

Data: April 8, 2026

Commentary on the Council on Economic and Fiscal Policy (April 13, 2026)

Formulation of the “Basic Policy 2026” and Budget Reform

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(Executive Summary)

- As the first “Basic Policy” (Honebuto Hoshin) under the Takaichi Cabinet, the government will clarify its stance on “Responsible Proactive Fiscal Policy.” This aims for a “Strong Economy” by leveraging public and private investment. The document will be concise and message-driven, avoiding a mere list of individual measures.
- Five principles are proposed to break away from the era of deflation and low growth:
 - ① Shifting the core target from annual Primary Balance (PB) to “stably reducing the debt-to-GDP ratio,”
 - ② Adjusting budgets to match nominal economic growth,
 - ③ Creating a “New Investment Category” separate from general expenditures,
 - ④ Shifting permanent measures from supplementary to initial budgets, and
 - ⑤ Enhancing transparency through third-party verification and dialogue with markets.
- To prepare for uncertainties such as Middle East tensions and rising interest rates, a medium-term fiscal plan will be formulated. Quantitative methods like SDSA (Stochastic Debt Sustainability Analysis) will be used, and investments related to economic security will be managed under a separate framework.
- 1. Improve visibility of summary materials and strengthen international PR (English translations/video streaming). 2. Prioritize securing essential supplies over immediate supplementary budgets amidst Middle East tensions. 3. Judge the PB path flexibly based on medium-term debt trajectories. 4. Set investment periods according to policy nature, not uniformly (e.g. five years). 5. Evaluate fiscal health based on “General Government Net Debt” for better international comparison.

1. Introduction

The Council on Economic and Fiscal Policy met on April 13, 2026. The session presented the basic philosophy for the Takaichi Cabinet's inaugural "Basic Policy 2026" and proposals for a fundamental overhaul of the budget-making process. This report introduces the discussions based on the papers submitted by the private-sector members of the Council.

2. Basic Guidelines for "Basic Policy 2026"

This year's Basic Policy is positioned as a critical opportunity to demonstrate the Takaichi Cabinet's "Responsible Proactive Fiscal Policy" to domestic and international audiences. The core idea is to realize a "Strong Economy" by leveraging public and private investments to resolve years of "under-investment."

"Responsible Proactive Fiscal Policy" is defined as a policy where the current generation takes responsibility for building a foundation for future generations, pursuing strategic fiscal spending in tandem with administrative and fiscal reforms. To gain understanding and empathy for "Sanaenomics," the Council emphasized the need for strategic PR and highly impactful messaging. The policy will be "truly robust," focusing on the administration's core principles rather than an exhaustive list of minor measures.

3. Radical Reform of Budgeting (The Five Principles)

The Council proposed five "Basic Principles" to break the habits of the deflationary era and respond to a new phase of fluctuating prices, wages, and interest rates:

Principle 1: Shift in Core Targets: Move from annual PB management to "stably reducing the debt-to-GDP ratio."

Principle 2: Response to Nominal Growth: Reflect price and wage increases accurately in the budget to match the expansion of the nominal economy.

Principle 3: Creation of a "New Investment Category": Manage growth and crisis-management investments separately from regular spending to break the cycle of "single-year-ism" and dependency on supplementary budgets.

Principle 4: Ending Dependency on Supplementary Budgets: Limit supplementary budgets to truly urgent matters; permanent measures should be included in the initial budget.

Principle 5: Securing Market Trust: Strengthen independent third-party reviews and maintain transparent dialogue with domestic and international market participants.

4. Risk Management and Sustainability

To address uncertainty, the government will implement a medium-term fiscal plan considering structural changes like interest rate pressure and Middle East tensions. Quantitative verification will involve reflecting the contributions of growth strategies (GDP/tax revenue) in medium-to-long-term projections using SDSA. Furthermore, investments for economic security or those funded by "bridge bonds" with specific redemption sources will be managed as separate categories regarding debt-to-GDP indicators.

5. Author' s Opinion

Regarding the above, I offer the following specific recommendations:

Communication Strategy: I called for improved visibility of the Basic Policy summary materials, which have historically been text-heavy and difficult to read. I also proposed translating PR materials into English and posting minister press conferences with English subtitles to enhance global outreach.

Economic Risks: Analyzing the current Middle East tensions compared to the 2022 Ukraine conflict, the current situation is more severe due to actual "resource shortages" rather than just price hikes. Given that effects from previous supplementary budgets remain, the priority should be securing essential supplies rather than rushing to pass a new supplementary budget.

Budgetary Principles:

On Principle 1: The timing for achieving a PB surplus should not be decided mechanically. It must be judged within a medium-term debt trajectory that considers the relationship between growth rates and interest rates.

On Principle 2: While rigid expenditure caps were effective during deflation, they risk excessive suppression during inflation. Budgets should expand in line with the nominal economy.

On Principle 3: Investment periods should not be uniformly set (e.g., to five years), but rather should be determined based on the nature of the policy and the time required for its effects to materialize.. PB deficits should be permissible if sustainability is guaranteed.

On Principle 5: I recommend using SDSA for third-party reviews. The criteria for evaluating fiscal sustainability should shift from the traditional "National and Local Government Gross Debt" to a "General Government Net Debt" basis. This approach aligns better with international standards (rating agencies), accounts for social security funds, and provides a clearer picture of the public sector's burden within the overall flow of funds.