Basic Policy on Economic and Fiscal Management and Reform 2026

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

Policy File

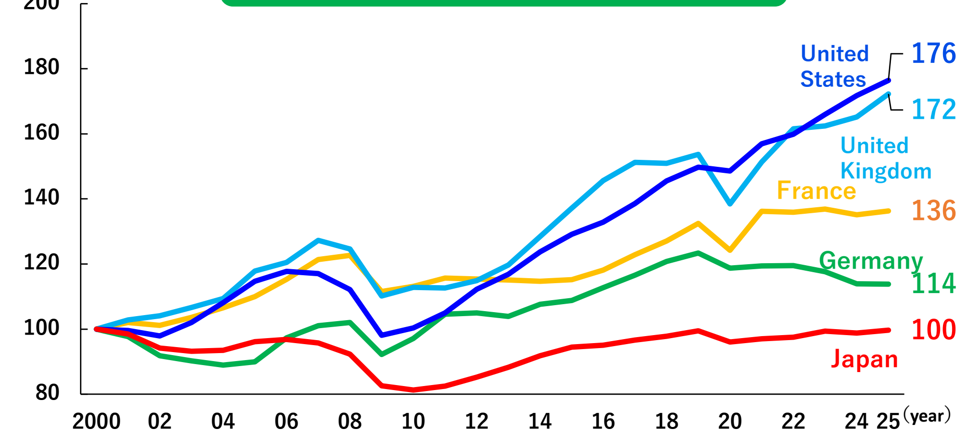
July 2026

Minister of State for
Economic and Fiscal Policy

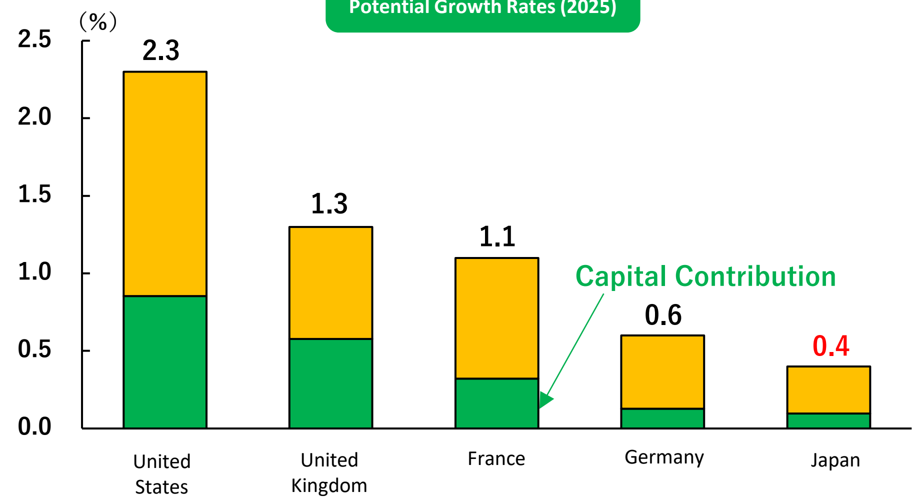
Current Conditions and Challenges of the Japanese economy

- In the Japanese economy, the potential growth rate has been stagnant compared to other major nations, due to prolonged underinvestment in the future.
- This slump is not merely a matter of insufficient production capacity; it is accompanied by a weakening of the qualitative foundations of growth, such as scientific and technological capabilities, industrial competitiveness, and human resources.
- Years of deflation have entrenched a static view of prices and wages among companies and households, curbing domestic investment and innovation.

