CLOSE UP: Healthcare

FY2026 Drug Price Revision in Japan

Political Dynamics of Social Security Reform and an Overview of Institutional Design

Executive Summary

The FY2026 drug price revision represents a critical inflection point that goes beyond routine technical adjustments to the pricing system. It marks a direct intersection between Japan's political imperative for social security reform and fiscal discipline, and industrial policy challenges centered on pharmaceutical innovation and supply stability. Since the Cabinet's approval of the Basic Policy on Economic and Fiscal Management and Reform 2025 (*Honebuto* 2025) in June 2025, the Government has positioned the sustainability of the social security system and fiscal consolidation as top priorities. At the same time, it has explicitly identified the mitigation of drug lag and drug loss, the strengthening of pharmaceutical innovation, and the maintenance and enhancement of international competitiveness as key policy objectives. As a result, the FY2026 drug price revision cannot realistically be understood through a simple price-cutting narrative alone.

This policy landscape has been further complicated by political debates on social security expenditure restraint under the Takaichi administration. In addition to the Liberal Democratic Party's (LDP's) longstanding focus on restoring fiscal discipline, *Nippon Ishin no Kai* (Japan Innovation Party - JIP), as a coalition partner deeply involved in policy formation, has strongly advocated for reducing the social insurance burden on the working population and for structural reform across healthcare and long-term care. Ishin has explicitly stated its goal of reducing national healthcare expenditure by at least JPY 4 trillion per year (approx. USD 26.7 billion) and lowering the annual social insurance burden per working individual by JPY 60,000 (approx. USD 400). This positions the scale of the debate not in the range of hundreds of billions of yen, but in the order of trillions.

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This report first organizes the policy context following *Honebuto* 2025. It then analyses how social security reform discussions led by the LDP–Ishin coalition under the Takaichi administration are influencing the FY2026 drug price revision. Third, it reviews the trajectory of industry policy discussions within the public–private dialogue framework. Fourth, it examines the decision-making process of the Central Social Insurance Medical Council (*Chuikyo*) through a three-layer analytical lens: politics (the Prime Minister's Office and ruling parties), public–private dialogue, and *Chuikyo* itself, tracing developments chronologically. Finally, by contrasting the requests submitted by the three pharmaceutical industry associations with *Chuikyo*'s deliberation outcomes, this report provides a structured understanding of where and how the FY2026 drug price revision is being shaped within Japan's broader social security and healthcare policy framework.

1. Policy Environment Surrounding Pharmaceuticals and Drug Pricing after *Honebuto* 2025

The defining feature of the policy environment shaped by *Honebuto 2025* is the Government's simultaneous pursuit of social security sustainability and fiscal consolidation, while also positioning the healthcare and pharmaceutical industries as core components of its growth strategy and national competitiveness. Consequently, the drug pricing system has been assigned a dual role: as a **price adjustment mechanism for expenditure control, and as an industrial policy infrastructure** supporting pharmaceutical R&D investment and supply stability.

As in previous revisions, the starting point for the FY2026 revision is the correction of the gap between market transaction prices and official reimbursement prices. According to preliminary results of the FY2025 drug price survey, the average divergence rate for prescription drugs stands at approximately **4.8%**, down from around **5.2%** in the previous survey. While this indicates a certain corrective effect of the system, it also suggests the continued existence of adjustment margins, making this figure a key reference point for subsequent policy discussions on revision rates and scope.

At the same time, the penetration of generic drugs has reached a quantitative share of approximately **88.8%** and a value-based share of around **68.7%**, indicating that the potential for further cost containment through generic promotion alone is becoming increasingly limited. This has shifted the focus of drug pricing reform away from incremental extensions of generic policies towards more structural issues, such as the refinement of market price reflection mechanisms, category-specific system operation, re-pricing rules triggered by market expansion, and the application of cost-effectiveness evaluation (CEA).

Under these conditions, drug pricing reform has evolved from a quantitative debate over "where to cut" into a qualitative policy choice concerning "which areas to protect and where to exercise discretion." For companies, the critical issue is no longer merely the scale of revision rates, but the degree of predictability embedded in the system and how innovation is evaluated in operational terms—factors that now directly affect medium- to long-term business planning and investment decisions.

