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Commentary on the Council on Economic and Fiscal Policy (June 30, 2026)

~ Toward the Basic Policies for Economic and Fiscal Management and Reform (Honebute Policies) ~

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(Executive Summary)

- The published draft of the "Honebute Policies" breaks away from traditional austerity mindsets and single-year budgeting principles, fundamentally overhauling budget formulation. Positioning FY2027 (Reiwa 9) as the "First Year of Proactive Fiscal Policy," the government will push forward with a "Medium- to Long-Term Economic and Fiscal Plan" looking toward FY2040. The core target is set as "achieving a stable reduction in the ratio of outstanding central and local government debt to GDP". The framework will transition to a budget formulation that reflects price and wage increases, creating a new un-ceilinged framework titled the "Strong and Prosperous Japan" Investment Framework, while strictly limiting supplementary budgets to matters of true urgency.
- Across 17 strategic fields such as AI/semiconductors and GX, the plan projects a cumulative public-private investment exceeding 370 trillion yen by FY2040, aiming to firmly establish economic growth at over 1% in real terms and over 3% in nominal terms. It will advance comprehensive, end-to-end support through the "Start-up All-Out Creation Package" and utilize decarbonized power sources and next-generation innovative reactors. By forming regional industrial clusters and expanding the "Regional Future Grant," the plan aims to lock in real wage growth at around 1% annually by FY2029. It also aims to raise the national average minimum wage to 1,500 yen as early as possible in the first half of the 2030s.
- The government will strengthen alliances with the Japan-U.S. partnership as its cornerstone and transform defense capabilities within five years. National land resilience will be driven by the newly established "Disaster Management Agency," focusing on creative reconstruction from the Great East Japan Earthquake and the Noto Peninsula Earthquake. A comprehensive "Population Strategy" will be formulated by the end of 2026. To build a sustainable social security system, reforms on benefits and burdens will continue with the goal of "lowering insurance premium rates for the working-generation". In public education, the environment will be upgraded for the AI era, while strengthening university capabilities in growth sectors and improving the treatment of teachers. Evidence-Based Policy Making (EBPM) will be enhanced, with comprehensive verifications and plan reviews taking place every five years in principle.

1. Introduction

At the Council on Economic and Fiscal Policy held on June 30, 2026, discussions focused on the contents of the Basic Policies for Economic and Fiscal Management and Reform (Honebute Policies). Aiming to balance the Takaichi Cabinet's goals of achieving a "strong economy" and "fiscal sustainability," this policy serves as a national strategy to fundamentally pivot away from conventional austerity leanings and the fiscal single-year principle toward a "responsible proactive fiscal policy". A distinguishing feature is that it positions FY2027 as the "First Year of Responsible Proactive Fiscal Policy" and establishes a "Medium- to Long-Term Economic and Fiscal Plan" spanning up to FY2040. This paper introduces the details of the discussions held during the council meeting along with the author's own insights.

2. Basic Approach to Macroeconomic Management and Shift in Fiscal Operations

A paramount point is the transition to a responsible proactive fiscal policy. To smash years of underinvestment and the deflationary mindset, the government will step forward to boldly invest in strategic fields via public-private partnerships, thereby rectifying the harms of the fiscal single-year principle and fundamentally reforming budget formulation.

Regarding the vital fiscal management target, instead of mechanically chasing a primary balance (PB) surplus within a single fiscal year, the government will permit temporary deteriorations while placing "a stable reduction in the ratio of outstanding central and local government debt to GDP" as its core objective.

Furthermore, in overhauling budget formulation, the system will shift from the flat-rate containment style of the deflationary, low-growth era to a budget formulation that accurately reflects price and wage increases. Separate from normal expenditures, the government will establish the "Strong and Prosperous Japan" Investment Framework to raise domestic investments and the potential growth rate. On the other hand, it will break away from a persistent reliance on large-scale economic stimulus packages funded via supplementary budgets, strictly limiting supplementary measures to matters of true urgency.

3. Enhancing Japan's Growth Capacity (Realizing a "Strong Economy")

First, in advancing the "Japan Growth Strategy," the government will steadily execute public-private investment roadmaps covering 62 major products and technologies across 17 strategic fields. This assumes a cumulative public-private investment exceeding 370 trillion yen by FY2040, aiming to firmly entrench an economic growth rate of over 1% in real terms and over 3% in nominal terms. Additionally, "AI Transformation (AX)" will be accelerated across all industries.

Second, regarding new technology leadership and start-up support, science, technology, and innovation will be placed at the core of the national strategy, offering support for basic research and young researchers. Specifically, the "Start-up All-Out Creation Package" will

provide seamless, end-to-end support from research and development to social implementation.

Third, for energy security and GX, the government will maximize the utilization of decarbonized power sources, develop and install next-generation innovative reactors, and diversify supply sources for critical minerals to achieve carbon neutrality by 2050.

Fourth, to construct strong regional economies, industrial clusters will be formed nationwide. By expanding the "Regional Future Grant," the plan intends to solidify a real wage increase of around 1% annually by FY2029 and looks to raise the national average minimum wage to 1,500 yen as early as possible in the first half of the 2030s.

