



Key Challenges in Economic and Fiscal Management and Future Policy Direction

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Minister of State for Economic and Fiscal Policy
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1. Introduction

Mission of the Takaichi Cabinet

- ◆ Building a “strong economy” that turns present and future anxieties into hope.
- ◆ Under the principle of “responsible and proactive public finances”, advancing bold and strategic crisis-management investment and growth-oriented investment to ensure public safety and stability, expand jobs and incomes, and raise potential growth.

Shifts in Economic Policy Across Major Economies

Nations are shifting away from neoliberal ideas that rely excessively on market principles. They are now strengthening public-private partnerships aimed at solving economic and social issues, and promoting the expansion of strategic domestic investment seeking to increase national power. This marks a transition to a new era.

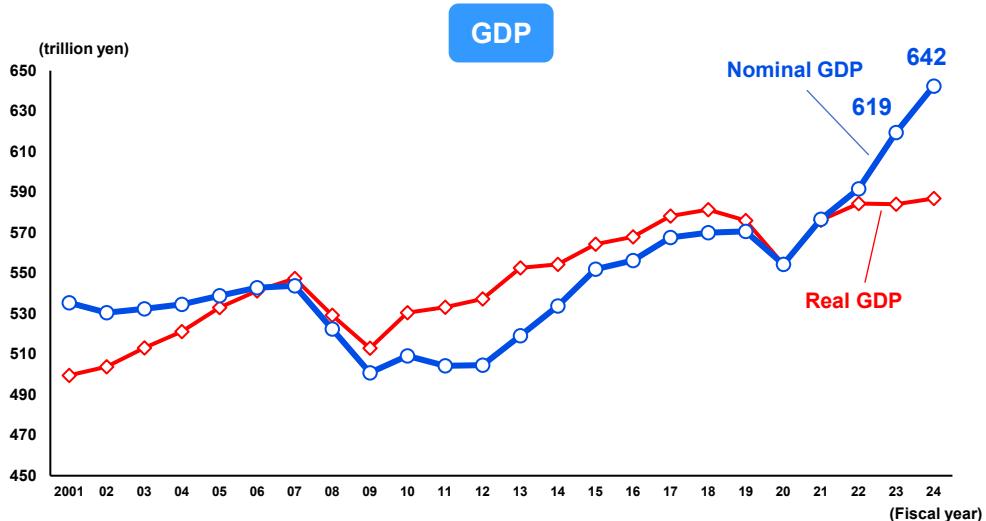


- ◆ Japan must also press ahead decisively with economic and fiscal management that meets these demands of the times.
- ◆ Japan’s economic and fiscal policy aims to enrich the lives of all the people.
- ◆ Without confusing the means and purpose of economic and fiscal management, we will reassess past approaches without hesitation, ensuring that the fruits of economic growth are delivered broadly to the public.

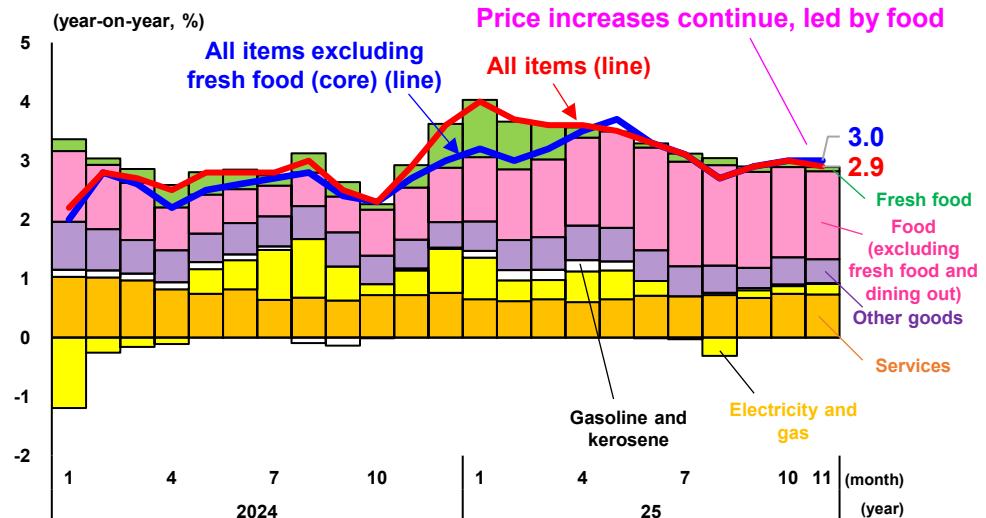
2. Assessment and Challenges of Current Economic Conditions, and Near-Term Economic and Fiscal Management

Assessment and Challenges of Current Economic Conditions

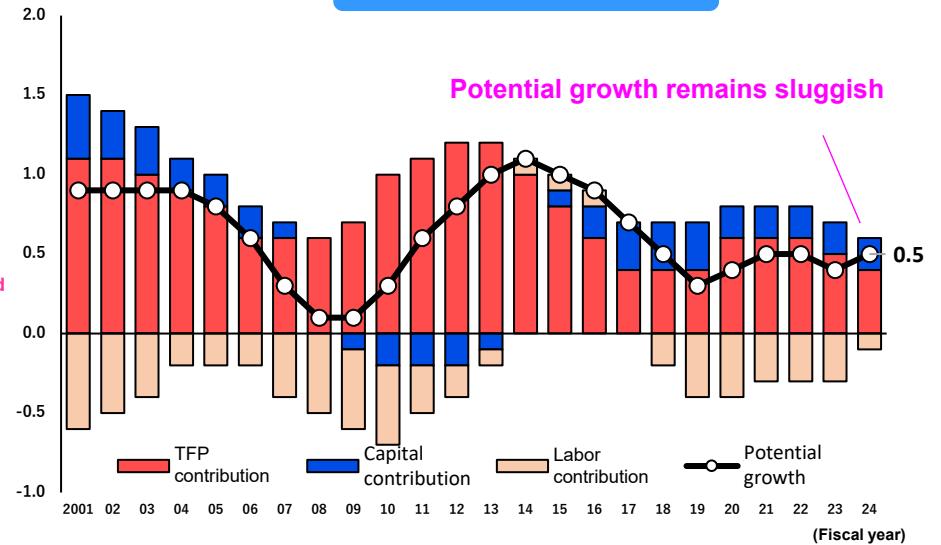
- The Japanese economy stands at a turning point as to whether it can transition from a long-standing “deflationary, cost-cutting economy” to a new “growth-oriented economy”.
- The government must take the lead in addressing urgent issues such as rising prices and structural challenges like the sluggish potential growth rate, thereby strengthening the momentum of economic recovery, extending it to regional areas and small and medium-sized enterprises (SMEs), and enhancing the perception of the economic climate throughout Japan.



Contribution Breakdown of Consumer Price Inflation



Trends in Potential Growth



(Note) Prepared based on: Cabinet Office, System of National Accounts; Rengo, Spring Wage Negotiations Survey Results; Ministry of Internal Affairs and Communications, Consumer Price Index; and Cabinet Office, Estimates of the GDP Gap and Potential Growth (after the second QE for July–September 2025). Real GDP is based on 2020 calendar-year chain-linked prices.

1. Current Assessment of the Economy and Key Challenges

- ◆ Our country's economy has reached the stage where it is transitioning from one defined by deflation and cost-cutting to a new growth-oriented economy. We now stand at a decisive juncture: whether we can successfully shift to a growth-oriented economy that will not slip back into deflation.
- ◆ The challenge lies in the sluggishness of our potential growth capacity. The outlook for the global economy remains uncertain. Rising prices have weakened private consumption and other demand, and the sense of economic recovery has yet to spread to local regions or to small and medium-sized enterprises.

2. Desired Direction of Progress

- ◆ Japan possesses latent power and vitality. Our task is to awaken it and build a stronger, more prosperous nation. What is required now is “responsible and proactive public finances” that fulfil our duty to future generations. By advancing bold “crisis-management investment” and “growth investment,” we will secure safety and peace of mind in people’s daily lives, increase employment and incomes, raise the growth rate, and create a robust economy. Government and the private sector will work together to expand investment aimed at solving social challenges, minimising various risks, and unlocking the potential of cutting-edge technologies.
- ◆ We will reassess past approaches without reserve, ensuring that the fruits of economic growth are delivered broadly to the public and that people can tangibly feel an improvement in economic conditions. Our aim is to build an economy in which the benefits are not confined to a handful of major corporations or specific industries, but extend to small and medium-sized enterprises, micro-businesses, local communities, and people of all generations.