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2. Social Security Expenditure Reduction under the Takaichi Administration: LDP–JIP Dynamics

A distinctive feature of policymaking under the Takaichi administration is the strong involvement of JIP in social security reform debates as a coalition partner, elevating structural reform of healthcare and long-term care expenditure to a central theme of government policy. JIP has placed the reduction of the working generation's burden at the forefront of its agenda, proposing concrete targets: a reduction of national healthcare expenditure by at least **JPY 4 trillion annually (USD 26.7 billion)** and a decrease in annual social insurance contributions per working individual by **JPY 60,000 (USD 400)**.

Within the LDP, restraining the natural growth of social security expenditure has long been a persistent challenge. Under Prime Minister Sanae Takaichi, the emphasis on easing the burden on the working population and restoring fiscal discipline has effectively redefined healthcare expenditure—particularly drug costs—as a politically salient area with "reform potential." This political framing positions the drug price revision not merely as a technical exercise, but as part of the administration's performance indicators.

At the same time, the stronger political push for expenditure restraint inevitably heightens the need for policy coherence with growth strategies and industrial competitiveness. Pharmaceuticals directly affect patient access and are closely linked to policy concerns such as drug lag, drug loss, and supply instability. A purely reductionist approach risks creating policy contradictions, and this tension fundamentally underpins the debate surrounding the FY2026 revision.

In addition, in December 2025, the LDP and JIP reached an agreement at the level of their respective Policy Research Council chairs on comprehensive social security reform. This agreement proposed the introduction of a new "special charge" system under which patients would bear a burden equivalent to **25% of the official drug price** for approximately **1,100 OTC-like prescription drugs**. It also included broader reform measures such as differentiated reimbursement by facility type, the reflection of financial income in co-payments and insurance premiums, and the expansion of regional formularies. These reforms are intended to be implemented during FY2026 following legislative amendments, signaling that drug pricing and benefit reforms are being structurally embedded within broader cost-containment strategies.

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3. Trajectory of Discussions within the Public–Private Dialogue Framework

Alongside political pressure for cost containment, the Government has pursued policy dialogue with industry since June 2025 through a public–private framework aimed at strengthening pharmaceutical innovation and ensuring supply stability. The function of this dialogue is not limited to information exchange; rather, it serves as a "translation mechanism" that reframes political fiscal constraints and industry concerns over investment, supply, and innovation into structured policy issues.

Industry participants have consistently raised issues such as ensuring predictability for R&D investment, stabilizing prices during patent periods, revising the operation of market expansion re-pricing rules, and improving the cost-effectiveness evaluation framework. These arguments reflect broader structural concerns regarding how Japan's institutional design is perceived in global investment decisions and how effectively it supports supply stability.

The FY2026 drug price revision is determined through interaction between political leadership, public–private dialogue, and Chuikyo.

However, the public–private dialogue is not a statutory decision-making body, and its discussions do not automatically translate into changes. Final decisions rest with *Chuikyo* following formal deliberations. Accordingly, the dialogue's role is to expand the policy agenda and supply conceptual language for institutional design debates. For companies, the key challenge lies in translating high-level principles articulated in this forum into technically viable proposals within *Chuikyo*'s decision-making framework.

4. The Three-Layer Decision-Making Structure within *Chuikyo*

Formally, *Chuikyo* occupies the central position in deliberations on the FY2026 drug price revision. In practice, however, decision-making is best understood as a quasi-hierarchical structure comprising three interacting layers: **political leadership (the Prime Minister's Office and ruling parties), public–private policy dialogue, and Chuikyo's technical deliberations.**

At the political level, clear policy objectives for social security expenditure restraint are established, and the drug price revision is expected to deliver tangible outcomes within this framework. Ishin's target of reducing healthcare expenditure by at least **JPY 4 trillion annually (approx. USD 26.7 billion)** elevates political expectations across all cost-containment measures, including drug pricing.

