

Economic Trends

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Japan's Economic Policy 2025: Analyzing the Honebuto Framework

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Executive Summary

- The Cabinet approved Basic Policy 2025 on June 13, marking the first such policy framework under the Ishiba administration. While fundamentally continuing the previous administration's "New Form of Capitalism" with its emphasis on wage increases and industrial policy, the new framework demonstrates a stronger regional focus, reflecting Prime Minister Ishiba's commitment to "local revitalization."
- Regarding fiscal policy, notable changes include increased flexibility in the primary balance (PB) target—with achievement timing shifted from FY2025 to a range of FY2025-2026—and consideration of inflation adjustments across various public systems. This could have far-reaching implications for social security systems and other policy areas. For local revitalization, the standout initiative is the "Furusato Resident Registration System," which envisions allowing dual-area residents to maintain sub-resident registration. While the detailed framework remains to be determined, its effectiveness as an economic revitalization tool will become clearer through the design process.

We will accept press inquiries and interviews. Please contact us hoshino@dlri.co.jp.

Basic Policy 2025: Maintaining Overall Framework from Kishida Administration

At the Economic and Fiscal Advisory Council meeting on June 6th, the draft Basic Policy 2025 was presented, which was subsequently approved by the Cabinet on June 13. This marks the first Basic Policy formulation under the Ishiba administration, which took office in October of last year. Table 1 compares the structure (table of contents) with last year's version. It maintains the same four-chapter structure as last year, with the basic framework remaining unchanged. Chapter 1 addresses the current macroeconomic environment and economic management approach, Chapter 2 covers specific economic policies such as wage increases and industrial policy, Chapter 3 focuses on fiscal consolidation plans and social security reforms, and Chapter 4 outlines the approach for next year's budget formulation. The content itself also inherits the "New Form of Capitalism" approach from the Kishida administration.

Table 1. Structure of Basic Policy 2025

2024 Version	2025 Version
<p>Chapter 1: Transition to a New Stage: Growth-Oriented Economy</p> <ol style="list-style-type: none"> 1. For a complete end to deflation 2. Toward a sustainable economy and society in which people can feel prosperous and happy 	<p>Chapter 1: Basic Approach to Macroeconomic Management</p> <ol style="list-style-type: none"> 1. Environment surrounding the Japanese economy and the path forward 2. Response to immediate risks and realization of growth-oriented economy driven by wage increases 3. Building a sustainable economy and society under population decline 4. People-centered nation building 5. Preparation for uncertain international circumstances
<p>Chapter 2: Achieving Sustainable Economic Growth Through Responding to Social Issues</p> <ol style="list-style-type: none"> 1. Higher income and sustained wage increases that allow people to feel a sense of affluence <ol style="list-style-type: none"> (1) Encouraging wage increases (2) Trinity labor market reforms (3) Price-pass-through measures 2. Revitalization of mid-sized companies and small and medium enterprises that underpin affluence <ol style="list-style-type: none"> (1) Responding to labor shortages (2) Earning power of mid-sized companies and small and medium enterprises (3) Export and overseas expansion 3. Responding to social challenges through increasing investment and implementing innovative technologies in society <ol style="list-style-type: none"> (1) Digital Transformation (DX) (2) Green Transformation (GX) and energy security (3) Development of Frontiers (4) Promotion of science, technology, and innovation 	<p>Chapter 2: Realization of Growth-Oriented Economy Driven by Wage Increases</p> <ol style="list-style-type: none"> 1. Widespread establishment of wage increases exceeding price rises <ol style="list-style-type: none"> (1) Implementation of the Five-Year Plan for Wage Improvement of SMEs and Small Businesses (2) Trinity labor market reforms and support for wage increases by mid-tier and small enterprises 2. Promotion of Local revitalization 2.0 and response to regional social issues <ol style="list-style-type: none"> (1) Promotion of Local revitalization 2.0 (2) Response to regional social issues (3) Structural transformation of agriculture, forestry and fisheries into growth industries and ensuring food security (4) Promotion of culture, arts and sports 3. Future wage and income increases through "Investment Nation" and "Asset Management Nation" <ol style="list-style-type: none"> (1) Promotion of GX (2) Promotion of DX (3) Development of Frontiers (4) Promotion of advanced science and technology

