioritize.**
・To ensure market confidence through enhanced communication, we will provide **transparent and consistent explanations to the public and domestic and overseas market participants regarding our fiscal management**, including these reviews. To this end, we will **present various economic and fiscal indicators and conduct multifaceted analysis and verification**.

(June 25, 2026, Council on Economic and Fiscal Policy)

Sustainable Economic Growth with Price Stability

Coordination Between the Government and the Bank of Japan Based on the “Joint Statement”

In order to overcome deflation early and achieve sustainable economic growth with price stability, the Government and the Bank of Japan will strengthen their policy coordination and work together. [...] the Bank sets the price stability target at 2 percent in terms of the year-on-year rate of change in the consumer price index.

（Excerpt from “Joint Statement of the Government and the Bank of Japan on Overcoming Deflation and Achieving Sustainable Economic Growth”, January 22, 2013)

■ A Message by Prime Minister TAKAICHI

We expect the Bank of Japan **to conduct monetary policy as appropriate toward achieving the price stability target of 2% in a sustainable and stable** manner accompanied by wage increases rather than cost-push inflation, taking account of developments in economic activity and prices as well as financial conditions, while closely coordinating with the government. **The government and the Bank of Japan would like to maintain close contact and exchange views sufficiently.**

（February 18, 2026, “Press Conference by Prime Minister TAKAICHI”）

The Economic and Fiscal Goals of the Takaichi Administration Through Expanded Investment and Other Measures

To raise the stagnant potential growth rate, it is necessary to sever the trends of excessive austerity and underinvestment in the future, both of which have persisted for many years indeed. We will strengthen supply capacity through expanded private investment in a way that leads to an expansion of economic scale and the strengthening of the tax revenue base, thereby achieving a “strong economy” and “fiscal sustainability” in an integrated manner.

(Excerpt from the Cabinet Decision “Basic Policy on Economic and Fiscal Management and Reform 2026,” July 21, 2026)

■ A Message by Prime Minister TAKAICHI

Through the “Japan’s Growth Strategy” and the “Strategy for the Future of Regions,” we will **stimulate public and private investment, strengthen supply capacity,** increase employment and income, improve consumer sentiment, and boost business profits—thereby **realizing a “virtuous cycle driven by GDP growth”** in which tax revenue naturally increases without the need to raise tax rates.
This initiative does not imply “unrestrained fiscal spending.”

(July 27, 2026, “Press Conference by Prime Minister TAKAICHI”)

Why Japan, Why Now?

Fiscal Management Achieving Both "Economic Growth" and "Fiscal Discipline"

Economic growth with GDP approaching ¥1,100tn ($6.92tn/€5.918tn) can be achieved in FY2040. The core target is to steadily reduce the debt-to-GDP ratio by keeping the rate of expansion of government debt in check so as not to exceed the GDP growth rate. By steadily meeting this target, we will achieve fiscal sustainability.

A Policy Shift to Reverse the Shortage of Domestic Investment

Achieve cumulative public and private investment exceeding ¥370tn ($2.328tn/€1.991tn) through FY2040 in 62 major products and technologies that are globally competitive. To this end, implement a policy package consisting of multi-year budgetary measures, regulatory reforms, and support through tax and financial measures.

Japan has transitioned to a "non-deflationary environment" and is transitioning to a new growth-oriented economy.
As Japan is attracting renewed attention on a global scale, there are ample opportunities for investment in Japan.