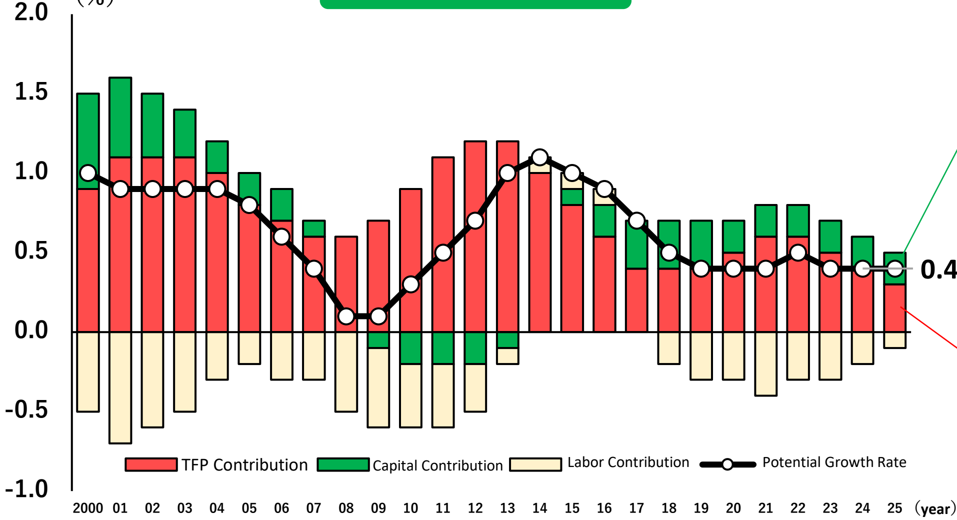
International Comparison of Public and Private Investment (Real Gross Fixed Capital Formation)



International Comparison of Potential Growth Rates (2025)



Japan's Potential Growth Rate



Shortage of Production Capacity

- Years of deflation have entrenched a static view of prices and wages among companies and households thereby curbing domestic investment. As a result, growth in the capital stock has stagnated
- Setting Keidanren's goal of achieving 250 trillion yen (nominal) in domestic investment by fiscal year 2040 as a new public-private target, we will push public-private collaboration beyond previous levels, and work toward realizing this goal.

Weakening of the Qualitative Foundation for Growth

- Under the growth strategy, it is important to promote the adoption of AI, human capital investment (education and training), R&D investment, the promotion of startups, and the exploration of new frontiers.

(Note) Compiled using data from the Cabinet Office's "National Accounts," "GDP Gap and Potential Growth Rate (Second-Quarter Post-QE Estimates for January–March 2026)," and OECD materials.

The Takaichi Cabinet's Economic and Fiscal Management Strategy

The Mission of the Takaichi Cabinet: Economic and Fiscal Management

- We will harness the underlying strength of Japan and the Japanese people to strengthen our nation's overall capabilities at every level. At the core of this effort is the creation of a "strong economy," and we will pursue a fundamental shift towards a new approach to economic and fiscal management that goes beyond the status quo.
- 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 partnerships.
- We will boldly and strategically promote "strategic investments that enhance resilience against potential crises" to minimize various risks, as well as "investments that promote growth" to foster cutting-edge technologies. At the same time, to establish Japan as one of the world's leading hubs for intellectual creation and innovation, we will promote startups and other initiatives to strengthen our medium- to long-term growth potential.

Shifts in Industrial Policy Trends Among Major Nations

To address challenges that cannot be resolved by leaving matters solely to the market, industrial policies involving large-scale, long-term fiscal spending through public-private collaboration have become a major trend.

This represents a Copernican shift in the very nature of economic and fiscal management.

- **Japan is also called upon to manage its economy in line with this trend.**
- **Under our new fiscal management policy, we will unhesitatingly review past practices and precedents, devise measures that are truly necessary for enhancing our national strength and improving the standard of living, and carry them out decisively.**
- **We will transform the power of the people—People Power—into the driving force of Japan.**

“Medium- to Long-Term Economic and Fiscal Plan” Based on Responsible and Proactive Public Finances

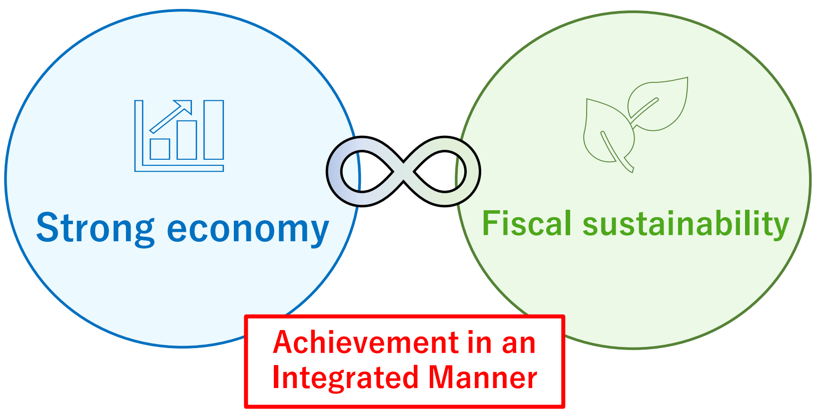
Cabinet Office

- Toward the target economic and fiscal vision, under the guidance of the Council on Economic and Fiscal Policy, **we will achieve “a strong economy” and “fiscal sustainability” in an integrated manner**, while reviewing progress each fiscal year from both micro and macro perspectives.

