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# **HAS SHOCK PERMANENTLY CHANGED THE WORLD ECONOMIC CLOCK?**



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employment, immigration and pensions law. These groups blend expertise and experience from across the globe to meet workplace challenges and offer innovative solutions to employers.

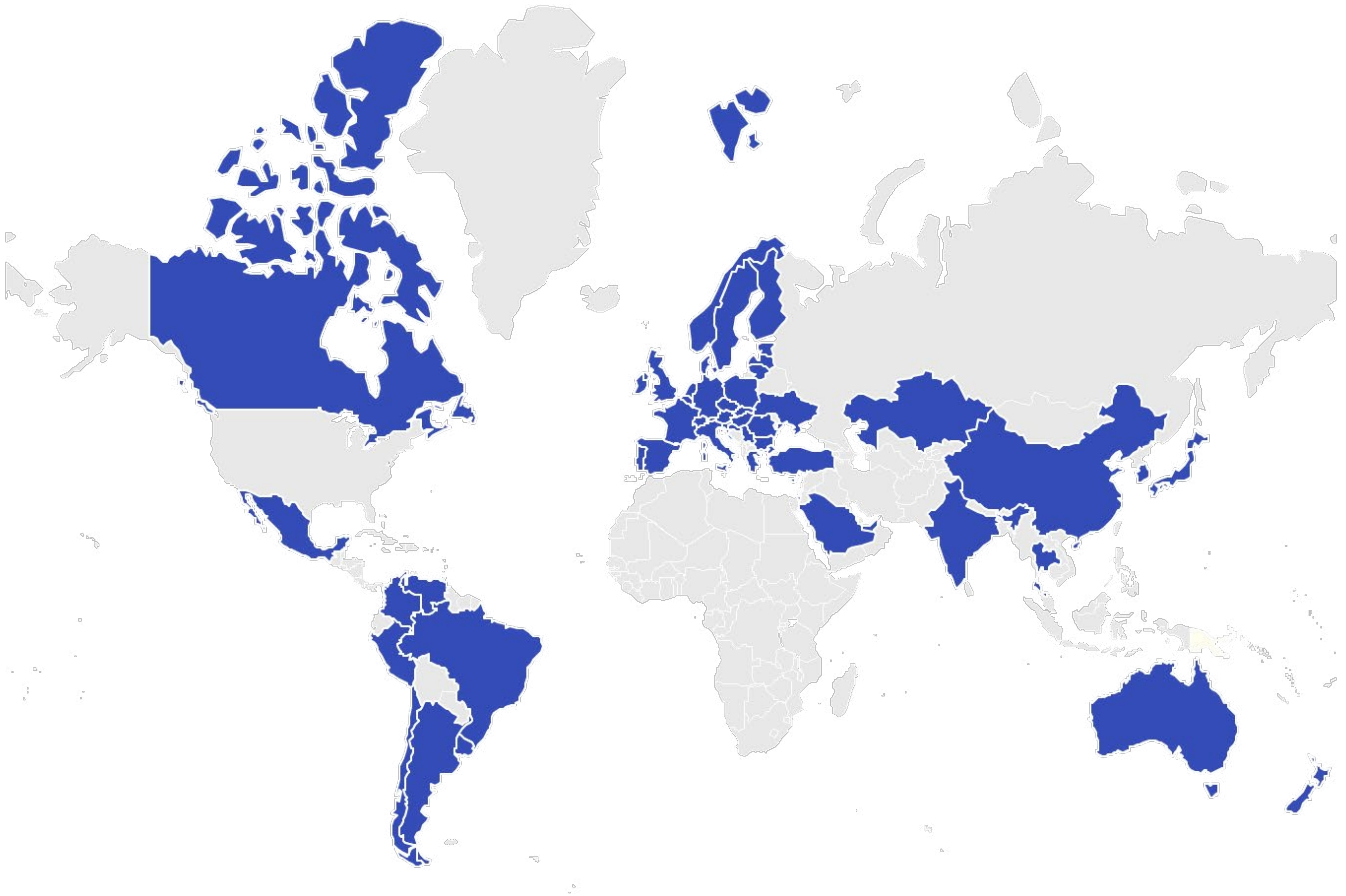
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This report is the result of collaboration between all our expert groups, the policy group, and our central team.