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Against this backdrop, industry policy considerations and innovation-related inputs are channeled through public–private dialogue into *Chuikyo* as reference points rather than binding conditions. Formal deliberations within *Chuikyo* commenced in earnest in early December 2025 following the presentation of preliminary drug price survey results, which confirmed the average divergence rate of approximately **4.8%** as the technical baseline for the FY2026 revision.

In late December, a draft outline of the FY2026 drug pricing reform was presented, consolidating the overall direction and key issues. This outline functions not as a final settlement, but as a negotiation platform balancing political demands with institutional feasibility. In the new year, detailed adjustments at the operational level—including the treatment of market expansion re-pricing and exception rules—were refined. By late January, deliberations converged on specific revision items and accompanying statements, marking the transition from principles to concrete outcomes with direct implications for corporate strategies.

5. Requests from the Three Industry Associations and Chuikyo's Outcomes

The three pharmaceutical industry associations—JPMA, PhRMA, and EFPIA Japan—jointly emphasized the importance of system stability and predictability in their submissions ahead of the FY2026 revision. Key requests included price stability during patent periods, appropriate evaluation of innovation, reconsideration of mid-cycle revisions, and greater flexibility in market expansion re-pricing.

Nevertheless, *Chuikyo* deliberations indicate that these requests have not been fully accommodated. Under prevailing fiscal constraints, adjustments have been limited to selective considerations, while the overall structure prioritizing expenditure restraint is likely to remain intact.

Conclusion

The FY2026 drug price revision is firmly positioned within the broader political agenda of social security reform and is shaped through a three-layer decision-making structure involving political leadership, public–private dialogue, and *Chuikyo*. Behind technical indicators such as the 4.8% average divergence rate lie multiple, and often competing, policy objectives: fiscal discipline, burden reduction for the working population, industrial competitiveness, pharmaceutical innovation, and supply stability.

In this environment, it is no longer sufficient for companies to respond passively to revision outcomes. A structured, three-dimensional understanding of who shapes which issues, at what stage, and through which forum is essential for effective Government Relations (GR) engagement. Strategic involvement across the entire policy process enhances the likelihood of securing business opportunities in the Japanese market and improves the robustness of medium- to long-term investment decisions.

Appendix

Three-Layer Decision-Making Structure for FY2026 Drug Price Revision

Sources / References

(Japanese originals; titles translated into English)

Cabinet Decision: Basic Policy on Economic and Fiscal Management and Reform 2025 ("Honebuto 2025")
Japanese title:
「経済財政運営と改革の基本方針2025」
Issuing body: Cabinet of Japan (June 2025)
Link (Japanese):
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Preliminary Results of the FY2025 Drug Price Survey
Japanese title:
「令和7年度 薬価調査（速報値）」
Issuing body: Ministry of Health, Labour and Welfare (MHLW)
Link (Japanese):
https://www.mhlw.go.jp/content/10808000/001603502.pdf

Generic Drug Market Penetration Status in Japan
Japanese title:
「後発医薬品の使用促進の現状」
Issuing body: Ministry of Health, Labour and Welfare (MHLW)
Link (Japanese):
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「自民党・日本維新の会　社会保障改革に関する政調会長間合意」
Key reference (OTC-like drugs and 'special charge' system):
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「中央社会保険医療協議会 薬価制度改革に関する議論」
Issuing body: Ministry of Health, Labour and Welfare (MHLW)
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Submissions from Pharmaceutical Industry Associations on the FY2026 Drug Price Revision
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https://www.phrma-jp.org/news/press-release/251226_pressrelease/
（EFPIA Japan）
https://www.efpia.jp/link/2025-12-26_Joint_Statement_on_FY2026_Drug_Pricing_Reform_and_CEA_System_Reform_Framework_(J)_FINAL(Rev).pdf

NOTE:
- Exchange rate assumption used throughout the report: USD/JPY = 150
- All monetary figures are shown as JPY with USD equivalents for international readers
- Source links intentionally point to Japanese originals to ensure primary-source traceability for policy professionals

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