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Commentary on the Council on Economic and Fiscal Policy (May 11, 2026)

~ “Macroeconomic Management” and “Multifaceted Analysis of Fiscal Conditions” ~

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(Executive Summary)

- To maintain and reinforce the momentum of a moderate economic recovery and a wage hike of around 5%, a dual approach addressing both positive and negative factors was put forward. This includes developing an environment that facilitates the spillover of wage increases to regional economies, small and medium-sized enterprises (SMEs), and the public sector. Additionally, the government was urged to improve information dissemination with due consideration to user convenience, such as creating figures that correct for the statistical discontinuities (gaps) caused by sample rotations in the “Monthly Labour Survey.” Furthermore, as a countermeasure against geopolitical risks—specifically price hikes and supply chain bottlenecks driven by escalating tensions in the Middle East—the importance of accelerating financing support for businesses and investments related to energy security was highlighted, along with the necessity for the government and the Bank of Japan to closely monitor and confirm their policy coordination.
 - To evaluate fiscal sustainability, it was recommended that the government disclose multifaceted indicators in a mutually complementary manner, rather than relying solely on “gross debt.” This includes incorporating “net debt,” which reflects government-owned assets, as well as metrics that capture fiscal flows and interest rate sensitivity, such as the “primary balance (PB), fiscal balance, and interest payment costs.” Furthermore, to concrete the verification framework, the proposal asserted that “Stochastic Debt Sustainability Analysis (SDSA),” which factors in macroeconomic uncertainties into interest rate and growth rate simulations, should be firmly established, and that the institutional design of third-party reviews
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(independent verification functions) must be expedited to ensure transparency and objectivity.

- First, drawing a comparison with 2022, the author pointed out that inflation could temporarily exceed 3% on a short-term basis due to the expiration of utility subsidies and the impact of the situation in the Middle East. However, the author analyzed that “real wages are less likely to catch a severe downturn compared to that period,” given that wage growth has accelerated to the 3% range today, whereas it hovered in the low 1% range back then. On the other hand, the author raised a cautionary note regarding consumer sentiment, which has dropped to the same level as seen in 2022. To address the discontinuity issues in the Monthly Labour Survey, the author proposed that the “discontinuity-adjusted wage data” independently compiled and utilized by the Cabinet Office should be formally released as an official statistical series. Furthermore, to prevent general media outlets from excessively stoking public anxiety, the government was requested to more proactively broadcast detailed updates regarding the supply status of crude oil and vital materials.
- In terms of the multifaceted analysis of fiscal conditions and communication with markets, the author warned against overdependence on a single indicator. Citing a recent NBER (National Bureau of Economic Research) working paper, the author emphasized the critical importance of presenting “net debt” and “net interest payments” in a mutually complementary manner. Finally, based on the latest “Fiscal Monitor” projections released by the IMF—which indicate that Japan’s debt-to-GDP ratio will decrease by 14 percentage points by 2031 driven by nominal GDP expansion—the author strongly emphasized that this forecast validates the current Cabinet’s policy stance: achieving fiscal consolidation not through austerity via tax hikes, but through economic growth.

1. Introduction

At the Council on Economic and Fiscal Policy held on May 11, 2026, private-sector members presented proposals on two crucial themes: “Current Macroeconomic Management” based on the assessment of recent economic trends, and “Ensuring Fiscal Credibility and Strengthening Communication with Markets,” which substantively details “Principle 5” of the five basic

principles presented at the April 13 meeting. Based on the papers submitted by the private-sector members, this report introduces the key discussions from the Council meeting.

2. Proposals on Current Macroeconomic Management

Japan's economy is recovering moderately, and it is analyzed that this trend will gain further resilience if a wage hike of around 5%—marking the third consecutive year of such increases, with base-pay growth exceeding 3%—is realized in this year's spring labor-management wage negotiations (*Shunto*). To maintain and reinforce this momentum and build a "strong economy," two main directions were put forward.