3. Framework for the Economic Measures

Pillar 1: Securing Everyday Life:
Measures to address rising pricesProtecting households and workplaces
from rising pricesPillar 2: Strategic Investments that Enhance
Resilience against Potential Crises: Building a
robust economy through growth-oriented investmentStrengthening proactive and targeted
efforts in strategic investments that
enhance resilience against crisis-
management and growth investmentPillar 3:
Strengthening Defense Capability and
Diplomatic PowerBuilding a “Strong Japan” that
safeguards the safety and prosperity of
its people

- Mitigating the impact of rising prices in line with local circumstances (expansion of the Priority Support Local Allocation Grant)
- Reducing the energy cost burden on households and businesses (support for electricity and gas bills during the winter; smooth implementation of the abolition of the provisional tax rate on petrol; provision of child-rearing support allowance responding to rising prices (20,000 yen per child))
- Stabilizing and revitalizing life in local regions (supporting and invigorating key local industries; fostering the creation of world-leading technologies and businesses originating in the regions; and developing the foundations of safe and secure local communities)
- Creating an environment that enables wage increases (support for small and medium-sized enterprises and micro-businesses; measures to facilitate appropriate price pass-through; strengthening earning power; support for labor-saving investment)

- Strengthening economic security (enhancing public-private partnership investment in strategic sectors; strengthening supply chains for critical materials)
- Establishing food security (structural transformation of agriculture, forestry and fisheries; expanding exports)
- Strengthening energy and resource security (nuclear power, energy efficiency, resource development, and GX initiatives)
- Disaster prevention, mitigation, and national resilience (recovery and reconstruction; building a resilient nation for the Reiwa era)
- Expanding investment for the future (cutting-edge science and technology; promotion of start-ups, creative industries, culture, the arts, and sport; health and medical security; promoting investment in people; establishing Japan as a global asset-management hub; and developing the environment needed to expand growth investment)

- Diplomacy and responding to the security environment (fundamentally reinforcing defense capabilities and institutional frameworks; advancing multifaceted economic diplomacy; responding to changes in the security environment)
- Responding to U.S. tariff measures (Japan-U.S. Strategic Investment Initiative; financial support and other assistance for companies affected by the tariffs)

Ensuring that the fruits of economic growth are shared widely across the population, so that everyone can feel the benefits, anxieties about the future are transformed into hope, and a society is created in which people can live with confidence.

Direct Relief for Households Facing Rising Prices (Over the Next Year)

• The Priority Support Local Allocation Grant (2.0 trillion yen)

<p><Household Support Component> (E.g.: support for LP gas users, water charge reductions, etc.)</p>	(Per household) 10,000 yen (approx.)
<p><Special Allowance for Soaring Food Prices> (E.g.: premium vouchers, rice vouchers, etc.)</p>	(Per person) +3,000 yen (approx.)
<p>Electricity and Gas Cost Relief Program (¥0.5 trillion) (January–March 2026)</p>	(Per household) 7,300 yen (approx.)

Electricity support per kWh: Jan–Feb ¥4.5 reduction; March ¥1.5 reduction
Gas support per m³: Jan–Feb ¥18 reduction; March ¥6 reduction

(Reference)

• Abolition of the provisional tax rate on petrol (¥1.0 trillion) (Prices to be reduced in stages from November 13, 2025)

(Tax rate reduction: ¥25.1 per liter) (Per household) **12,000 yen** (approx.)

• Child-rearing Support Allowance Responding to Rising Prices (¥0.4 trillion)

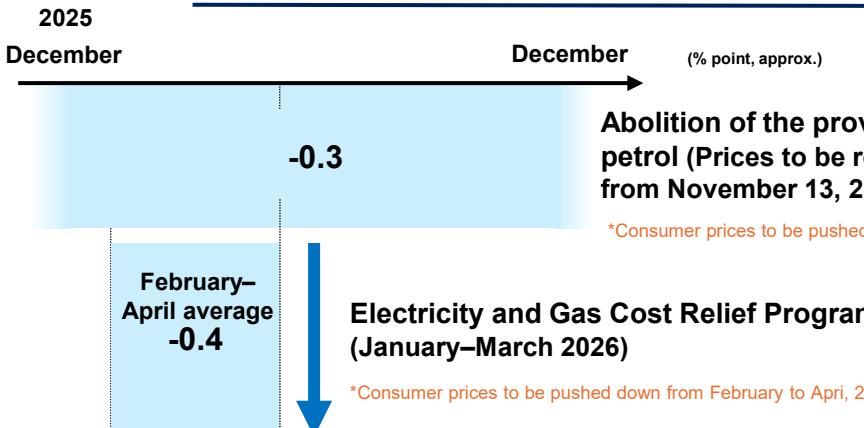
(Per child) **20,000 yen**

• Revision of the Income Tax Earnings Threshold (¥1.2 trillion) (From year-end tax adjustment in December 2025)

(Per taxpayer) **20,000–40,000 yen** (approx.)

Impact on Overall Macroeconomy

Effect in Reducing Consumer Prices



Effect in Boosting Real GDP

Real GDP equivalent

+¥24 trillion (approx.)

Annual growth rate equivalent
(Simple average assuming the effects materialize over the next three years)

+1.4% (approx.)

(Note 1) Direct household burden relief is estimated based on the MIC Family Income and Expenditure Survey, METI Gas Industry Report, and related sources. The effects of electricity bill relief measures and the abolition of the provisional tax rate on petrol are estimated for households with two or more persons. The relief effect varies by region and other factors.

(Note 2) The effect of pushing down consumer prices refers to the direct impact on the year-on-year change in the CPI (all items). The effect of the abolition of the provisional tax rate on petrol is charted from the time point at which the reduction reaches its maximum.

(Note 3) Of the effects boosting real GDP, those attributable to tax reductions are estimated on a full-year (one-year) basis.

1. Outlook for Economic Growth

In FY2025, despite remaining uncertainty regarding the global economic outlook, increases in private consumption and business investment are expected to drive economic recovery supported by the effects of various policies, with the real growth rate projected at around 1.1%.

In FY2026, private consumption is expected to increase amid improving income environments, while business investment is also projected to see a higher growth rate due to progress in crisis-management investment and growth-oriented investment initiatives, with the real growth rate projected at around 1.3%.

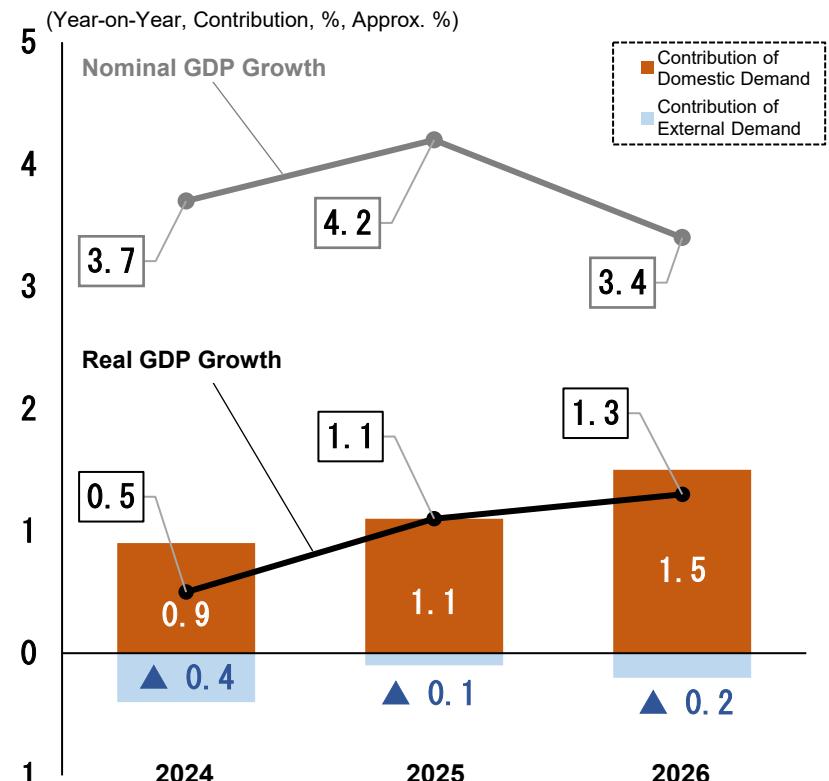
Key Economic Indicators in the Economic Outlook

	FY2024	FY2025			FY2026		
		Mid-Year Estimates	Private-Sector Forecasts	Government Economic Outlook	Mid-Year Estimates	Private-Sector Forecasts	Government Economic Outlook
Real GDP	0.5	0.7	0.9	1.1	0.9	0.8	1.3
Private Consumption	0.2	1.0	1.2	1.3	1.1	0.9	1.3
Business Investment	0.9	1.8	1.7	1.9	1.9	1.6	2.8
Contribution of Domestic Demand	0.9	0.9	1.0	1.1	0.9	0.9	1.5
Contribution of External Demand	-0.4	-0.2	-0.1	-0.1	-0.0	-0.1	-0.2
Nominal GDP	3.7	3.3	4.0	4.2	2.7	2.7	3.4
Consumer Prices (All Items)	3.0	2.4	2.8	2.6	1.9	1.9	1.9
Unemployment Rate	2.5	2.4	2.5	2.5	2.4	2.4	2.4