The Target Economic and Fiscal Vision

- GDP approaches 1,100 trillion yen in fiscal year 2040.
- A steady decline in the debt-to-GDP ratio.
- Establish economic growth exceeding 1% in real terms and 3% in nominal terms as early as possible.

  ⇒ Raise it further.



Initiatives

● Strengthening Supply Capacity Through Expanded Private Investment

⇒ Promoting the “Japan’s Growth Strategy” to strengthen supply capacity and implementing the “Strategy for the Future of Regions” to build strong regional economies.

● Budget Formulation Reform

⇒ **The total expenditures shall be suitable for strengthening economic growth potential and expanding the nominal size of the economy**, taking into account prices and wages, the nominal size of the economy, revenue projections, policy effects, and fiscal targets.

⇒ **Establish the Investment Framework named “Strong and Prosperous Japan”** and implement, with predictability, highly effective measures that significantly boost domestic private-sector capital investment and the potential growth rate.

⇒ **Move away from dependence on supplementary budgets** and provide for permanent programs in initial budgets.

● Setting Fiscal Management Targets

⇒ **The core target is to steadily reduce the debt-to-GDP ratio** and improve and manage the primary balance (PB) in a manner consistent with this over multiple years.

Promoting Japan's Growth Strategy, Part 1 (General Overview)

CABINET SECRETARIAT

- To achieve a "strong economy," we will carry out comprehensive efforts for domestic investment centered on the 17 strategic fields.
- We will address the "eight cross-sectoral challenges" and expand investment across Japan.

① The 17 strategic fields

AI and Semi-conductors	Digital technologies and Cybersecurity	Information and Telecommun-ications	Quantum technologies	Defense industry	Aviation and Space	Ocean	Shipbuilding	Materials
Synthetic biology and Biotechnology	Drug discovery and Advanced medical care	Natural resources and Energy security, and GX	Fusion energy	Disaster management and National resilience	Port logistics	Food tech	Content industry	

② The 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

③ Alignment with Budget and Fiscal Management

1. Clearly link "strategic investments that enhance resilience against potential crises" and "investments that promote growth" to budget formulation and fiscal management.
2. Establish the "Strong and Prosperous Japan" Investment Framework.

Responsible and Proactive Public Finances

④ Follow-up and Updates

With the 5W1H framework in mind, the Council for Japan's Growth Strategy will regularly check through the "PDCA mechanism" during the budget formulation process, including the preliminary budget request stage

1. The formulation of multi-year measures
2. The refinement and review of these measures in light of their implementation status and technological development trends

Strengthening Public-Private Partnerships

Government
- Investment support measures that can be projected over multiple fiscal years
- Regulatory and administrative reforms

Public-Private Partnerships

Behavioral Changes in Both the Public and Private Sectors

Companies
- Shifting the mindset towards an "Investment-driven economy"

Domestic Investment

Target for Fiscal Year 2040

250 trillion yen

A Virtuous Cycle of Growth and Distribution

Promoting Japan's Growth Strategy, Part 2 (The 17 Strategic Fields)

CABINET SECRETARIAT

- Accelerate strategic domestic investments by the public and private sectors, such as "strategic investments that enhance resilience against potential crises", which minimize various domestic risks, and "investments that promote growth", which will unlock the full potential of cutting-edge technologies
- Identify 62 "key products and technologies" across the 17 strategic fields in which priority support for public-private investment is deemed necessary, and formulate a "Public-Private Investment Roadmap." These "key products and technologies" will be reviewed as needed, with the possibility of additions.