First, as a means to solidify positive growth factors, improving the environment for wage hikes was proposed. Specifically, the government was urged to continue focusing on creating an enabling environment to ensure that wage growth spreads to regional economies and small and medium-sized enterprises (SMEs). In addition, appropriate upward revisions were requested for wages and labor cost units in public sectors.

Second, qualitative improvements to the Monthly Labour Survey were proposed. Specifically, while real wages have shifted into positive territory since the beginning of this year, the Monthly Labour Survey has historically suffered from statistical discontinuities (downward gaps) due to sample rotations. Welcoming the Ministry of Health, Labour and Welfare's initiation of a review for improvement, the proposal requested user-friendly information dissemination, including the creation of figures that correct for these discontinuities.

Conversely, mitigating the risks arising from the situation in the Middle East was proposed to address negative growth factors. Specifically, it was pointed out that the government must ensure flawless economic and fiscal management by closely monitoring the upside risks to crude oil and material prices caused by the escalating tensions in the Middle East. Concretely, to support businesses facing price hikes and supply chain bottlenecks, appropriate measures to facilitate transactions and provide financing assistance were requested. Furthermore, noting that risks have re-emerged regarding Japan's heavy reliance on overseas procurement for parts and resources—particularly its overdependence on specific regions—the proposal argued that crisis management investments, such as those for energy security, should be accelerated as much as possible to strengthen supply chain resilience. Additionally, from the perspective of policy coordination between the government and the

Bank of Japan (BOJ), high expectations were placed on the BOJ to implement appropriate monetary policy with due consideration to various supply and demand dynamics for funds in the market, emphasizing that the Council should continuously monitor the status of this policy coordination.

3. Ensuring Fiscal Credibility and Strengthening Communication with Markets

To operationalize "Principle 5 (Ensuring Market Credibility)," which is the core of the five principles for realizing "responsible proactive fiscal policy" shared at the April 13 Council meeting, specific methods for "institutionalizing analysis and verification that incorporate uncertainty" and "transparent and consistent dialogue" were proposed from two dimensions.

First, regarding a multifaceted approach to disclosing indicators, it was recommended that when evaluating fiscal sustainability, the government should continuously publish multiple indicators in a mutually complementary manner rather than relying on a single metric.

Specifically, gross debt should serve as the core target to grasp the government's contractual obligations, refinancing needs, and financing risks. In addition, net debt should be utilized as a supplementary metric to understand the net fiscal position reflecting government-owned assets. Furthermore, indicators such as the primary balance (PB), fiscal balance, and interest payment costs should be utilized to assess the fiscal flow and sensitivity to interest rate hikes. Referencing the implementation of fiscal rules and indicators in foreign countries, continuous improvements should be made in line with Japan's economic and fiscal structure as well as its market environment.

Second, regarding the institutionalization of verification methods and frameworks, it was proposed that "Stochastic Debt Sustainability Analysis (SDSA)" and other methods incorporating macroeconomic uncertainties should be established for interest rate and growth rate simulations, rather than relying solely on a single baseline scenario, thereby enhancing the "visualization" of uncertainty.

Furthermore, from the standpoint of who verifies and how, it was asserted that the government must expedite the design of a concrete framework (such as third-party reviews

and independent verification functions) to operate these methods, ensuring transparency and objectivity.

4. Author' s Proposals

Based on the considerations above, the author put forward concrete proposals across two sessions at this Council meeting: "Macroeconomic Management" and "Ensuring Fiscal Credibility Through the Visualization of Uncertainty and Strengthening Communication with Markets." These proposals addressed structural analyses of the current inflationary phase, quality improvements in economic statistics, and the necessity of multifaceted fiscal evaluations grounded in international academic research.