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# INTRODUCTION

The past few years have been anything but calm, as the world has faced a series of overlapped challenges that have tested and reshaped economies across the globe. It began with the unprecedented strain of the pandemic, which pushed many economies to their limits. Just as the world started to recover, geopolitical tensions and energy crises added new layers of complexity and pressure. As a result, inflation surged in many regions, leaving no corner of the global economy untouched.

Governments have turned to fiscal and monetary policies in response to the growing challenges, resulting in significant economic transformation. And further down the line, the labour market has experienced its own shifts. Wage growth, productivity and employment patterns have changed rapidly across different parts of the world.

Now, the world seems to be stabilising in many ways. Economic growth has levelled off, and inflation is falling across many countries. However, economists remain concerned because inflation rates are still higher than they were before the pandemic, and it appears unlikely that the global economy will return to its pre-pandemic trajectory anytime soon.

In this report, we examine certain key macroeconomic indicators to understand where we stand today, how far we've come, and how this evolving economic landscape is affecting the labour market.

**Deborah Ishihara**  
Head of Research, Content and Learning,  
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# UNDERSTANDING THE GLOBAL LANDSCAPE

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# GLOBAL GROWTH HITS A SPEED BUMP

In the aftermath of the pandemic, economists have been closely observing the evolving economic landscape and, in particular, tracking changes in global GDP, which measures the size and performance of economies. Despite its limitations, the growth rate of real GDP (inflation-adjusted) is widely regarded as a key indicator of an economy's overall health and therefore a rise in real GDP signals that the economy is performing well and expanding effectively.<sup>1</sup>

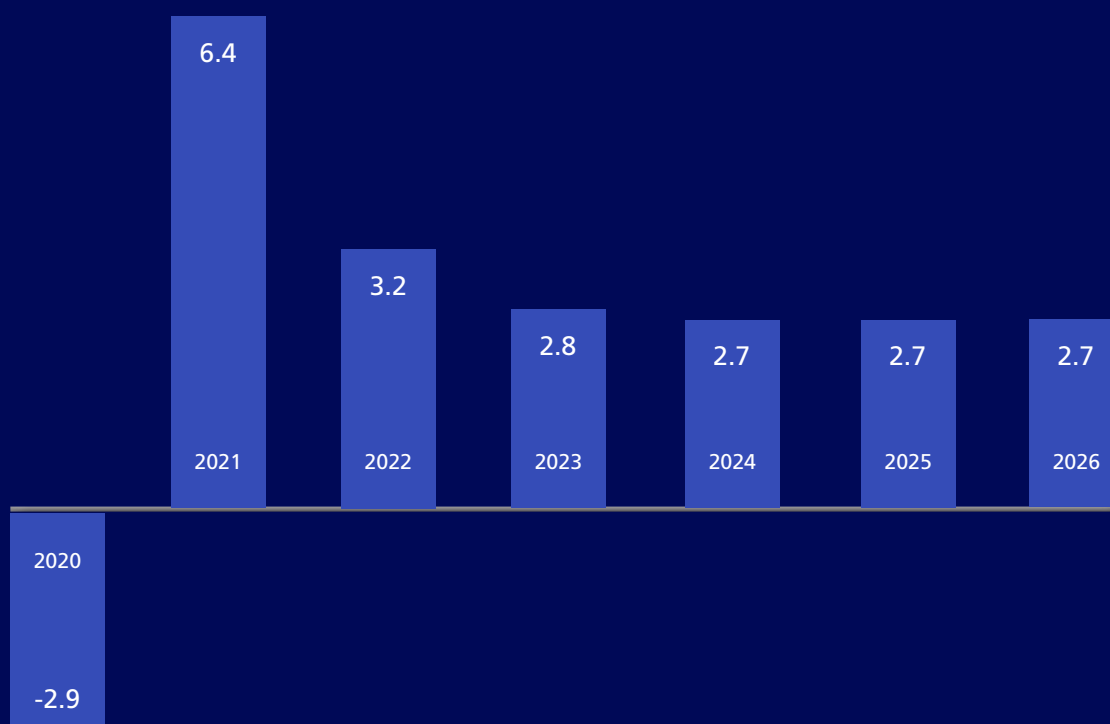
Growth, however, is less about its immediate fluctuations – which are often volatile during

crises such as the pandemic - and more about the broader trajectory. Historically, during economic shocks, such as the 2008 financial crisis, GDP has tended to show a sharp decline followed by a sudden short term rebound.