4. Ensuring Safety, Security, and Strengthening the Foundations

First, to reinforce diplomacy and national security, Japan will strengthen cooperation with like-minded countries and the Global South, with the Japan-U.S. alliance serving as the cornerstone. Within five years, it will transform its defense capabilities to adapt to "new ways of warfare," while radically bolstering external information-gathering functions (such as establishing a National Intelligence Council and a National Intelligence Bureau) and economic security (supply chain resilience).

Second, regarding public safety and security, a "Disaster Management Agency" will be established to enhance commander-in-chief functionalities for pre-disaster mitigation, response, and recovery. The government will execute Reiwa-era national land resilience measures, dedicating full efforts toward creative reconstruction from the Great East Japan Earthquake (resolving outstanding challenges within the upcoming 5-year third-stage Reconstruction and Revitalization Period) and the Noto Peninsula Earthquake. It will also push forward policies to eradicate anonymous/fluid criminal groups, strengthen cybersecurity, and promote orderly coexistence with foreign residents.

Third, in responding to population decline, the government aims to formulate a comprehensive "Population Strategy (tentative name)" by the end of 2026 to reverse the declining birthrate trend and maintain societal vitality.

5. Sustainable Social Security and the Renaissance of Education

First, under the banner of building a sustainable social security system for all generations, the government will continue reforms on benefits and burdens under the guiding principle of "stopping the rise of and subsequently lowering insurance premium rates for the working generation". It will also drive productivity enhancements through DX and AI utilization, restructure medical and nursing care delivery systems, expand drug-discovery innovation, and push for proactive preventive medicine.

Second, in rejuvenating public education, the government will upgrade educational environments to adapt to the AI era by revising AI guidelines for schools and promoting the GIGA School Concept. In addition to reinforcing university functions in growth sectors like science, engineering, and digital technologies, it will advance workstyle reforms and treatment improvements for teachers (e.g., raising the teaching profession adjustment allowance to 10% by FY2030) to secure future talent.

6. Plan Implementation and PDCA

Evolving existing promotion frameworks, the government will construct a new unified review system that evaluates expenditure reforms, investment execution status, policy efficacy, and fiscal indicators simultaneously. It will enhance EBPM and execute comprehensive validations and plan updates every five years in principle.

7. Author's Recommendations

Based on the above developments, the author put forward the following recommendations during the council meeting across three main areas:

First, regarding the background and necessity of a Copernican shift toward "Responsible Proactive Fiscal Policy": Around the world, a dominant trend has emerged where major nations deploy large-scale, long-term industrial policies accompanied by substantial fiscal spending via public-private collaboration. To compete effectively in this era of intense global competition, the Japanese government must step forward and work hand-in-hand with the private sector to drive investments into strategic areas. In terms of updating budget formulation, it is vital to rectify the structural harms born from traditional fiscal single-year practices and fundamentally alter the way budgets are built. Over the medium to long term, positioning FY2027 as the "First Year of Responsible Proactive Fiscal Policy" and refreshing the "Medium- to Long-Term Economic and Fiscal Plan" up to FY2040 will be paramount to successfully capturing both sustainable economic growth and fiscal health concurrently.

Second, concerning the building of strong regional economies and a local-led society: The ideal vision for Japan is a society where citizens can live safely and find viable employment regardless of which of the 47 prefectures they reside in. The author strongly emphasized that the new "Regional Future Strategy" must be powerfully driven forward. As concrete support measures, it is vital to comprehensively advance the expansion of strategic industrial cluster plans and Regional Future Grants, secure growth funding, and execute regulatory overhauls using special economic zone structures. To tackle severe labor supply constraints, the author underscored that wage increases must be positioned precisely as a "policy to strengthen supply capacity," calling for active assistance toward labor-saving investments and regional AI integration. Furthermore, for energy structural resilience, the author emphasized accelerating reactor re-start operations and

developing/installing next-generation innovative reactors, provided that safety and regional consensus serve as absolute prerequisites.

Third, regarding a radical overhaul of budget formulation: The author heavily emphasized that the new fiscal target must shift away from mechanically pursuing single-year surpluses, anchoring instead on “achieving a stable reduction in the ratio of outstanding central and local government debt to GDP” to construct a sustainable fiscal foundation. To transition to an appropriate budgetary scale, the framework must accurately mirror price and wage increases. Furthermore, to heighten the predictability of policies intended to elevate the potential growth rate through domestic investments, creating a new un-ceilinged investment framework is critical. To boost budget transparency and discipline, supplementary budgets should be reserved strictly for truly urgent conditions; permanent measures must be addressed within the initial budget, and flexible multi-year budgetary mechanisms must be materialized to secure long-term investments. Finally, the author noted the extreme significance of the simulation data showing that if public-private investments bear fruit, Japan can simultaneously fulfill robust economic growth by FY2040—with annual domestic private capital investments hitting 230 trillion yen and GDP approaching 1,100 trillion yen—while stably reducing its debt-to-GDP ratio.