2024 Version	2025 Version
(5) Promoting Japan as a Leading Asset Management Center	(5) Support for startups
4. Responding to social challenges through building startup networks and improving connectivity overseas	(6) Attracting overseas vitality (7) Realization of asset management nation
(1) Supporting startups and building their networks	4. Ensuring people's safety and security
(2) Leveraging overseas vitality	(1) Promotion of disaster prevention, mitigation and national resilience
(3) Promoting the EXPO 2025 OSAKA, KANSAI, JAPAN	(2) Reconstruction and recovery from the Great East Japan Earthquake and recovery from the Noto Peninsula Earthquake
	(3) Strengthening diplomacy and security
	(4) Strengthening economic security
	(5) Realization of orderly symbiotic society with foreign nationals
	(6) Realization of "World's Safest Japan"
5. Responding to social issues through local revitalization and local initiatives	(7) Realization of "Society where no one is left behind"
(1) New developments of the Vision for a Digital Garden City Nation and local revitalization	
(2) Digital Administrative and Fiscal Reform	
(3) Revitalizing local communities and expanding exchanges among them	
(4) Sustainable growth of agriculture, forestry and fisheries and food security	
6. Building an inclusive society in which people can feel happy	
(1) Building an inclusive, cooperative, and women-empowering society	
(2) Realizing safety and securities of people's lives with a rich-heart	
7. Responding to changing environments of the international community to form a basis for sustainable economic growth	

2024 Version	2025 Version
<p>(1) Diplomacy and security</p> <p>(2) Economic Security</p> <p>8. Promoting disaster prevention and mitigation, and national resilience</p> <p>(1) Disaster prevention and mitigation, and national resilience</p> <p>(2) Recovery and restoration after the Great East Japan Earthquake, Noto Peninsula Earthquake and other natural disasters</p>	
<p>Chapter 3: Realizing a Sustainable Economy and Society over the Medium and Long Term</p> <p>1. Economic and fiscal policies toward a new stage</p> <p>2. Medium term economic and fiscal framework</p> <p>3. Basic courses of action and priority issues for major policy sections</p> <p>(1) Building a social security system for all generations</p> <p>(2) Measures to cope with the declining birthrate, and child policy</p> <p>(3) Revitalizing public education and promoting research activities</p> <p>(4) Strategic infrastructure development</p> <p>(5) Enhancing fundamentals of local administration and public finance</p> <p>4. Enhancing evidence-based policy making (EBPM) for pursuing reforms</p>	<p>Chapter 3: Realizing a Sustainable Economy and Society over the Medium and Long Term</p> <p>1. Promotion of the "Economic and Fiscal Plan for New Stage"</p> <p>2. Important issues and action policies for major areas</p> <p>(1) Building a social security system for all generations</p> <p>(2) Promotion of measures to address declining birthrate and child/youth policies</p> <p>(3) Revitalization of public education and research activities</p> <p>(4) Promotion of strategic social capital development</p> <p>(5) Strengthening sustainable local administrative and fiscal foundations</p> <p>3. Strengthening efforts to promote the plan</p> <p>4. Review and revision of public systems in line with price increases</p>
<p>Chapter 4: Immediate Economic and Fiscal Management and Approach to Fiscal 2025 Budget Formulation</p> <p>1. Economic and fiscal management for the immediate future</p> <p>2. Guiding Principles in Budget Formulation for FY2025</p>	<p>Chapter 4: Immediate Economic and Fiscal Management and Approach to Fiscal 2026 Budget Formulation</p> <p>1. Economic and fiscal management for the immediate future</p> <p>2. Approach to Fiscal 2026 budget formulation</p>
<p>Source: Cabinet Office, Dai-ichi Life Research Institute.</p>	