During the pandemic, for instance, a global economic downturn was driven by widespread lockdowns and restrictions that brought economic activity to a halt. Once these restrictions were lifted, growth surged in the opposite direction, as businesses resumed operations.

## Real GDP

*Percent change from previous year*



Source: World Bank, Global Economic Prospects 2025



To illustrate, real GDP growth fell to -2.9% in 2020 due to pandemic-related limitations but rebounded strongly to 6.4% in 2021, following just the partial removal of restrictions. It then moderated to 3.2% in 2022 and 2.8% in 2023, and further to 2.7% in 2024.<sup>2</sup> The key question now is whether global growth will return to pre-pandemic levels or settle into a slower pattern.

According to predictions by the World Bank,<sup>3</sup> the global economy is stabilising, but doing so

at a slower pace than the pre-pandemic 2010s. Global growth stood at 2.7% last year and is expected to maintain this rate through 2025-26. This projection indicates that growth will remain 0.4 percentage points below the average seen between 2010 and 2019.







# INFLATION STILL ABOVE PRE-PANDEMIC LEVELS

While slowed economic growth reflects the struggles of stagnating economies, rising inflation rates - the pace at which prices increase over time - add another layer of complexity to the global economic landscape. Inflation has often been associated with significant challenges. It has a reputation for destabilising nations, and was famously declared “Public Enemy No. 1” by US President Gerald Ford in 1974.<sup>4</sup>

In the post-pandemic era, inflation has surged almost everywhere, driven by heightened geopolitical tensions and escalating energy prices. According to the IMF, global headline inflation stood at just 3.5% in 2019, but by 2022, it had soared to 8.6%. Although inflation has since eased to 5.8%, it remains well above pre-pandemic levels.<sup>5</sup>

The IMF forecasts further declines, with global

headline inflation expected to drop to 4.3% in 2025. However, this would still be higher than the 2019 benchmark, and a return to pre-pandemic inflation levels may not occur until 2026 or 2027 - provided no new economic shocks disrupt this trajectory.<sup>6</sup> Persistent inflationary pressures have prompted central banks around the world to maintain cautious monetary policies. Benchmark interest rates in both advanced and emerging economies are expected to remain elevated, averaging nearly double the levels seen between 2000 and 2019.<sup>7</sup> However, central bank strategies are not uniform. The European Central Bank indicated a gradual move towards easing last year,<sup>8</sup> whilst the US Federal Reserve adopted a more hawkish approach, keeping rates higher for longer.<sup>9</sup>

Inflation is problematic for many reasons, one of them is its uneven impact on prices.<sup>10</sup> In practice, not all prices adjust at the same pace. For

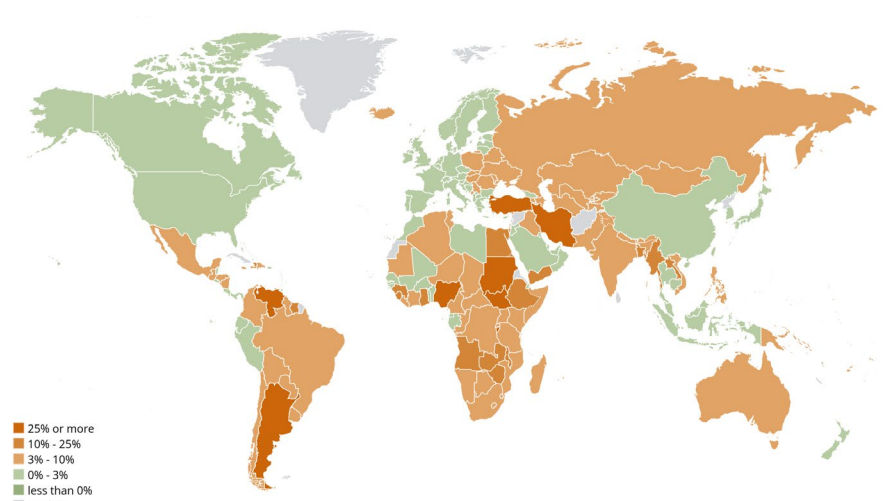
example, the prices of traded commodities may change daily, whereas wages, often set by long-term contracts, are slower to adapt and, in some cases, can remain sticky for extended periods. This uneven rise in prices reduces the purchasing power of certain groups, particularly for those relying on fixed income streams.