Assumptions about the External Environment

	FY2025		FY2026	
	Mid-Year Estimates	Current Estimates	Mid-Year Estimates	Current Estimates
Exchange rate (yen/dollar)	145.7	150.8	146.0	155.2
Crude oil price (dollar/barrel)	74.0	71.3	73.7	68.0
Global economic growth rate (%)	2.5	2.8	2.8	2.8

Breakdown of Economic Growth



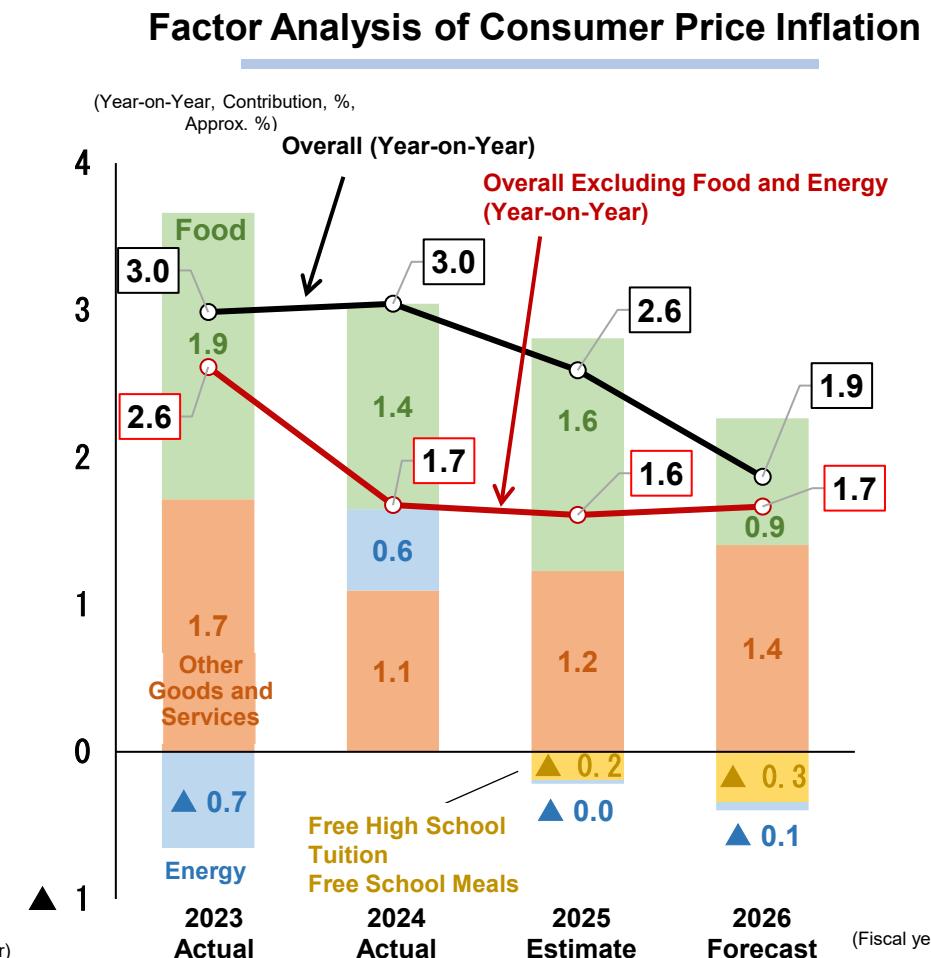
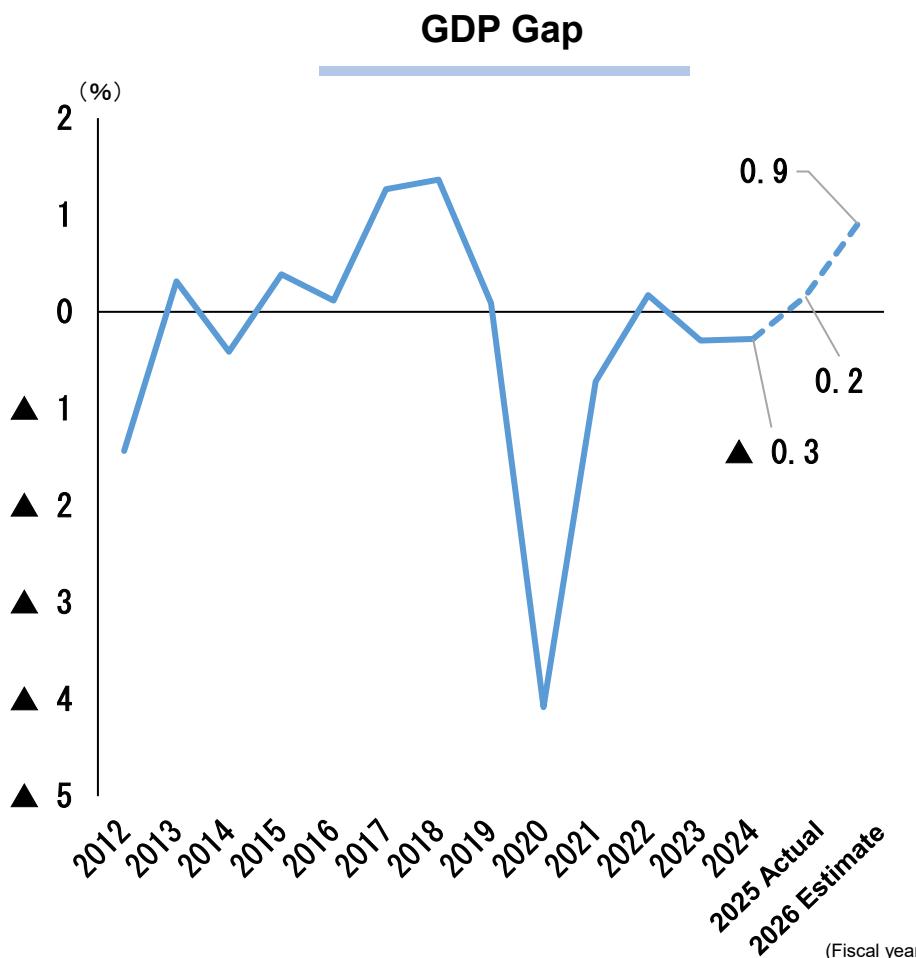
(Notes)

1. Private-sector forecasts represent the grand average of forecasts from 15 private institutions after the second QE for the July–September quarter of FY2025.
2. Consumer price forecasts by the private sector refer to the overall index excluding fresh food.
3. Regarding assumptions about the external environment:
 - Exchange rates and crude oil prices are calculated based on the average for the period from November 1 to November 30, 2025, assuming they remain constant thereafter.
 - Global economic growth rates are calculated based on economic outlooks published by international organizations.

2. Macroeconomic Balance

The macro supply-demand balance (GDP gap) is expected to remain positive through FY2026.

Regarding consumer prices, as the upward pressure from food prices runs its course, policies restrain energy prices. Meanwhile, with an improving supply-demand balance, underlying inflation gains momentum, with overall inflation projected at around 2%.



(Note) Future potential GDP is mechanically extrapolated based on the Cabinet Office's Medium- to Long-Term Economic and Fiscal Projections (August 2025), assuming growth of 0.6% in FY2025 and 0.7% in FY2026.

(Reference) Year-on-year change excluding free high school tuition and free school meals:
 Overall – FY2025: 2.8%; FY2026: 2.2%
 Overall excl. food and energy – FY2025: 1.9%; FY2026: 2.1%

3. Pillar 1: Securing Everyday Life and Addressing Rising Prices

Key Policies Addressing Rising Prices under the Comprehensive Economic Measures

Abolition of the Provisional Tax Rate on Petrol

Approx. 1,000 billion yen in tax cuts (annual)



Prices lowered through **abolition of the provisional tax rate on petrol** (down 25.1 yen per liter)

Approx. 12,000 yen per household per year in direct burden relief

Support for Electricity and Gas Bills

529.6 billion yen



Electricity and gas bills support to be delivered from January to March

Approx. 7,300 yen reduction per household over three months for a standard household

Income Tax Reductions

Approx. 1,200 billion yen in tax cuts (annual)



Minimum taxable income threshold raised to 1.6 million yen

Tax measures to further raise the basic deduction in line with inflation to be examined in the FY2026 tax reform, and a policy chosen

Tax reductions of approx. 20,000–40,000 yen per taxpayer starting from the December 2025 year-end adjustment

* To be further raised to 1.78 million yen following the finalization of the ruling parties' tax reform outline.

