

**Statement by Takeshi Niinami, Chairperson of Keizai Doyukai
on Cabinet Approval of
“Basic Policy on Economic and Fiscal Management and Reform 2025”**

Today, the Cabinet has approved the “Basic Policy on Economic and Fiscal Management and Reform 2025 ‘Basic Policy 2025.’”

Amid the escalating uncertainties in the world economy due to the United States tariff measures, geopolitical risks, and other factors, we expect Japanese government to demonstrate its leadership and encourage the countries involved to maintain and strengthen a free and open regime of trade and investment. Also, it is vital to reinforce the resilience of the Japanese economy, which depends on the boosting of consumer spending that accounts for more than 50% of the country’s GDP. While the trend of the weaker yen has reversed and negative financial results are looming among companies, the next twelve months will be the real test to whether the virtuous cycle of wage hikes and consumption growth can be maintained.

We hope that the economic and social transformation, as described below, will be boldly pursued in line with the Basic Policy 2025 and in a manner suited to the Reiwa era (2019–) today.

1. The norms that wages will rise beyond the consumer price index must first take root. In this regard, we appreciate the agenda in the Basic Policy 2025 that aims for keeping real wage hikes of around one percent based on its faith “Wage hikes are the centerpiece of the growth strategy.” Meanwhile, we are looking to steady growth of this year’s minimum wage, targeting its nationwide average of ¥1,500 to be reached within five years. For this to happen, policy measures must be further bolstered to improve productivity of SMEs that account for 70% of total employment and to promote their passing of higher costs to prices. In particular, substantial increase of minimum wage for essential workers should be brought to the discussion table through introduction of the minimum wage system for each job.
2. An environment, where people with a desire to work can fulfil their wish, should expand swiftly to address chronic labor shortage and increase household disposable income. Toward dissolution of the so-called annual income ceiling, an enhanced support package should be further utilized, while a road map should be drafted quickly for the abolition of the Category 3 insured persons system. On the work style reform front, a new type of employment contract should be on the agenda, such as an individual contract subject to the Labor Contract Act intended for independent and aspiring people. The matter should be deliberated from the perspective of various work styles

and on the premise of ensuring health. Anticipating the future of foreign labor force being 10% of the population, discussions should also start swiftly over what the inclusive society with foreign workers should look like.

3. Behind the current geopolitical and geoeconomic development exists U.S.-China battle for hegemony in artificial intelligence (AI). With enhancement of Japanese economy's resilience in mind, we request the government to build an AI supply chain with a focus on semiconductors in co-ordination with the U.S., while promoting domestic use of AI further by producing and consuming energy that is supplied inexpensively and stably. It will lead to ensuring a robust framework for economic security.
4. On the regional revitalization front, the Basic Plan proposes "Regional Innovation Creation Initiative" as well as quantitative increase and qualitative improvement in population involved. However, it has failed to shed enough light on the issues. What is required is a far-reaching overhaul of demarcation of roles between central and local governments, administrative boundaries for appropriate and effective administrative management, and suitable local finance. These initiatives will realize regional autonomy, the management of local government with originality and ingenuity, and regional revitalization with sound competition among municipalities.
5. The government should strengthen and promote private-sector driven measures for disease prevention and healthcare, which aim to reach the government's target of expanding the size of non-public insurance healthcare industry from current about 30 trillion yen to about 80 trillion yen in 2050. These measures are listed in "2025 Revised Edition of the Grand Design and Implementation Plan for New Capitalism." Meanwhile, if the current excessive financial burdens on working-age generations remain unchanged, the economy would not recover its dynamism even with enhancement of productivity and wage hikes. The 'ability-to-pay' principle must be fully enforced in the social security scheme. Reflecting fact-finding and inspection for FY2024 revision of medical service fees due at the end of FY2025, the government must quickly kick off Public Insurance System Reform, including review of scope for insurance benefits such as for OTC-equivalent drugs, as well as introduction of contribution rate with consideration of financial income and other income. What's more, we would like to see the study of best-fit financial income tax that contributes to further growth of tax revenue, bearing in mind that such tax should not disturb fund shifts from savings to investment such as through Nippon Individual Savings Account (NISA).
6. Japanese government bond's credibility must stay high, as it negatively impacts fund raising costs of the private sector in case of the resultant rising interest rates. Amid the increasing fiscal demand for segments like social security and defense, it is regrettable that there is a loud assertion now for a consumption tax cut without reference to its funding sources. On the fiscal consolidation

front, primary balance surplus and lower public debt-to-GDP ratio should be steadily pursued, while adjustments for inflation in the entire system described in the Basic Plan (ex: checking and review of reference value and threshold used in the public system in response to rising prices) are to be carried out in an appropriate manner. For this to happen, we request the government to ensure wise spending by implementing the evidence-based policymaking (EBPM), such as through digitalizing the fiscal fund flows of national and local governments.

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