Inflation, however, affects more than just individual purchasing power. Companies face declining purchasing power as well, as the cost of raw materials and intermediate products rise, so reducing their profit margins.<sup>11</sup> To compensate, businesses often increase the prices of their products for consumers. For small businesses, this can be particularly challenging, as it may erode their competitiveness. Further increases in consumer prices create additional challenges for society and complicate business operations, ultimately affecting sales.

The impact of inflation is not felt equally across society. Lower-income groups are often hit the hardest, as they have less ability to absorb rising costs. Over time, this disparity threatens to exacerbate income inequality, posing long-term challenges to economic and social stability.<sup>12</sup>

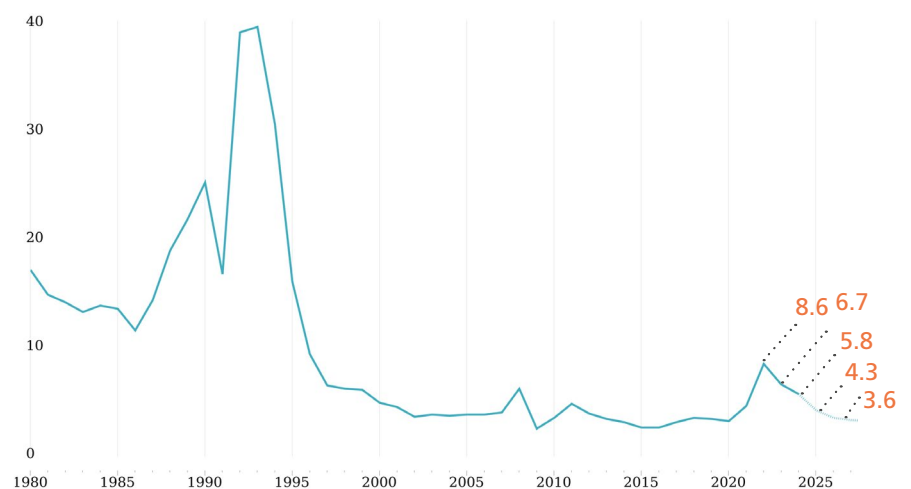
## Inflation rate, average consumer prices, 2025

Annual percent change



## Inflation rate, average consumer prices, world, 1980 - 2026

Annual percent change



Source: International Monetary Fund Datamapper

# THE LONG TAIL OF INCOME INEQUALITY

Before the world faced the surge of post-pandemic inflation, income inequality within countries had already been rising and had been recognised as a global issue for decades. This is reflected in the UN General Assembly's Sustainable Development Goals (SDGs), with SDG 10 specifically aiming to reduce inequality within and among countries.<sup>13</sup>

When it comes to income inequality, the reality is this: despite expectations, economic growth often fails to benefit all segments of society. While GDP provides an overview of a country's economic health, it does not reflect how wealth is distributed. In many instances, economies grow, yet significant portions of the population experience little-to-no improvement in their standard of living.

Income inequalities can be categorised into two types: within-country and between-country inequalities. The former refers to the uneven distribution of income amongst a nation's population, whilst the latter reflects differences in the average income of individuals across different countries.

In contrast to income inequality within countries, global income inequality between nations has shown some improvement over the past 25 years, largely driven by rapid economic growth in countries such as China and other Asian economies. However, significant disparities remain. For instance, the average income in North America is still around 16 times higher than in sub-Saharan Africa.<sup>14</sup>



Although the world appears to be moving towards equality between nations, income inequality within countries has worsened. Currently, over 71% of the global population lives in countries where internal inequalities have increased.<sup>15</sup> Income inequality is often measured using the Gini coefficient, a metric developed by Italian statistician Corrado Gini in 1912. The Gini coefficient ranges from 0 to 1, with 0 representing perfect equality (where everyone earns the same) and 1 representing complete inequality (where one person earns all the income).