Child-rearing Support Allowance Responding to Rising Prices

367.7 billion yen



Financial support for child-rearing households heavily affected by rising prices

An allowance of 20,000 yen per child aged 0 through high school

Measures Tailored to Local Conditions

2,000 billion yen



The Priority Support Local Allocation Grant

Expanded to enable local governments to implement a range of inflation relief measures reflecting local conditions

Support for households

Approx. 10,000 yen per household (assumed)
(E.g.: support for households using LP gas or kerosene, water charge reductions, etc.)

Support for businesses

Improving the wage increase environment for SMEs and small businesses

Support measures to address rising costs in agriculture, forestry, and fisheries, etc.

Special Allowance for Soaring Food Prices

400 billion yen out of the 2,000 billion yen Priority Support Local Allocation Grant



Enhanced household support in light of rising food prices

Special add-on

Approx. 3,000 yen per person (assumed)
(E.g.: premium vouchers, digital coupons, etc.)

Medical and Long-Term Care Support Package

1,383.2 billion yen



- Initiatives will be undertaken to bring forward the effects of remuneration revisions, thereby **supporting wage increases for a wide range of occupations working on the front lines**.
- Supporting initiatives to enhance productivity and improve workplace conditions

Improving the Environment for Wage Increases



- Initiatives will be vigorously implemented to improve the wage increase environment through support for appropriate price pass-through and productivity enhancement, as well as proactive, hands-on support.
- Promoting the use of career advancement subsidies, etc.

- Amid continued rising prices, **additional Priority Support Local Allocation Grant** will be provided to enable local governments to support residents and businesses in accordance with regional circumstances.
- In addition to providing **special allowances to address soaring food prices**, the government will propose recommended initiatives, such as adding support measures to create an environment for wage increases for SMEs and small businesses.

Priority Support Local Allocation Grant

Support for Consumers

① Special Allowance for Soaring Food Prices

Examples: Premium vouchers, electronic coupons, local points, so-called rice coupons, in-kind benefits



② Support for Low-Income Households and Elderly Households Amid Rising Prices

Example: Support such as benefits for households using LPG



③ Support for Households with Children Amid Rising Prices

Example: Support for school meal costs in elementary and junior high schools



④ Support for Consumers through Measures to Sustain Consumption

Example: Reduction or exemption of water charges



⑤ Support for Consumers through Promotion of Replacement with Energy-Efficient Appliances

Example: Support for replacing air conditioners and water heaters with high energy-efficiency models

Support for Businesses

① Creating an Environment for Wage Increases for SMEs and Small Businesses

Examples: • Hands-on support from business advisors
• Subsidies aimed at improving productivity**
• The smooth pass-through of costs in public procurement



② Support measures to address rising costs for medical, nursing care, childcare, and educational facilities.

Example: support for increases in food prices.



③ Support measures to address rising costs in the agriculture, forestry, and fisheries sectors.

Example: • Support to alleviate the burden on dairy farms affected by rising feed costs
• Support for increased electricity costs of agricultural irrigation facilities

④ Support measures to address rising energy costs for small and medium-sized enterprises.

Example: • Support for increases in the cost of extra-high voltage electricity and LPG
• Support for energy-saving initiatives by small and medium-sized enterprises



⑤ Support for local public transportation, logistics, and regional tourism, among other areas.

Example: • Ensuring essential local transportation services
• Mitigating the impact of rising costs on regional tourism operators



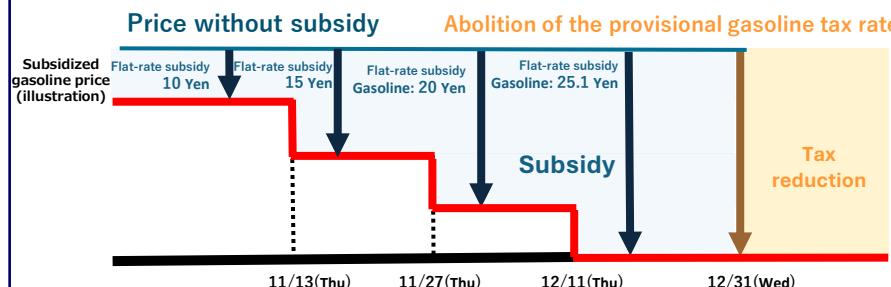
Also addressing the smooth pass-through of costs, including labor expenses, in public procurement commissioned by local governments.

Support measures for fuel oil, electricity, and gas prices amid continued high inflation

Flat-rate reduction measures for fuel oil prices

- Based on inter-party agreement on the abolition of the provisional tax rate on petrol and diesel, the subsidy **for petrol** was already **25.1** yen per liter on 11 December, equivalent to the level after the provisional petrol tax rate has been abolished.
- The subsidy **for diesel** was already **17.1** yen per liter on by 27 November, equivalent to the level after abolition of the provisional tax rate on petrol.

Subsidy Expansion Schedule



※The effect of the subsidy will be gradually reflected in retail prices.

※Prices are also affected by factors such as crude oil price trends.

Alleviation of electricity and gas charges

Support for the period of highest electricity usage, from January to March ※1

Electricity charges

- Low-voltage contract : **▲4.5** Yen/kWh
- High-voltage contract : **▲2.3** Yen/kWh

City gas charges

▲18 Yen/m³ ※2

A discount of approximately **¥7,300** over three months for electricity and gas combined ※3

※1 Support will be reduced in March.

※2 Applicable to households and businesses with an annual contract volume of less than 1,000 m³.

※3 Electricity usage is based on the national average electricity consumption for households of two or more people for the relevant month (from January 2022 to July 2025) according to the "Family Income and Expenditure Survey," and gas usage is based on the average household city gas consumption for the relevant month (from January 2022 to July 2025) according to the "gas transaction reports".

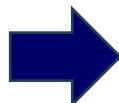
Child-rearing support allowance responding to rising prices

- Provide a **Child-rearing support allowance responding to rising prices** to households with children, which are heavily affected by rising prices.

Child-rearing support allowance responding to rising prices

- Provide **¥20,000** per child for children from 0 years old up to the third year of high school (note).

- No income restrictions
- Utilize local government childcare support systems to provide the allowance through a “push-type” distribution
- Start disbursement as early as possible



Support households with children and promote the healthy growth of children in our country



(Note) Children born between 2 April 2007 and 31 March 2026

Creating an environment conducive to wage increases

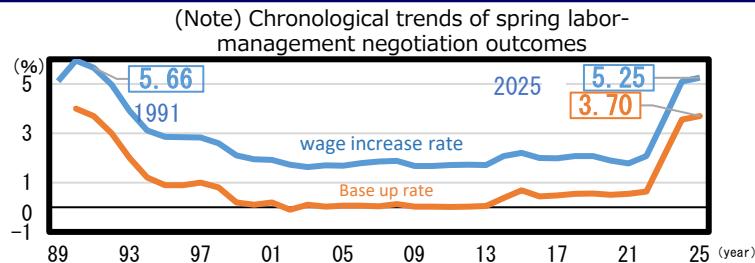
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- **Expanding wage increases nationwide that outpace inflation** to secure households' real income
- **Creating an environment** for continuous and stable wage increases for companies through promotion of price pass-through, promotion of labor-saving investments, and targeted support, such as the priority support local allocation grants

Current situation

- In the spring labor-management negotiations, wage increase rates remained in the 5% range for the second consecutive year, reaching the highest level in approximately 30 years.

Main initiatives



Strengthening the earning capacity of SMEs and others to support wage increases

- **Strengthening capital investment and labor-saving investment** to improve productivity
- Support for the creation of "10-billion-yen companies"
- Promotion of the **Labour-Saving Investment Promotion Plan**
- Strengthening support for **business succession and M&A**
- Strengthening **predictive management** and **business revitalization support**

Healthcare and long-term care support package

- Advancing the effects of the revision of medical fees for FY2026 to support wage increases for a wide range of workers in the medical, long-term care, and disability welfare sectors
- Supporting initiatives to improve productivity and workplace environments through the introduction of ICT equipment and other measures

Promotion of price pass-through and fair transaction practices

- Strict enforcement of the **SME Transactions Act** and the **Act on the Promotion of Subcontracting SMEs**
- Revision of the "Labour Cost Pass-Through Guidelines"
- Revision of unit prices in **Public Sector Demand** in light of rising costs

Strengthening proactive, hands-on support

- Providing insights through proactive engagement and strengthening the consultation system
- Establishment of **Productivity Support Centers** and creation of support models by local governments

Priority Support Local Allocation Grants

- Supporting **SMEs and small businesses** that cannot utilise the wage-increase tax system
- Support for agriculture, forestry, and fisheries as well

Workplace Improvement Subsidy

When small and medium-sized enterprises responding to the minimum wage increase raise wages and invest in equipment, support of up to 6 million yen is provided.

Mobilising every possible measure to ensure the continuation and entrenchment of wage increases.