Fundamental Reform of Budget Formulation to Achieve Policy Objectives: Establishment of the '"Strong and Prosperous Japan" Investment Framework

① Thorough support for investments that promote growth

These measures target initiatives outlined in documents such as the **"Japan's Growth Strategy"** and the **"Strategy for the Future of Regions," including the public-private investment roadmap and efforts to address cross-sectoral challenges.**

② Removal of the Upper Limit on Budget Requests

To ensure that truly effective investment support measures can be implemented **with predictability**, we will request the necessary funds—including itemized requests—**without imposing any "ceiling."**

③ Multi-year budgetary measures

To enhance predictability for the private sector, budgetary measures based on **multi-year plans** will serve as the standard.
*Funding rules will be revised, including the removal of the current rule that, in principle, limits budgetary measures to a maximum of three years.

④ Fiscal Sustainability

Carefully assess the scale of fiscal spending that is feasible even while steadily reducing the government debt-to-GDP ratio.
Areas of particular importance to economic security will be managed separately under special accounts.

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

Structure of the Public-Private Investment Roadmap

1. Current Situation and Vision [Goals]

(1) Current Situation
① Current Situation
② External Environment and Structural Changes
③ Economic and Strategic Importance

(1) Objectives
① Target Markets to Capture Domestically and Internationally
② Strategic Objectives to Be Achieved

2. Identifying a "winning strategy" and Specific Plans for Public-Private Investment and Quantitative Impact [Roadmap]

(1) Basic Strategy
① Paths to Success
② Functions Japan Should Establish

(2) Specifics of Public-Private Investment
① Investment Details
② Investment Amount
③ Quantitative Impact: Economic Ripple Effects of the Investment

3. Initiatives and Policy Packages for Promoting Public-Private Investment [Policy Measures]

(1) Initiatives in Promoting Investment

(2) Policy Measures to Be Implemented
① Support for Domestic Investment
② Creating Demand and Securing Markets･Support for Practical Implementation
③ Strengthening Location Competitiveness
④ International Collaboration

Achieving Public-Private Investment in Strategic fields

Strategic investments that enhance resilience against potential crises

Investments that promote growth

An accelerator for growth
AX（AI Transformation)

↓

Transition to an Economic Structure that Generates High Added Value

Promoting Japan's Growth Strategy, Part 3 (The eight cross-sectoral challenges)

CABINET SECRETARIAT

- We will address the challenges involved in attracting domestic investment in the 17 strategic sectors from a cross-sectoral perspective and create an environment that enables the expansion of pioneering investments in these 17 sectors across Japan.

The Big Picture

The 17 strategic fields → **Identified Issues** → **The cross-sectoral challenges**

Identified Issues

Ensuring Predictability for Multi-Year Investments	Corporate Management Reforms Aimed at Growth Investment	Strengthening Supply Chains, Including Dual-Use Goods, and International Cooperation	Adoption of Startup Technologies ･Promoting Innovation
Supply of Risk Capital	Securing On-Site and Specialized Personnel	Impact on the Local Economy	Ensuring a Safe Cyberspace

Examples of Initiatives

THEME 01
A new kind of technology-driven nation and strengthening competitiveness

- **Establish the '"Strong and Prosperous Japan" Investment Framework' to promote "strategic investments that enhance resilience against potential crises" and "investments that promote growth."**
- In sectors of particular importance to economic security, ① these will be managed under a separate special account, with sufficient funding secured over multiple financial years, and ② sufficient scale will be ensured through the issuance of government bridge bonds backed by repayment funds.
- A **new** system will be established to certify **universities with both particularly high research capabilities in specific fields** that contribute to strengthening industrial competitiveness, and **sound management practices**, and to provide medium- to long-term support for their research and development and practical implementation of the results.
- Fostering and attracting lead investors, and accelerating procurement from startups.

THEME 02
Startup

- Implementation of the **"Comprehensive Startup Creation and Scale-up Package."**
  Fundamental strengthening of the SBIR scheme (provide comprehensive support for startups from the research and development stage onwards; **establish a framework that enables pilot implementation and operation in real environments through commissioned contracts that generate revenue**).
  Utilization of the Ministry of Defense's version of the SBIR scheme. Providing comprehensive support from technology development through to procurement.

THEME 03
Unleashing the latent potential through finance

- Implementation of the **"Financial Services Strategy to Promote Growth Investment."**
  Strengthening financial institutions' role in providing funds and supporting growth (e.g., **establishing the "Public-Private Strategic Investment Partnership Forum" (tentative name)**, clarifying exceptions to large-scale credit provision regulations, etc.).
  Developing deep and diverse financial markets (e.g., reviewing regulations on small-denomination and low-rated corporate bonds, etc.).
  Strengthening the Regional Financial Power (e.g., **implementing the "Regional Future Finance Action Plans" (provisional name),** etc.).
- Transition to growth-oriented corporate governance (**promotion of the revised "Corporate Governance Code" and the "Guidance for Growth Investment"**).