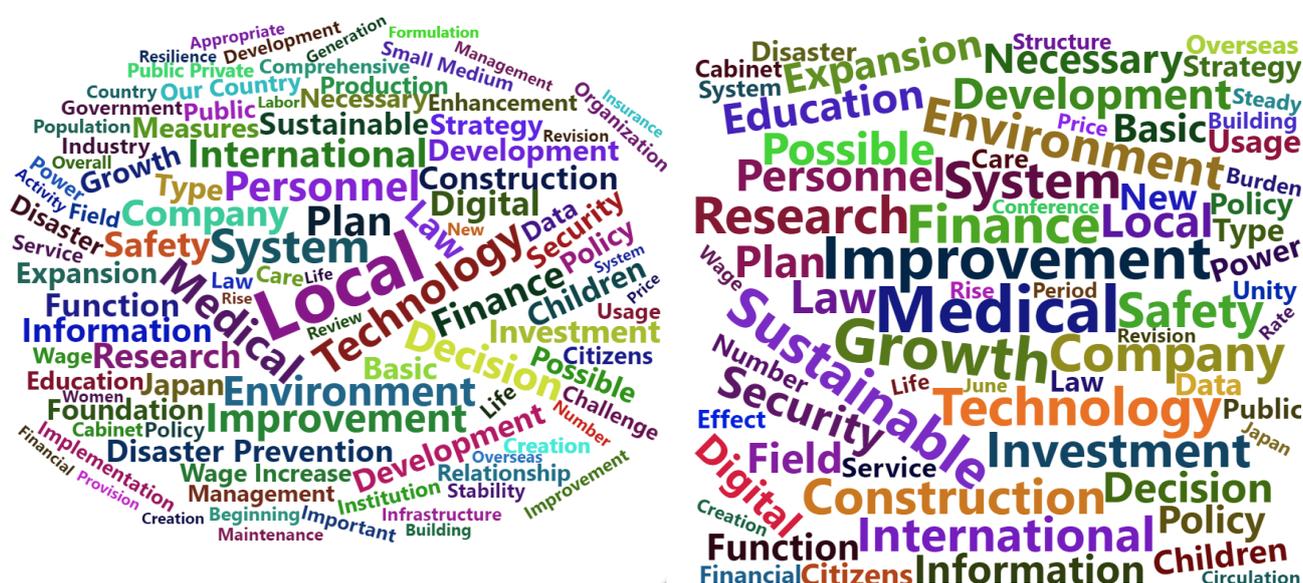
Word Cloud Analysis of Basic Policy: "Local" Shows Significant Increase

Creating a word cloud from the Basic Policy 2025 reveals the "Ishiba color." Reflecting Prime Minister Ishiba's policy focus on local revitalization, the frequency of "Local" has increased significantly (2024: 70 times → 2025: 128 times), becoming one of the most frequently appearing words in the document. Other frequently appearing words include traditional ones such as "investment" (75 times → 58 times), "technology" (87 times → 88 times), and "research" (78 times → 70 times). The appearance frequency of "investment" and "research" has somewhat decreased, suggesting that industrial policy has been de-emphasized in favor of regional initiatives. Additionally, while not appearing in the word cloud, the word "tariffs" (0 times → 7 times) has emerged with President Trump's inauguration.

Table 2. Word Cloud of Basic Policy

(2025 Version)

(2024 Version)



Note: Words that are frequently used but not directly related to policy content have been excluded by the author's judgment. Japanese terms in the word clouds have been translated into English for international readers.

Source: Cabinet Office, Dai-ichi Life Research Institute.