Inequality affects all countries, though patterns vary significantly. In high-income countries, inequality persists as a significant and ongoing issue. For example, in the United States, the Gini coefficient was 0.4 in 2000, and by 2023 it had increased slightly to 0.41. Countries such as Germany and France have lower levels of inequality compared to the United States,

but their Gini coefficients have seen small changes over the last two decades as well. In 2000, Germany's coefficient was 0.29 and France's was 0.33, by 2023, these figures had reached 0.32 in both countries.<sup>16</sup>

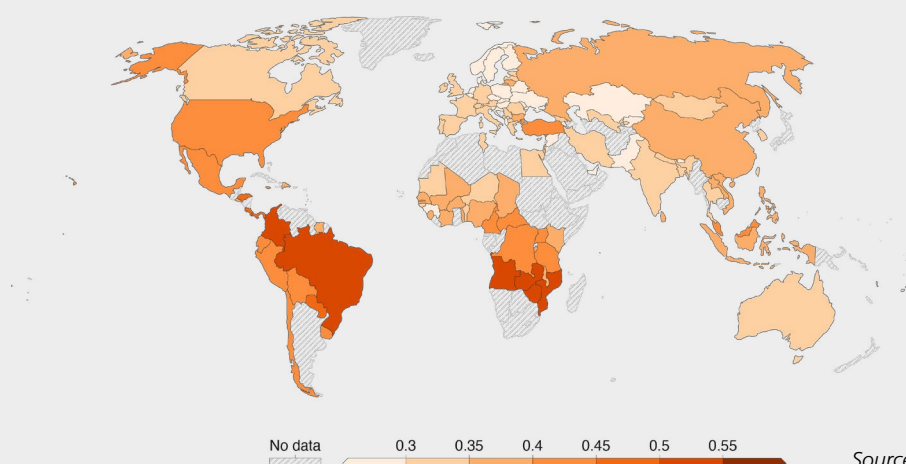
Income inequality within a country poses significant challenges for both society and business. High income inequality often leads to reduced social cohesion, increased tension and a lack of equal opportunities, which can undermine trust in institutions and the rule of law. It can exacerbate poverty and limit access to good quality education, healthcare and housing for lower-income groups, creating a poverty trap for generations. It can also result in political and social instability, which can, in turn, stifle economic growth and innovation.

Growing inequalities also place additional pressure on labour markets, as limited

access to education and healthcare prevents a segment of the population from fully participating in the workforce. This is particularly problematic in markets already experiencing labour shortages and where an ageing population adds another layer of strain.

Addressing inequality requires structural and fundamental changes, many of which may only yield results in the long term. In the short term, however, some positive developments are emerging, with global real wage growth turning positive in 2023 and 2024. Income inequality had risen sharply following the pandemic, driven partly by increasing prices and stagnant real wages, which reduced the purchasing power of low-income individuals and widened income gaps. Recent analyses show improvements, though wage growth still varies significantly across countries and regions.

## Income inequality: Gini coefficient, 2023



The Gini coefficient ranges from 0 to 1, with 0 representing perfect equality (where everyone earns the same) and 1 representing complete inequality (where one person earns all the income)

Source: Our World in Data. Economic inequality: Gini index





# REAL WAGES REBOUND, BUT SLOWING PRODUCTIVITY GROWTH RAISES CONCERNS

Post-pandemic inflation has left its mark on real wages. Annual growth trends reveal a 0.9% decline in global real wages in 2022. Excluding China, where real wage growth has been higher than in most other countries, the decline has reached 1.5%. However, in 2023, as inflation began to ease after the pandemic, global real wage growth returned to the positive, reaching 1.8%, just 0.1% lower than in 2019, the year before the pandemic started.<sup>17</sup>

In the G20 countries, which account for about 85% of global GDP and 60% of wage employees, a similar pattern emerged in 2022. Real wages in the G20 fell by 0.8% overall. However, while advanced G20 economies