Relevant laws and budgets

• Priority Support Regional Allocation Grants (budget / Cabinet Office), Workplace Improvement Subsidy (budget / Ministry of Health, Labour and Welfare)

• Strong support for growth investment, productivity-enhancing investment, labour-saving investment, and other measures for small and medium-sized enterprises according to their growth stage, to help them respond to various changes in the business environment (provisional name) (budget / Ministry of Economy, Trade and Industry), etc.

4. Pillar 2: Building a Robust Economy Through Crisis Management Investment and Growth-Oriented Investment

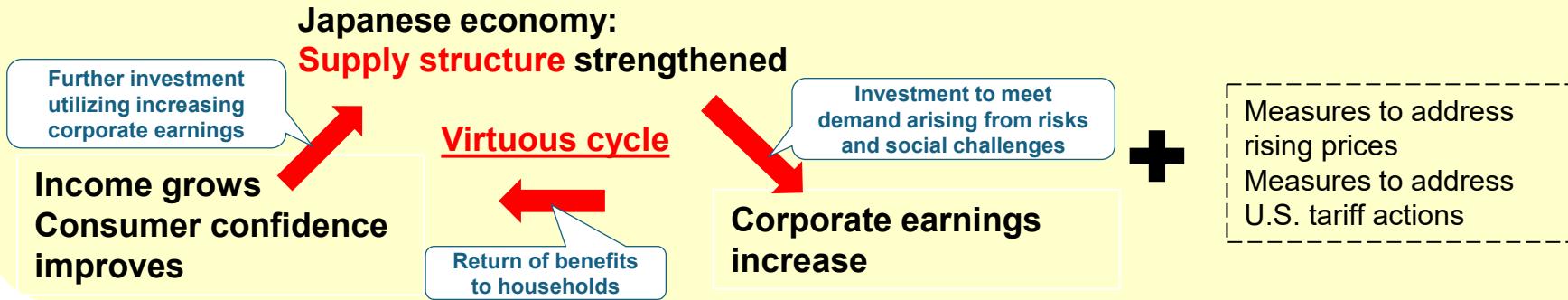
Approach to Priority Policies to Be Included in Comprehensive Economic Measures

1. Basic Policy for Formulating Comprehensive Measures in Strategic Fields

Based on the Prime Minister's instructions at the first meeting of the Headquarters for Japan's Growth Strategy on November 4, work will proceed toward **formulating the growth strategy by next summer**.

2. Comprehensive Economic Measures

Building a strong economy through Crisis Management Investment and Growth-Oriented Investment



Mobilizing all measures to enhance investment predictability

- Announcing multi-year budget measures to encourage private-sector investment
- Indicating the direction of tax measures to promote investment

Current Comprehensive Economic Measures

Include **priority measures that should be implemented immediately**, without waiting for the results of deliberations over the growth strategy to be formulated next summer.

(1) Realizing robust economic growth through Crisis Management Investment and Growth-Oriented Investment

(17 Sectors)

- (1) AI & Semiconductors; (2) Shipbuilding; (3) Quantum; (4) Synthetic Biology & Biotechnology;
- (5) Aerospace; (6) Digital and Cybersecurity; (7) Content; (8) Foodtech;
- (9) Resource & Energy Security / GX; (10) Disaster Prevention & National Resilience;
- (11) Drug Discovery & Advanced Medicine; (12) Fusion Energy;
- (13) Materials (Critical Minerals & Parts/Materials); (14) Port Logistics; (15) Defense Industry;
- (16) Information & Communications; (17) Maritime & Ocean

(2) Cross-sectoral issues

(Issues)

- (1) Becoming a new technology-driven nation & strengthening competitiveness;
- (2) Human resource development; (3) Startups;
- (4) Unleashing potential through finance; (5) Labor market reform;
- (6) Reducing burdens through outsourcing of caregiving, childcare, and related services;
- (7) Improving wage increases environment; (8) Cybersecurity

*Issues to be addressed in coordination with other headquarters

- Response to address U.S. tariff actions;
- Revitalization of regional economies;

- **Promoting innovation while mitigating risks** in accordance with the AI Act*, the Artificial Intelligence Basic Plan, and the guidelines for ensuring appropriateness under the Act
- Regarding semiconductors, which provide the hardware support that underpins AI competitiveness, **providing focused support for technological development and capital investment** aimed at the mass production of advanced and next-generation semiconductors, in line with the AI and Semiconductor Industry Foundation Strengthening Framework

Initiatives

AI

- Promoting the use of AI agents, physical AI, and other technologies to **address social challenges**
- Creation of diverse services that **combine Japan's strong industries with AI**, and proactive overseas expansion
- Fundamentally strengthening the **AI Safety Institute** (the central organization for AI safety) to enhance AI safety and promote innovation based on the use of trustworthy AI
- Deployment of AI in scientific research (AI for Science)

Initiatives

Semiconductors

- **Semiconductors provide the hardware support that underpins AI competitiveness.** With global demand rising sharply, semiconductors are an industrial sector expected to see further growth.
- **We are promoting efforts to strengthen semiconductor design capabilities** to meet these needs.
- In addition, **we are developing open research and development hubs aimed at creating future semiconductor-related technologies.**

Effects of initiatives (and vision for the future)

- By promoting the use of AI to **increase private investment**, reduce working hours, and improve labour productivity, we aim to **achieve better wages and overcome the effects of population decline**.
- Fundamentally reform the approach to scientific research and improve the efficiency and productivity of research activities.



Up to approximately 1.2 trillion yen in support has already been approved (Total for the first and second plants).

Up to approximately 1.7 trillion yen in support has already been approved.

Strengthening Economic Security (II): Shipbuilding

MLIT

CAO

METI

MOE

- We will draw up a **roadmap for revitalising the shipbuilding industry** and implement comprehensive measures—including the establishment of a fund aimed at fundamentally enhancing shipbuilding capacity—with the goal of achieving public-private investment on the scale of one trillion yen.

Initiatives

Establishment of a Shipbuilding Industry Revitalisation Fund

- We will designate the "Hull" as a specified critical product under the Economic Security Promotion Act.
- We will support the introduction of equipment and facilities to build and expand production systems for hulls.
- We will support the research, development, and demonstrations necessary for fundamentally enhancing shipbuilding capacity.



State-of-the-art cutting machine (Note 1)



All-weather dock (Note 2)

Research and development of next-generation shipbuilding robots utilising AI.

- We will develop automated machining robots capable of AI-based environmental recognition, autonomous control, and other functions for shipbuilding processes such as welding.



Manual welding processes



Image of AI-based shipbuilding robots

Development of a roadmap for revitalising the shipbuilding industry

Based on the roadmap, in addition to the above-mentioned measures, we will promote comprehensive initiatives including support for private-sector financing through various financial assistance schemes and support for the construction of zero-emission vessels through GX Economic Transition Bonds



Image of a zero-emission vessel

Vision for the Future

Achieving public and private investment of one trillion yen in total

Revitalising Japan's shipbuilding industry with "autonomy" and "indispensability"

Note 1: Provided by Koike Sanso Kogyo Co., Ltd.

Note 2: Provided by NYK Cruises Co., Ltd.

(All other photos and images are from materials of the Ministry of Land, Infrastructure, Transport and Tourism)

Relevant laws and budget

Support measures for the revitalisation of the shipbuilding industry (Budget: Ministry of Land, Infrastructure, Transport and Tourism), etc.

Strengthening Economic Security (III) (Space)

- Utilising the "Space Strategy Fund" (establishing 10-year fund at JAXA: 1 trillion yen in total) to develop the space sector into a growth industry.
- Utilising information from artificial satellites to **stimulate industry and economy, for disaster prevention and mitigation, to strengthen national resilience, and for security purposes.**

CAO
METI
MEXT
MIC
MOD
MLIT

Initiatives

- Support for public and private rocket development and improvement, and raising the frequency of launches.
- Establishment of a 7-satellite Quasi-Zenith Satellite System (note), and promotion of development towards an 11-satellite system.
- Support for the development of a low-Earth orbit communications satellite constellation.
- Manufacturing the next geostationary meteorological satellite.
- Support for the development of a lunar exploration rover (manned pressurised lunar rover) that can be operated without a spacesuit.

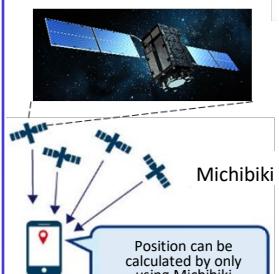
(Note) Enables positioning using only Japanese satellites, without relying on GPS satellites of other countries.