THEME 04
Fostering human resources

- Strengthen core funding and competitive research grants through **significant expansion of the Management Expenses Grant for National University Corporations and Grants-in-Aid for Scientific Research.**
- Strengthen the development of science and digital talent by **supporting the reorganization of undergraduate programs at universities to focus on science and technology fields.**

THEME 05
Labor market reforms

- With a view to enabling flexible and diverse working styles, whilst prioritizing the maintenance of physical and mental health and employee choice, **policy measures relating to working hours legislation and other matters** will be discussed at the Labor Policy Council from this summer onwards.
- Strengthening support for re-skilling and upskilling. In the 17 strategic fields and the social infrastructure sectors that support them, **we will provide end-to-end re-skilling support**, ranging from the standardization and visualization of skills to the development and provision of education and training programs.

THEME 06
Easing the burdens of household chores and so on

- Support for balancing work with childcare, caregiving and other responsibilities.
  Establishment of a national qualification (skills certification) for housekeeping services.
  Consideration of support measures, including tax incentives for the use of housekeeping and babysitting services.

THEME 07
Developing an environment for wage increases

- Implementation of the **"Strategy to Strengthen the Earning Power of Mid-sized and Small Enterprises in a Society Facing Labor Supply Constraints."**
  With regard to subsidies, we will revise **the system to include an assessment of current wage increase trends**, thereby encouraging early wage rises.
  We will consider effective measures, including tax reforms, to provide targeted support to small and medium-sized enterprises that actively implement wage increases.
  We will implement the **"Plan to Accelerate Price Pass-through and Fair Trading Practices in Public Procurement."**
  We will enhance and expand the "Labor-Saving Investment Promotion Plans" across 12 sectors.
  We will strengthen the mechanism for creating companies with annual sales of 10 billion yen and establish a new mechanism to broaden the base of growth-oriented SMEs.
  We will **consider establishing (and legislating for) a qualification system for individuals providing SME M&A support.**

THEME 08
Cybersecurity

- Implementation of specific measures based on the "Cybersecurity Strategy."
  Establish systems to enable Active Cyber Defense (including the development and expansion of systems for incident reporting and public-private information sharing).
  Formulation and implementation of unified standards to ensure thorough implementation of basic measures in **critical infrastructure sectors** (information and communications, finance, electricity, gas, etc.).

Building Strong Regional Economies (Promoting the "Strategy for the Future of Regions")

CABINET SECRETARIAT

- To promote investment under the "Strategy for the Future of Regions," we will utilize the **"Strong and Prosperous Japan" Investment Framework** and take **bold measures to promote investment and develop infrastructure** in an integrated manner.

Our Vision

We will realize a society in which everyone, wherever they live in Japan's 47 prefectures, can live in safety, access the healthcare and welfare services they need, receive a high-quality education, and have access to employment opportunities. To this end, we will build strong regional economies.

Initiatives

- To build a new industrial foundation, we will strategically foster industrial clusters across the country.

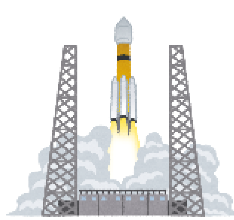
A. Strategic Industrial Cluster Plans

At the regional block level, we will boldly advance investment promotion measures, using strategic investments that enhance resilience against potential crises and investments that promote growth as catalysts.

Examples of measures:

・Public infrastructure development
(roads, industrial water supply, water and sewage systems, ports, etc.)

・Promotion of private-sector cluster hub development
(railways, shipbuilding docks, rocket launch sites, etc.)



B. Regional Industrial Cluster Plans

Prefectures will take the lead in developing this category of clusters.

C. Local Industry Growth Plans

Municipalities will take the lead in fostering industries in their regions, including locally rooted industries.

Examples of Measures Under B and C:

・Provision of growth capital, infrastructure development, and human resource development for industry through the expansion of the Regional Future Grant

・Realignment of regional resources