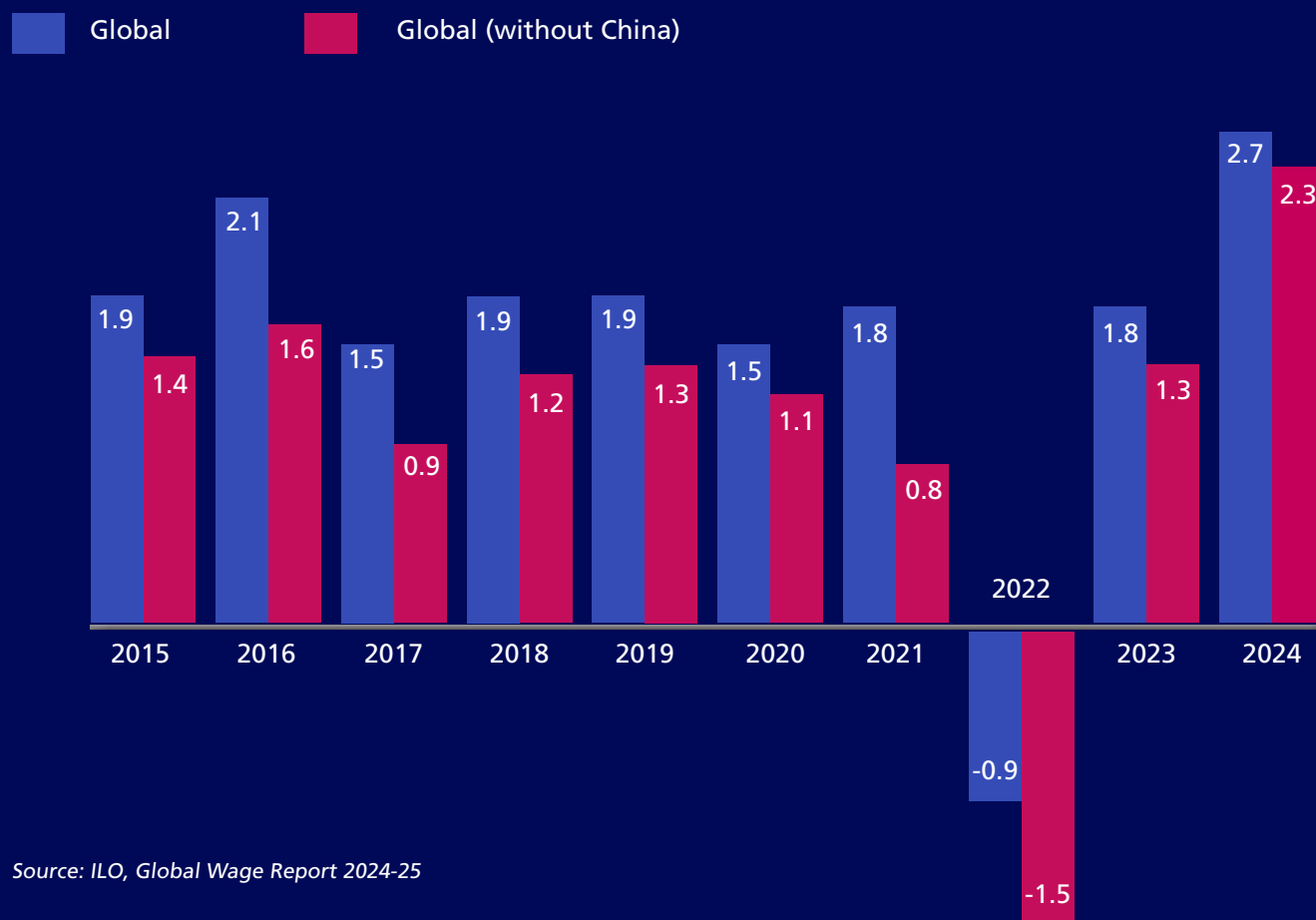
experienced a sharper decline of 2.8%, real wage growth in emerging G20 economies slowed but remained positive at 1.8%. In 2023, the disparity widened further, with real wages in advanced G20 economies still falling by 0.5%, while emerging G20 economies recorded a significant increase of 6.0%, the highest in the past decade.<sup>18</sup>

In 2024, the G20's real wage growth is projected to align with global trends at 3.1%. Advanced G20 economies are expected to see a recovery, with real wages growing by 0.9%, whilst wage growth in emerging G20 economies is forecast to remain strong at 5.9%.<sup>19</sup>



# Annual average global real monthly wage growth, 2015 - 2024

Change (%)



Source: ILO, Global Wage Report 2024-25

Despite signs of recovery in real wages, economists are concerned about slowing productivity growth, which poses risks to long-term economic growth and sustainability. However, this slowdown in labour productivity growth is not a new phenomenon, as it has been observed in many major industrialised economies since the 1970s.

Productivity, measured as GDP per worker, plays a crucial role in economic growth models, and the relationship between wages and productivity has always been central to

macroeconomic analysis. Decline in productivity growth can hinder GDP, result in wage stagnation and deepen various forms of inequality. While this issue has traditionally been more associated with high-income countries, it is now becoming increasingly relevant for developing economies as well.