Vision for the Future

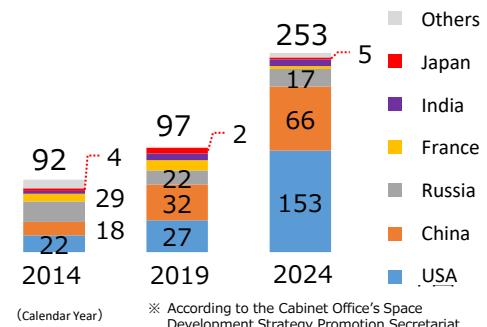
- Increase in the number of domestic rocket launches:
2024: 5 launches/year → Early 2030s: **30 launches/year**
- Enabling precise positioning without relying on other countries' GPS.
- Enhancing the autonomy of low-Earth orbit satellite communication services.
- Improving the forecasting accuracy for stationary linear mesoscale convective systems and typhoons.
- Achieve the first lunar landing by Japanese astronauts by the late 2020s.
- Market size of Japan's space industry:
2020: 4 trillion yen → Early 2030s: **8 trillion yen**

Quasi-Zenith Satellite System (QZSS)

(Source) Cabinet Office



Number of rocket launches in the world



Manned pressurised lunar rover



- Accelerate the social implementation of **Autonomous Underwater Vehicles (AUV)** that contribute to manpower saving and productivity improvements in the ocean.
- Promote the steady construction of the **Arctic research vessel "Mirai II"** for its scheduled launch in autumn 2026 (Reiwa 8).
- Implement measures against the ageing of the deep-sea submersible support vessel "Yokosuka" and the human occupied vehicle "Shinkai 6500," develop an autonomous sampling system for the hadal zone, and enhance the research infrastructure for marine and polar research.
- Accelerate research and development for rare-earth production in the waters around Minamitorishima Island.

Initiatives

- **Support the demonstration of AUV and related technologies.**
- Promote the construction of the **Arctic research vessel "Mirai II."**
- Through the maintenance of "Yokosuka" and "Shinkai 6500," continuously conduct marine survey and observation research, while **enhancing the collection of observational data.**
- In a **mining test of rare-earth mud in waters about 6,000 m deep** off Minamitorishima Island, demonstrate the entire rare-earth production process from mining to separation and refinement using Minamitorishima Island.



Inspection image of offshore wind power facilities using AUVs



*Arctic Research Vessel "Mirai II"
Completed Concept Image Note 1



*Human Occupied Vehicle "Shinkai 6500" Note 2

- Development of Japan's AUV industry and its overseas expansion
- By improving the accuracy of forecasts for climate change and extreme weather, contribute to the safety and security of the public.
- By examining suitable shipping routes, including the Arctic Ocean, and utilising observational data for fishery predictions, **contribute to strengthening economic security.**
- By maintaining and expanding deep-sea exploration capabilities, **strengthen foundational capacities for Maritime Domain Awareness (MDA).**
- Create a stable domestic rare-earth supply system, reduce excessive dependence on specific countries, and contribute to resource security.



*Autonomous sampling system for the hadal zone
Concept Image Note 3



Concept Diagram of the 2027 Rare-Earth Mud Mining Test (Reiwa 9)

5. Pillar 3: Strengthening Defense Capability and Diplomatic Power

Japan's Response to Changes in the Diplomatic and Security Environment, and International Understanding of Japan's Economic and Fiscal Management

(Responding to Changes in the Foreign Policy and Security Environment)

- Amid historic shifts in the balance of power and intensifying geopolitical competition, the free, open, and stable international order is being significantly challenged.
- With the Japan–U.S. Alliance as the cornerstone of Japan's diplomatic and security policy, Japan will advance robust diplomatic and security policies, including expanding multifaceted cooperation with like-minded countries that share fundamental values and with countries of the Global South.

(Positioning Japanese Economic and Fiscal Management through Global Expertise and Dialogue)

- Through continuous dialogue with overseas experts, we will identify what we should learn from the world and what we should convey, and, taking into account changes in the international economic order, position our economic and fiscal management, including “Responsible and Proactive Public Finances”, within international discussions, while continuously delivering clear and consistent messages at home and abroad that contribute to maintaining market confidence.(Excerpt from Document No. 2 of the 15th meeting of the Council on Economic and Fiscal Policy, Thursday, December 25, 2025)

Laissez-Faire Capitalism / Welfare State



Rise of Neoliberalism (since the 1980s)

Progress of globalization

Driving force of global economic growth
Meanwhile, global imbalances are widening.

Widening economic disparity
Intensifying climate change issues
Weakening of supply chains

Issues that cannot be resolved by market principles are becoming apparent.

Changes in the international order

Historic shifts in the balance of power and intensifying geopolitical competition

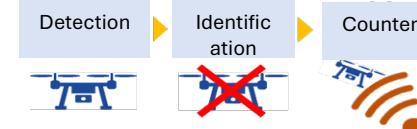


Positioning Japan's economic and fiscal management, including its responsible and proactive public finances, within international discussions, we will continue to communicate clear and consistent messages at home and abroad that help secure market confidence.

- Facing the most severe and complex security environment, **fundamental reinforcement of defense capabilities is crucial**
- **Strengthening the foundation for human resources** and creating an environment that enables members of the JSDF to be much more proud of their missions.

Initiatives

- **Move up the timeline in FY2025 for having the security-related budget reach 2% of GDP**, as stipulated in the National Security Strategy, together with the supplementary budget.
- As the security environment is rapidly changing across various fields, **ensure the early operational readiness of the Self-Defense Forces to strengthen deterrence**.
- **Steadily implement the realignment of U.S. Forces in Japan** to strengthen the deterrence and response capabilities of the Japan-U.S. alliance while mitigating the impact on local communities.
- **Strengthen the foundation of the Self-Defense Forces** by rapidly introducing counter-drone equipment and improving communication networks, electricity, and water facilities at each camp and base.
- In light of the frequent occurrence of natural disasters nationwide, **strengthen the disaster response capabilities of the Self-Defense Forces**.
- **Improve the living environments of SDF personnel** including promoting the introduction of individual spaces in barracks and the installation of air conditioning, and intensively and efficiently advance the construction of barracks and office buildings to **reinforce the human resource base**.



(Counter-drone Equipment (conceptual image))



[Emergency Generator (Conceptual Image)]



[Aerial Firefighting Activity]



[Introduction of individual spaces in Barracks (Conceptual Image)]



Vision for the Future

To remain a nation that can independently decide its policies with sovereignty and independence in domestic and foreign affairs, and to proactively secure, through security policy, an international environment in which Japan's economy can grow.

- While maintaining the agreement's high standards, pursue **further expansion of membership from a strategic perspective**.
- Play a leading role in **maintaining and strengthening a rules-based free trade system**.

Current Status

- After the United States withdrew from the Trans-Pacific Partnership (TPP), Japan demonstrated leadership in advancing negotiations on **a new agreement, the CPTPP**, which was signed and entered into force among 11 countries excluding the United States. The agreement currently comprises 12 countries, including the United Kingdom, which acceded in 2024.
- The CPTPP promotes the liberalization and facilitation of trade in goods and services and investment, while establishing **high-standard common rules covering a wide range of areas**. The CPTPP represents **a population of approx. 580 million, approx. 14.6 percent of global GDP, and approx. 17.5 percent of global trade**.

Initiatives Going Forward

1. Expansion (New Accessions)

Accession negotiations with **Costa Rica** have been underway since November 2024. The decision to commence an accession process with **Uruguay** was made in November 2025. Accession processes will also begin with the UAE, the Philippines, and Indonesia in 2026, if conditions are right.

2. Upgrading the Agreement (General Review)

As a result of the General Review, ministers decided that the Agreement's regulations should be updated and enhanced through negotiations on electronic commerce, supply chain resilience, trade facilitation, and other areas.

In addition, Ministers also tasked officials to finalise development of further initiatives on such areas as economic coercion and market-distorting practices.

3. Dialogue with the EU and ASEAN

The **first-ever ministerial-level Trade and Investment Dialogues** were held with the EU and ASEAN, respectively, and joint ministerial statements were issued with each.

Efforts will continue to strengthen cooperation with partners outside the CPTPP region in order to further enhance the value of the CPTPP in **maintaining and strengthening a rules-based free trade system**.