Key Points by Major Areas

Table 3 provides a more detailed and comprehensive summary. Highlighting some key points focusing on changes from last year:

Regarding fiscal policy, the direction of "wage increases over tax cuts" has been explicitly stated. This serves as a substantial check against opposition parties advocating for consumption tax and other tax cuts. Also, in response to current concerns about long-term interest rate increases, efforts to further promote domestic government bond holdings have been indicated. The original primary balance target of achieving surplus in FY2025 has been revised to "achieving primary balance surplus for the central and local governments combined as early as possible during FY2025-2026." This appears to provide

flexibility in the target timing considering concerns about global economic deterioration due to Trump tariffs (a factor for tax revenue decline) and autumn supplementary budget formulation. Additionally, as a minor but important point, the review and revision of standards and thresholds for public systems in line with price increases has been explicitly stated. This follows the "income barriers" issue that caused heated debate between ruling and opposition parties toward the end of last year and is currently being discussed in the Tax Commission. A mechanism for inflation adjustment of public systems in general is being considered. This appears to be intended to increase the linkage of medical and long-term care public prices to inflation, potentially having wide-ranging impacts centered on social security. Future developments in this discussion will be closely watched.

Regarding wage increases, numerical targets for "real wages" that were not previously included have been specified, aiming for approximately 1% increase. Also, "minimum wage of 1,500 yen in the 2020s" has been explicitly stated. To achieve this, government subsidy support has been indicated for cases where increases exceed the guideline. Last year, Tokushima Prefecture implemented a significant 84 yen increase, far exceeding the national guideline. Currently, the government assesses that general negative effects of minimum wage increases (employment reduction) have not been observed, and there is an intention to expand such efforts to other regions.

Regarding local revitalization, the Furusato Resident Registration System for visualizing "related population" (people who are connected to specific regions without residing there, distinguished from exchange population who visit temporarily such as tourists), and targets of 10 million actual persons and 100 million total persons for related population have been set. This system is envisioned to allow people engaged in "dual-area residence" to register as sub-residents in municipalities they are connected to, in addition to their main residential registration. Details such as who would be eligible, how voting rights would be handled, etc., will be determined through future deliberation. The effectiveness as a regional economic revitalization measure will gradually be determined through this process.

Table 3. Key Points of Basic Policy 2025

1. Fiscal Policy

Basic policy of "wage increases over tax cuts"

- *"Wage increases over tax cuts"*: Explicitly states that rather than increasing take-home pay through tax reduction policies based on current wage and income levels, the goal is to increase take-home pay through wage increases.

Flexibility in Primary Balance (PB) surplus target

- *"Aiming to achieve primary balance surplus for the central and local governments combined as early as possible during FY2025-2026"*, providing flexibility from the previous FY2025 target
- Added clause to "review the target year as necessary" considering the impact of US tariff measures
- *Explicitly states "initiating consideration" of rules for returning economic and social benefits after achieving PB surplus*

Promoting domestic government bond holdings

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- *Efforts to further promote domestic government bond holdings to avoid deterioration in government bond supply-demand and sharp rises in long-term interest rates*

Reflecting price and wage increases and continuing expenditure reform

- *Comprehensive and systematic review and revision of standards and thresholds for public systems in line with continued price increases*
- Continue expenditure reform efforts shown in Basic Policy 2024 until FY2027

2. Monetary Policy

- Expects the Bank of Japan to conduct appropriate monetary policy management according to economic, price, and financial conditions and sustainably and stably achieve the 2% price stability target

3. Growth-Oriented Economy Driven by Wage Increases

Establishing wage increases exceeding price rises

- *As "wage increases are the key to growth strategy," aims to establish approximately 1% real wage growth across the Japanese economy*

Significant minimum wage increases

- *Continues unwavering efforts to achieve the high target of 1,500 yen national average in the 2020s*
- Implements policy package through "Five-Year Plan for Wage Improvement of SMEs and Small Businesses"
- *Explicitly states "special response through government subsidy support" when regional minimum wage councils implement increases exceeding guidelines*

Emphasis on wage increases in administered price sectors

- *Clearly shifts from cost-cutting approach in medical care, long-term care, disability welfare, etc.*
- Implements "appropriate response" considering wage increase results from 2025 spring labor negotiations and price increases

