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**Statement by Mr. Andrianarivelo, Mr. Sylla, and Mr. Sidi Bouna on Japan
(Preliminary)
Executive Board Meeting
April 1, 2022**

We thank staff for a comprehensive set of reports and Mr. Tanaka, Ms. Kashima, Mr. Naka, and Ms. Ogihara for their insightful Buff statement.

We welcome the continuing recovery of the Japanese economy but note that the country's outlook remains uncertain, and risks are elevated. The Japanese authorities should be commended for the substantial policy support they have provided to help alleviate the health and socio-economic impacts of the pandemic. We are pleased to note that the economic recovery initiated in 2021 is forecast to continue in 2022, led by additional strong fiscal and monetary policy support and a rebound in private consumption. We also note, however, that Japan's medium-term outlook is subject to considerable uncertainty and that downside risks dominate the outlook.

Fiscal support should be maintained until the recovery firmly takes hold and uncertainty from the pandemic and the conflict in Ukraine recede. We welcome the additional fiscal policy measures approved late last year and targeted at the health sector and at the firms that continue to be affected by the pandemic. The authorities should also consider further contingency planning to account for increased geopolitical uncertainty from the war in Ukraine. Over the medium- and longer-term, rebuilding buffers and taking steps to ensure that the fiscal position becomes sustainable, and particularly, that public debt stabilizes is put in on downward trend should be a key priority of fiscal policy. However, this adjustment should be achieved gradually and undertaken in the context of a medium-term fiscal framework.

The monetary authorities should strike the right balance between prolonged accommodation and sustainability of the monetary policy stance while also ensuring that financial regulation adequately addresses vulnerabilities. Maintaining the current accommodative monetary policy stance remains appropriate given elevated uncertainty and an inflation rate that is projected to remain below the central bank's 2 percent target. While the authorities should maintain their accommodative stance over the medium term to help support the recovery and achieve the central bank's inflation target, they should also take additional steps to ensure that the accommodative stance is sustainable. To that effect, we welcome the recent changes to the monetary policy framework which have helped enhance the flexibility of monetary policy. However, we also note that these adjustments will not be sufficient to help reach the central bank's inflation target and we would like to encourage the authorities to consider the additional refinements towards that goal proposed in paragraph 28 of the report. We fully support the call to reinforce financial supervision and regulation by the Financial Services Agency to contain vulnerabilities, including by strengthening the macroprudential toolkit and expanding the scope of systemic risk assessment which will enable the agency to be in a better position to address risks.

Making further advances in the structural reform agenda, including on climate and digital transformation, will be crucial to raising Japan's growth potential. The country's ageing and declining population continues to adversely affect potential growth. We share the assessment that reforms in this area should focus on increasing labor supply. Actions to raise wages, notably of women and older workers, as well as to boost productivity, and support investment will also be essential. *On these key reforms, we would appreciate Staff's comments on timeline and steps taken so far on the opening of labor market to foreign workers, women labor force, etc.* We welcome Japan's carbon neutrality commitment and encourage the authorities to continue to advance their green growth strategy and investments in climate-resilient infrastructure. Digital transformation should also be pursued through accelerated efforts to digitalize the public sector, as well as the introduction of incentives for the private sector to promote digital investment.