In Session 1, the author presented a structural analysis of price and wage dynamics alongside recommendations for macroeconomic management. The author analyzed the resilience and risk factors of the current Japanese economy by comparing recent inflation and wage trends with those during the 2022 invasion of Ukraine. Specifically, as a comparative analysis with 2022, the author pointed out that although the recent (April) Consumer Price Index (CPI) for the Tokyo metropolitan area (all items) appeared stable at 1.5% year-on-year, inflation will inevitably accelerate and could temporarily exceed 3% on a short-term basis. This acceleration will be driven by the expiration of utility subsidies (electricity and gas) and the impact of heavy oil shortages caused by Middle East tensions on the fresh food sector. Following this, the author explained the difference in the resilience of real wages compared to 2022. During the 2022 invasion of Ukraine, wage growth remained in the low 1% range, leading to a noticeable deterioration in real wages. In contrast, recent wage growth has accelerated to the 3% level and the spring wage negotiations have remained robust; thus, the author evaluated that "the environment is such that real wages are less likely to deteriorate compared to 2022." However, the author also raised a cautionary note regarding consumer sentiment, pointing out that the Consumer Confidence Index for April had dropped to nearly the same level as in April 2022. Since a downward trend persisted until November in 2022, close attention must continue to be paid to consumer sentiment moving forward.

Next, regarding improvements in wage statistics disclosure, the author urged the publication of independent data by the Cabinet Office. The Ministry of Health, Labour and Welfare' s Monthly Labour Survey faces challenges with data discontinuities caused by

sample rotations, which are currently under review for improvement. However, the author noted that the Cabinet Office has already created its own discontinuity-adjusted data and utilized it as part of income data in materials for the Ministerial Council on the Monthly Economic Report. To accurately communicate wage trends—which are growing increasingly critical for policy management—to the public and enhance the announcement effect, the author proposed that the Cabinet Office formally release its independently adjusted wage data as an official statistical series.

Additionally, as a concrete measure against supply shocks, the author called for strengthened information dissemination by the government to mitigate the adverse impacts of prolonged Middle East instability on supply chains. While highly detailed information regarding responses to resource shortages is provided on the Cabinet Secretariat's homepage and various ministry portals, these details are not sufficiently recognized by general media outlets, leading to reporting that excessively stokes public anxiety. Therefore, the author requested that the government more proactively broadcast concrete information regarding the total procurement and stable supply of crude oil and vital materials.

In Session 2, titled "Multifaceted Analysis of Fiscal Conditions and Communication with Markets," the author proposed an information disclosure approach aligned with global standards without biasing specific indicators, aiming to realize "Principle 5 (Ensuring Market Credibility)" of the five principles for budget formulation presented at the April 13 meeting.

The first step is to move away from overdependence on a single indicator. The author noted that while setting the debt-to-GDP ratio as the core target of fiscal management is desirable as a traditional global standard, caution is required because parts of the overseas academic community have recently pointed out that the theoretical justification for using the debt-to-GDP ratio as the sole criteria is insufficient.

Specifically, a National Bureau of Economic Research (NBER) working paper published at the beginning of 2026 evaluated national fiscal conditions across three axes: the debt-to-GDP ratio, the interest payments-to-GDP ratio, and the debt-to-market capitalization of equity ratio. The paper demonstrated that assessments of a nation's fiscal health differ entirely depending on the indicator used. Incorporating this insight, the author proposed that even if they are not adopted as formal targets, presenting multiple metrics—such as net debt,

net interest payments, and the fiscal balance—in a mutually complementary manner is of paramount importance for securing market confidence.

Finally, the author referred to the projections in the latest Fiscal Monitor released by the International Monetary Fund (IMF) last month. Specifically, according to the IMF forecasts, Japan's debt-to-GDP ratio is projected to decrease by as much as 14 percentage points by 2031 due to nominal GDP expansion driven by economic growth and inflation. The author strongly emphasized that this projection proves the validity of the Takaichi Cabinet's policy stance: achieving fiscal consolidation not through austerity via tax hikes, but through economic growth.

(Reference) Materials for the 6th Meeting: <https://www5.cao.go.jp/keizai-shimon/kaigi/minutes/2026/index.html#tab0511>

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