4. Industrial Policy and Technology Strategy

Promoting investment nation

- Continues promotion of GX (Green Transformation) and DX (Digital Transformation)
- Promotes advanced science and technology, strengthens startup support

Strategic promotion of science and technology policy

- Fundamental strengthening of basic research capabilities through securing research time and improving productivity

Realization of asset management nation

- Improves NISA convenience, enhances corporate DC and iDeCo operations

5. Local revitalization and SME Support

Full-scale development of Local revitalization 2.0

- Strongly promotes Local revitalization 2.0 as "Reiwa Era's National Land Remodeling"
 - *Quantitative expansion and qualitative improvement of related population (10 million actual persons, 100 million total persons)*
 - *Creates Furusato Resident Registration System to visualize related population*
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Regional Innovation Creation Concept

- Realizes high value-added regional economy utilizing regional resources
- Promotes "new combination of policies," "new combination of human resources," and "new combination of technologies"
- Aims for labor productivity per worker in prefectures outside Tokyo metropolitan area to reach same level as Tokyo metropolitan area

Strengthening SME support

- Selects priority support companies with large regional economic spillover effects
- Supports companies aiming for sales exceeding 10 billion yen with equipment investment
- Comprehensively promotes business succession, M&A, and price pass-through support

6. Social Security, Measures for Declining Birthrate, and Education**Building social security system for all generations**

- Establishes robust and sustainable social security system
- *Conducts actual situation assessment and verification of FY2024 medical fee revision by end of 2025*

Full implementation of measures to address declining birthrate

- Full implementation of the Child and Childcare Support Acceleration Plan

Strengthening education policy

- Functional strengthening and appropriate sizing of higher education
- Targets of 500,000 Japanese students studying abroad annually and accepting 400,000 international students annually

7. Agriculture and Food Policy**Promoting intensive agricultural structural transformation measures**

- Initial five-year intensive agricultural structural transformation period (FY2025-2029)
- *Comprehensive response to rapid rice price increases (including smooth distribution of government reserve rice)*
- Intensive promotion of farmland large-scale development and smart technology implementation for cost reduction

8. Foreign National Policy and Public Safety**Realization of orderly symbiotic society**

- *Further strengthens government-wide command system* including inter-ministerial conferences on acceptance and coexistence of foreign nationals
- *Aims to introduce Electronic Travel Authorization System (JESTA) in FY2028*
- Stricter requirements for supervising and support organizations in the Employment-for-Skill-Development Program and Specified Skilled Worker System

Comprehensive consideration of appropriate management and use of national land including foreign land acquisition

- Strengthened response to crimes and nuisance behaviors by tourists and short-term visitors

9. Security and National Resilience**Fundamental strengthening of defense capabilities**

- Emphasizes seven areas: Stand-off Defense Capabilities, Unmanned Asset Defense Capabilities, etc.
- *Strengthens human foundation based on "Basic Policy on Improving Treatment and Working Environment of Self-Defense Personnel and Establishing New Life Planning"*
- Promotes research and development including next-generation fighter joint development

Strengthening economic security

- Considers revision of Economic Security Promotion Act
- Establishes list of important technology areas, accelerates development and international cooperation of advanced critical technologies

Promoting national resilience

- Strengthens aging infrastructure measures based on road subsidence accident in Yashio City, Saitama Prefecture
- Strengthens national crisis management system including response to compound disasters
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Source: Cabinet Office, Dai-ichi Life Research Institute.

Disclaimer: This report is for informational purposes only and does not constitute investment advice. It has been prepared based on information believed by Dai-ichi Life Research Institute Inc. to be reliable as of the date of this report, but no representation is made as to its accuracy or completeness. The views expressed are subject to change without notice. In addition, the contents of this report do not necessarily reflect the investment strategy of Dai-ichi Life Insurance Company, Ltd. or its affiliates.