The expectation that technological advancements, particularly in digital technologies, would boost productivity growth has not been fully realised. Over the last two decades, productivity growth has continued to slow

despite significant technological progress. Moreover, structural transformation, in which employment shifts towards more productive sectors, has also decelerated, particularly in developing countries. Labour productivity growth in G20 countries fell from an average of 2.4% between 2005 and 2011, to just 1.1% between 2019 and 2022. According to IMF projections, global productivity growth is expected to decline further. This trend spans all income level country groups, although with some variations.<sup>20</sup>

On the other hand, data from

the ILO reveals that while productivity growth is slowing down, it is also failing to translate into proportional wage growth. In high-income countries labour productivity increased by 29% between 1999 and 2024, while real wages only grew by 15% over the same period. This disparity highlights a disconnect between productivity and income gains for workers.<sup>21</sup>

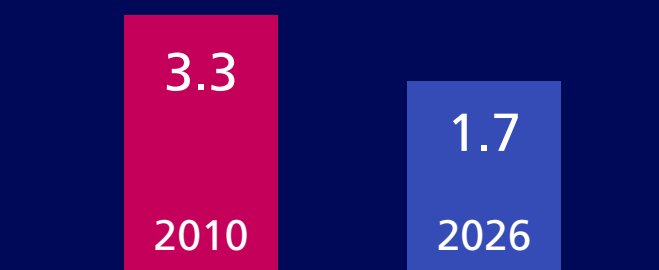
As to where productivity is declining, there are several causes for this. Part of it can be attributed to a reduction in the structural transformation towards manufacturing and high-productivity services. However, this does not fully explain the decline, as productivity growth within productive sectors has also weakened, particularly in industrial and modern service sectors, despite substantial investment in automation over the past decade.

Productivity growth requires well-designed structural approaches at the policy, sectoral and enterprise levels. This includes creating an 'enabling' environment for entrepreneurship and sustainable enterprises, improving access to finance and providing robust public support for technological innovation and skills development. Strong labour market institutions and effective social dialogue are also essential to ensure that productivity growth translates into wage growth, which in turn fosters economic and social progress.



## Labour productivity, growth of GDP per worker, world, 2010, 2026

Percentage



Source: ILO, *World Employment and Social Outlook 2025*



# THE DEVIL CLAPS WITH TWO HANDS: AGEING WORKFORCE AND SKILLS MISMATCH IN THE LABOUR MARKET

A slowing global economy, inflation, growing income inequality and stagnant productivity are creating a mix of challenges for the labour market. Add an ageing workforce and skills gap to that pot and it feels like it might boil over.

The ageing population is becoming a global reality. Thanks to advances in healthcare, nutrition and living standards, people are living longer than ever before. According to the United Nations, global life expectancy has increased from 64.9 years in 1995 to 73.3 years in 2024 and is expected to reach 77.4 years by 2054. By

the late 2050s, over half of all deaths worldwide are expected to occur among people aged 80 or older, a significant increase from just 17% in 1995. But while people are living longer, they have fewer children. Birth rates have been declining globally in the last several decades. In the 1960s, the average woman had five children. By 2024, this number had dropped to 2.25 children per woman, with further declines expected. Currently, only 45% of countries and regions worldwide have fertility rates at or above 2.1 births per woman, which is considered the replacement level.<sup>22</sup>

This shift has led to an ageing population in many countries. By the late 2070s, the global population aged 65 and older is expected to rise to 2.2 billion, surpassing the number of children under the age of 18. By the mid-2030s, it is projected that the number of people aged 80 and above will exceed 265 million, outnumbering infants under one year old. In countries where population growth has already peaked or is expected to peak in the coming decades, this shift between the number of children and older adults will occur earlier. Even in nations with rapidly growing populations and younger demographics, the number of people aged 65 and older is anticipated to grow significantly over the next 30 years. While Europe and North America currently have the highest proportions of older people, regions such as North Africa, Western Asia and Sub-Saharan Africa are expected to see rapid growth in their elderly populations over the coming decades.<sup>23</sup>

An ageing population presents several challenges for governments. Social spending and healthcare budgets are increasing, while shrinking working-age populations are putting upward pressure on labour costs. Pension systems are facing growing pressure, as fewer workers contribute to funds while more retirees draw from them. This demographic challenge has already sparked heated debates, protests and discussions about pension reforms in many countries.

