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Key Takeaways from the Basic Policy on Economic and Fiscal Management and Reform, Part 1: Can High Growth be Achieved Through Crisis Management Investments and Growth Investments?

Productivity growth outpacing that of the US will be required, and managing the progress of growth strategy will also be a challenge

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Summary

- The Sanae Takaichi administration is expected soon to adopt the FY2026 Basic Policy on Economic and Fiscal Management and Reform ("Basic Policy 2026") A word-cloud analysis of word frequency in the draft Basic Policy 2026 clearly shows that, compared with the previous year, the Takaichi administration's economic and fiscal policies have been brought more clearly to the forefront. Another notable feature is the substantial reduction in descriptions of individual policy measures and projects.

- As for Crisis Management Investments and Growth Investments, a signature policy of the Takaichi administration, public- and private-sector investment in 17 strategic fields is projected to exceed 370 tril yen cumulatively through FY2040. When grouped into six areas, the AI- and digital-related fields make up about half of the total, while the next largest grouping, bio- and materials-related fields, account for about one-quarter. The overall picture suggests a certain degree of prioritization, with clearer emphasis on fields receiving concentrated support and others receiving broader but thinner support.

- The draft Basic Policy 2026 states that the government will aim to realize "Growth Strategy Achieved Case I," the highest-growth case among the three scenarios estimated by the Cabinet Office. However, under this scenario, cumulative business fixed investment alone is expected to amount to about 410 tril yen, implying that

private investment on its own would exceed the total projected amount of public-private investment. In addition, the growth rate of total factor productivity (TFP) is assumed to accelerate to +1.4% per year in the latter half of the 2030s. This would represent a pace of productivity growth exceeding that of the United States, and achieving it would require a major transformation of Japan’s economic and fiscal structure.

- Previous administrations, including that of Shinzo Abe, formulated growth strategies and worked to raise Japan’s potential growth rate, but the results were not sufficient. Progress in the growth strategy will be monitored regularly under the Council for Japan’s Growth Strategy; however, merely tracking the status of related measures and budgets will not be enough. What will be required of the Council is to examine how actual developments can be brought closer to the high-growth scenario described above, determine what measures are needed to achieve that, and reflect them in the growth strategy as appropriate.