Basic Policy on Economic and Fiscal Management and Reform 2026

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

(Cabinet Decision on July 21,2026)

I. 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 for the future.
- ◆ In those major nations, industrial policies involving large-scale and 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 the nation in response to this trend.

II. Basic Policy on Economic and Fiscal Management

- ◆ The Takaichi Cabinet will break the trend of underinvestment and respond to the era of global mega-competition in industrial policy. To this end, under the concept of responsible and proactive public finances, the government will boldly and strategically promote "strategic investments that enhance resilience against potential crises" and "investments that promote growth," strengthening medium- to long-term growth potential.
- ◆ The government will fundamentally reform its approach to national budget formulation to ensure its predictability, which attracts private investment. Both "fiscal sustainability" and building a "strong economy" will be achieved together in a well-balanced manner simultaneously. FY2027 is the first year of the "responsible and proactive public finances".

Strategic Investment and Cross-Sectoral Initiatives for Building a "Strong Economy"

(1) Promoting the Japan's Growth Strategy

- Steadily implementing policy packages in the public-private investment roadmaps for 62 major products and technologies across 17 strategic fields.

  Projected cumulative public-private investment of more than ¥370 trillion through FY2040
- Steadily implementing concrete measures and policy packages to address eight cross-sectoral challenges.

(2) Strengthening the Growth Foundation

- Transforming Japan into a new kind of technology-driven nation and promoting startups
- Promoting AX/DX, Pioneering frontier fields such as Space, Ocean, and Geospatial
- Thoroughly implementing regulatory and institutional reforms
- Improving corporate management capabilities, Supplying and securing funds to support growth
- Natural resources, energy security, and GX

(3) Building Strong Regional Economies

- Promoting the Strategy for the Future of Regions
- Creating an Environment conducive to Wage Increases
- Making the geographical nation sustainable and vibrant, Eliminating transportation gaps, Realizing a Tourism Nation
- Making agriculture, forestry and fisheries a growth sector through their structural transformation, and Strengthening food security

(4) Strengthening Human Resources and Enabling people to live and work with purpose and vitality

- Developing human resources and unleashing potential (Improving the quality of education, reskilling, developing advanced essential workers, etc.)
- Enabling people to live and work with purpose and vitality, Realizing a society where no one is left behind (active participation of youth and women, measures to address loneliness and isolation, etc.)

Establishing Strong Diplomacy and Security

- Strengthening diplomatic capabilities, national security, and intelligence capabilities
- Enhancing economic security

Ensuring Safety and Security of the Public

- Promoting disaster management, disaster mitigation and national resilience, and responding to the Great East Japan Earthquake and the Noto Peninsula Earthquake
- Ensuring public order and safety (crime countermeasures, ensuring safe and secure living, etc.)
- Promoting consolidated policies for foreigners

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.

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

[The Target Economic and Fiscal Vision]

- ◆ GDP: Approach 1,100 trillion yen by FY2040
- ◆ Debt-to-GDP ratio: Ensure a steady decline
- ◆ Growth rate: Establish growth exceeding 1% in real terms and 3% in nominal terms as early as possible, and raise it further

(Setting Fiscal Management Targets)

- From the perspective of balancing a strong economy with fiscal sustainability, the core target is to steadily reduce the gross debt-to-GDP ratio of the central and local governments.
- Using the primary balance (PB) as an indicator to monitor progress toward reducing the debt-to-GDP ratio and managing it in a manner consistent with a steady downward trend over multiple years.
- Scrutinizing the fiscal scale that is viable while steadily reducing the debt-to-GDP ratio, and specifying the annual issuance amount of government bonds, as well as paying attention to securing market confidence.

(Shifting to Budget Formulation Suitable for Strengthening Economic Growth Potential and Expanding the Nominal Size of the Economy)

- Shifting budget formulation from the uniformly austerity-oriented approach of the deflation and low-growth era to an approach that accurately reflects price and wage increases and is suitable for enhancing economic growth potential and expanding the nominal size of the economy. Reliably responding to unavoidable fiscal demands through measures such as further advancing an accurate reflection of economic and price trends, as achieved in the for FY2026 initial budget.
- Regarding social security-related expenses, continuing reforms of benefits and burdens under the policy of "halting and reversing increases in premium rates for the working-age generation."

(Establishing the "Strong and Prosperous Japan" Investment Framework)

- Establishing a "Strong and Prosperous Japan" Investment Framework that can be implemented with predictability separate from regular expenditures.
- Securing a necessary and sufficient investment scale while achieving fiscal sustainability.
- Managing investments in areas of particular importance for economic security separately through a special account.

(Moving Away from Dependence on Supplementary Budgets, and Reviewing Funds and Multi-Year Budgetary Measures)

- Limiting supplementary budgets to items of high urgency and providing for permanent programs in initial budgets.
- Specifying a fundamental review of fund rules.
- According to the nature of the investment, utilizing appropriate means such as funds, multi-year contracts through government debt obligations, Fiscal Investment and Loan Program, and capital contributions, while strengthening governance.

(Securing Market Confidence and Enhancing Analysis and Verification)

- Providing transparent and consistent explanations to domestic and overseas market participants. Conducting analysis based on a wide range of possibilities to prepare for uncertainties surrounding economic, price and interest rate trends and policy effects.

* Promoting critical policies that form the foundation for people's daily lives, such as building a social security system for all generations, toward realizing a sustainable economy and society over the medium to long term.

➡Setting a planning period up to FY2040 and achieving the target economic and fiscal vision. Conducting a comprehensive verification under the Council on Economic and Fiscal Policy, while considering the assessment and verification of actual outcomes at both the micro and macro levels. The plan will be reviewed when necessary.