6. Building a Social Security System for All Generations

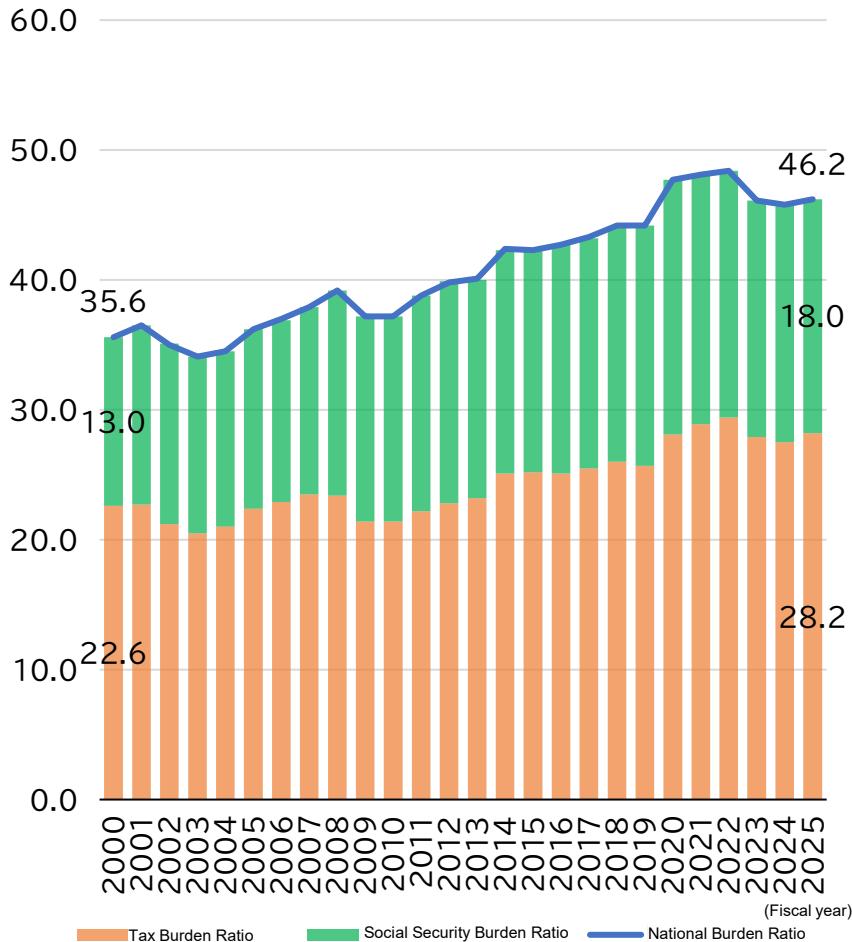
National Burden Ratio and Household Disposable Income

Excerpt from Document No. 5 of the 14th meeting of the Council on Economic and Fiscal Policy, Friday, December 5, 2025

◆ Over the long term, the national burden ratio has been rising, while disposable income has shown sluggish growth.

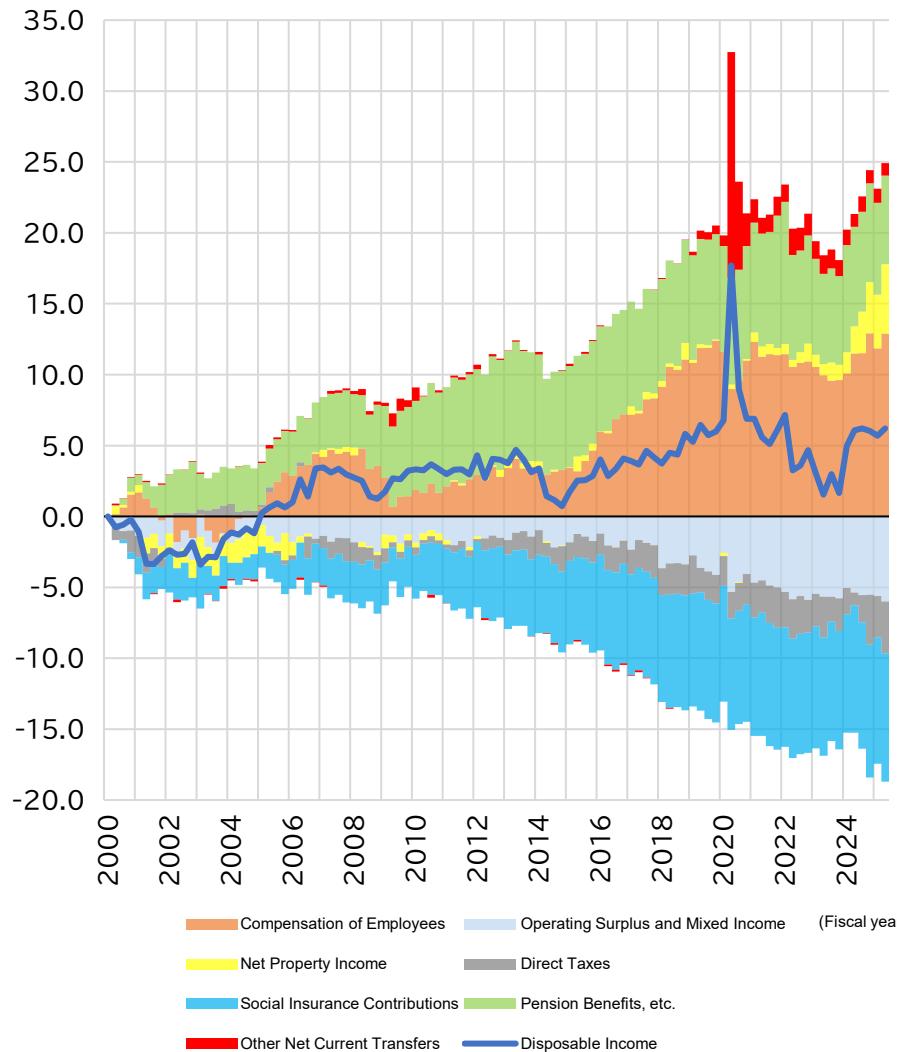
(As a Percentage of National Income, %)

Figure 1: National Burden Ratio



(Compared with Jan-Mar 2000, %, Contribution, Percentage Points)

Figure 2: Contribution Breakdown of Real Household Disposable Income



(Note) Based on (Figure 1) Ministry of Finance, 'National Burden Ratio'; (Figure 2) Cabinet Office, 'Quarterly Estimates of Household Disposable Income and Household Saving Ratio (Reference series)' Household disposable income and each of its components are converted into real terms using the household final consumption deflator.

Ensuring the Sustainability of the Insurance System through Adaptation to Advanced Medical Care

Excerpt from Document No. 5 of the 14th meeting of the Council on Economic and Fiscal Policy, Friday, December 5, 2025

◆ So far, medical expenditures have increased mainly owing to demographic factors such as population ageing. Going forward, despite a declining population and moderate growth in the elderly population, advances in medical technologies, including pharmaceuticals, are expected to become the main driver of rising medical expenditures in Japan. In addition, the number of high-cost medical claims exceeding 10 million yen has increased markedly in recent years, reaching 23 times the level of 20 years ago in FY2024. To enable the insurance system to adapt to these advances and ensure its sustainability, it is necessary to consider a mechanism where insured persons bear costs according to their risks.

Figure 1: Breakdown of Factors in Past Growth of Medical Expenditures

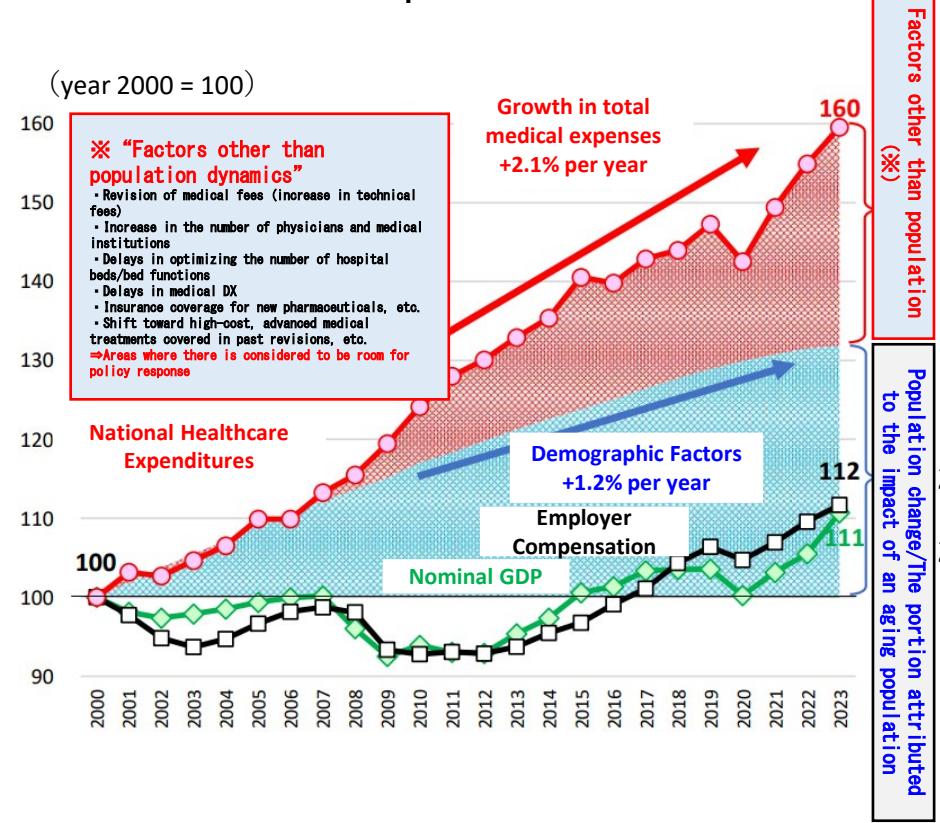


Figure 2: Breakdown of Factors in Future Growth of Medical Benefit Expenditures
(Case of Transition to a Growth-Oriented Economy)

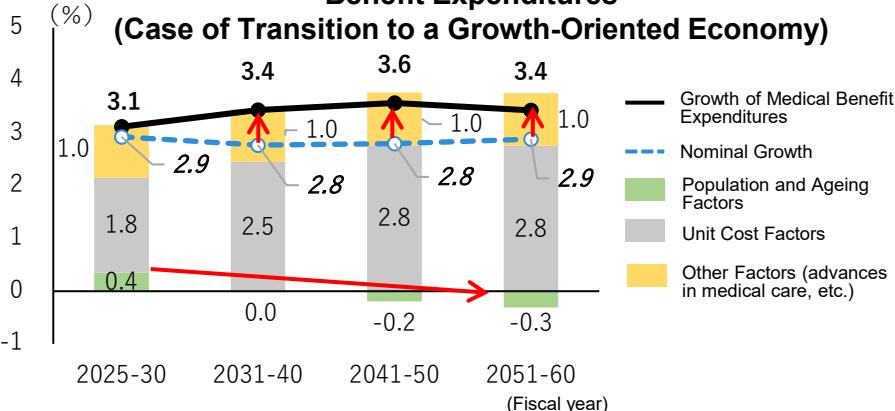
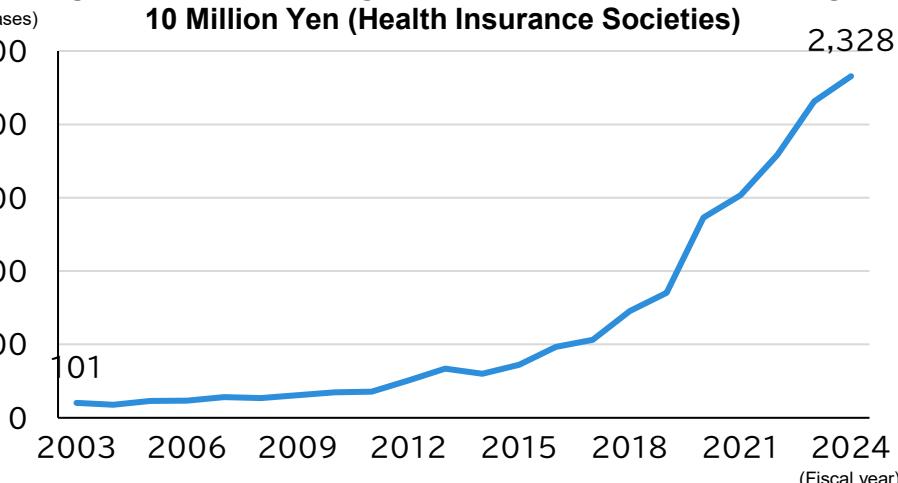


Figure 3: Number of High-Cost Medical Claims Exceeding 10 Million Yen (Health Insurance Societies)



(Note) Based on (Figure 1) Ministry of Finance, Fiscal System Council, Fiscal System Subcommittee, 'Social Security (1)' (November 5, 2025);(Figure 2) Cabinet Office, 'Long-term Projection for Economy, Public Finance and Social Security' (April 2, 2024);(Figure 3) KENPOREN (National Federation of Health Insurance Societies), 'Overview of Top High-Cost Medical Claims under the High-Cost Medical Expense Subsidy Program.'

Revision of Medical Fees and Related Items in FY2026

Medical Fees

Overall Revision Rate	+ 3.09%
FY2026: +2.41%, FY2027: +3.77% (FY2026 Budget: 234.8 billion yen)	
① Measures for Wage Increases in FY2026–FY2027	+ 1.70%
FY2026: +1.23%, FY2027: +2.18%	
② Measures for Rising Prices in FY2026–FY2027	+ 0.76%
※ FY2026: +0.55%, FY2027: +0.97%	
③ Food Expenses and Utility Costs	+ 0.09%
④ Others	
• Emergency measures for deteriorating management conditions since the FY2024 revision	+ 0.44%
• Others	+ 0.25%
Revision rates by sector: Medical services +0.28%, Dental services +0.31%, Dispensing services +0.08%	
⑤ Efficiency and Appropriateness Measures	- 0.15%

Drug Prices and Related Items

Overall Revision Rate	- 0.87%
(FY2026 Budget: -106.3 billion yen)	
① Drug Prices	- 0.86%
(-105.2 billion yen)	
② Medical Material Prices	- 0.01%
(-1.1 billion yen)	

Long-Term Care Fees

Overall Revision Rate	+ 2.03%
(FY2026 Budget: 51.8 billion yen)	
• Improvements in Working Conditions for Long-Term Care Workers	+ 1.95%
• Increase in Standard Food Cost Amounts	+ 0.09%

Fees for Disability Welfare Services

Overall Revision Rate	+ 1.84%
(FY2026 Budget: 31.3 billion yen)	

Overview of Social Security System Reforms to Restrain Premium Burdens

Review of drug benefits for over-the-counter (OTC) equivalents

Approx JPY
-100 billion
(FY2026-FY2027)

(1) Reviewing out-of-pocket costs for medications including OTC-like drugs (from March FY2027)

Purpose:

- ① Ensuring fairness with patients who use OTC-like drugs
- ② Restraining premium burdens, particularly for the working-age population

(2) Review of Insurance Coverage for Food-Like Pharmaceuticals (from June FY2026)

(3) Expansion of the Selective Treatment Scheme for Long-Listed Drugs (from June FY2026)

(4) Promotion of Long-Term Prescriptions and Refill Prescriptions (address in the revision of medical fees)

Review of High-Cost Medical Expense System

Approx JPY
-160 billion
(FY2026-FY2028)

(1) Consideration for Long-Term Care Patients

1. Maintain the amount for multiple eligibility cases
2. From the perspective of considering the financial burden on those who do not fall under multiple eligibility, introduce a new annual cap (equivalent to the multiple eligibility limit × 12 months)

(2) Consideration for Low-Income Individuals

Lower the threshold for multiple eligibility cases for individuals with an annual income of less than 2 million yen, which is slightly above the resident tax exemption threshold

(3) Increase in Cost-Sharing Caps

(4) Further Subdivision of Income Categories

(5) Reviewing the Outpatient Special Measures (exclusively for individuals aged 70 and over)

Strengthening Ability-to-Pay Principles, Including the Reflection of Financial Income

- To implement the reflection of financial income (such as dividends from listed shares) in copayment rates and premiums under the Late-Stage Elderly Healthcare System, a bill will be submitted to the ordinary session of the Diet in FY2026.
- The appropriate use of the resulting increase in premium revenues—including ensuring fairness in burden-sharing among elderly beneficiaries and reducing the contribution burdens borne by the working-age population in providing financial support to the late-stage elderly—will continue to be examined.

Revision of Drug Prices

Approx JPY -200 billion
(FY2026)

Introduction of User Charges for Residents of Fee-Based Homes for the Elderly (FY2028-)

1. Social security forms the foundation that enables each and every person to work and live with peace of mind, without giving up on realizing their dreams and aspirations.

However, in recent years, amid a new socio-economic phase characterized by the full-scale onset of population decline, the progression of a declining birthrate and population ageing, and rising prices, there is a growing need to secure systems that allow people to receive necessary services with peace of mind. At the same time, there is a growing sense of crisis over the rapid increase in social security-related expenditures, as well as heightened awareness of the problems posed by the excessive rise in the burden borne mainly by the working-age generation.

Accordingly, while advancing a nationwide discussion toward building a social security system that is broadly acceptable across all generations with respect to the balance between benefits and burdens, it is also necessary to promptly advance discussions and reach conclusions on issues that require urgent attention.

I ask the relevant ministers, building on efforts to date, to proceed with the following initiatives toward further promoting social security reform.

2. First, regarding the integrated reform of the tax and social security systems, including the design of a refundable tax credit scheme:

- ① In order to alleviate the burden on middle- and low-income earners who are struggling with tax and social insurance premium burdens and to ensure that take-home income increases in line with income levels, the Minister of Finance, the Minister of Internal Affairs and Communications, the Minister of Health, Labour and Welfare, and the Minister in charge of Social Security Reform Oriented to All Generations should work in cooperation with relevant ministers to advance the design of a refundable tax credit system.
- ② Furthermore, as refundable tax credits concern issues of benefits and burdens and are closely related to the overall structure of social security, the Minister in charge of Social Security Reform Oriented to All Generations should, in cooperation with relevant ministers, proceed with arrangements to promptly establish a “national conference” as a framework for careful nationwide discussions – encompassing not only the government and ruling parties but also opposition parties – on the appropriate balance of benefits and burdens within the social security system, including the design of the refundable tax credit scheme.