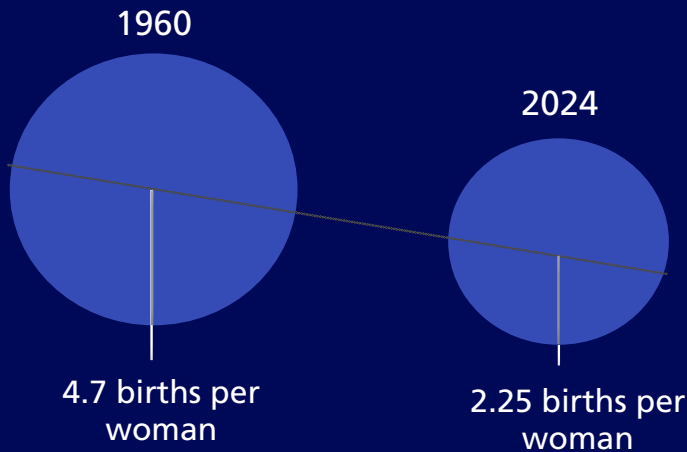
## Global life expectancy, 1995, 2024, 2054

Years



Source: UN, World Population Prospects 2024

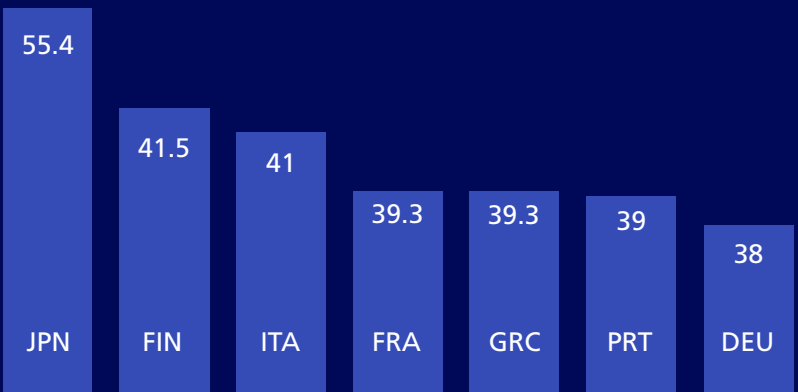
## Births per woman, total



Source: UN, World Population Prospects 2024

## Old-age dependency ratio, 2024

Percentage



Source: OECD Data



To better grasp the scale of the issue, all one needs to do is to look at the old-age dependency ratio. It shows how many elderly people there are compared to the working-age population. In 2024, Japan had the highest old-age dependency ratio at 55.4%, meaning there were 55.4 individuals aged 65 or older for every 100 working-age people. Other countries with high ratios include Finland, Italy, France, Greece, Portugal and Germany.<sup>24</sup>

While the ageing workforce is putting long-term pressure on the labour market, a concurrent challenge is the growing mismatch between the skills workers possess and those required in different sectors. On the one hand,

an ageing population is intensifying competition for workers, on the other, a persistent skills gap adds another layer of complexity as businesses struggle to find people with the right skills in an already tight labour market. Together, these two trends threaten to increase market pressures in the short term and pose significant long-term risks if appropriate measures are not taken.

The skills mismatch - unlike the ageing workforce which stems from natural demographic shifts - is largely fuelled by rapid technological advancements that are reshaping job requirements across various sectors. Jobs in science, technology, healthcare and IT are growing, but there

are not enough workers with the right expertise to fill them. Rapid advances in technology are also changing traditional roles, making it essential for workers to continually learn new skills.

Investing in specialised training and upskilling is essential to bridge these gaps. The education systems and lifelong learning initiatives that are developed will need to prioritise digital skills as foundational capabilities, whilst ensuring equitable access to training opportunities. It is equally critical to address social inequalities, including gender disparities, to ensure that no group is left behind in the evolving labour market.





A black and white photograph of a city street, likely in New York City, featuring tall buildings and a clock tower. A large blue rectangular overlay is positioned in the center, containing the text "REGIONAL PERSPECTIVES" in white, bold, sans-serif capital letters. The background shows a mix of modern and older architecture, with a prominent clock tower on the right and a tall, slender building in the center background. The sky is overcast.

# REGIONAL PERSPECTIVES



# REGIONAL PERSPECTIVES

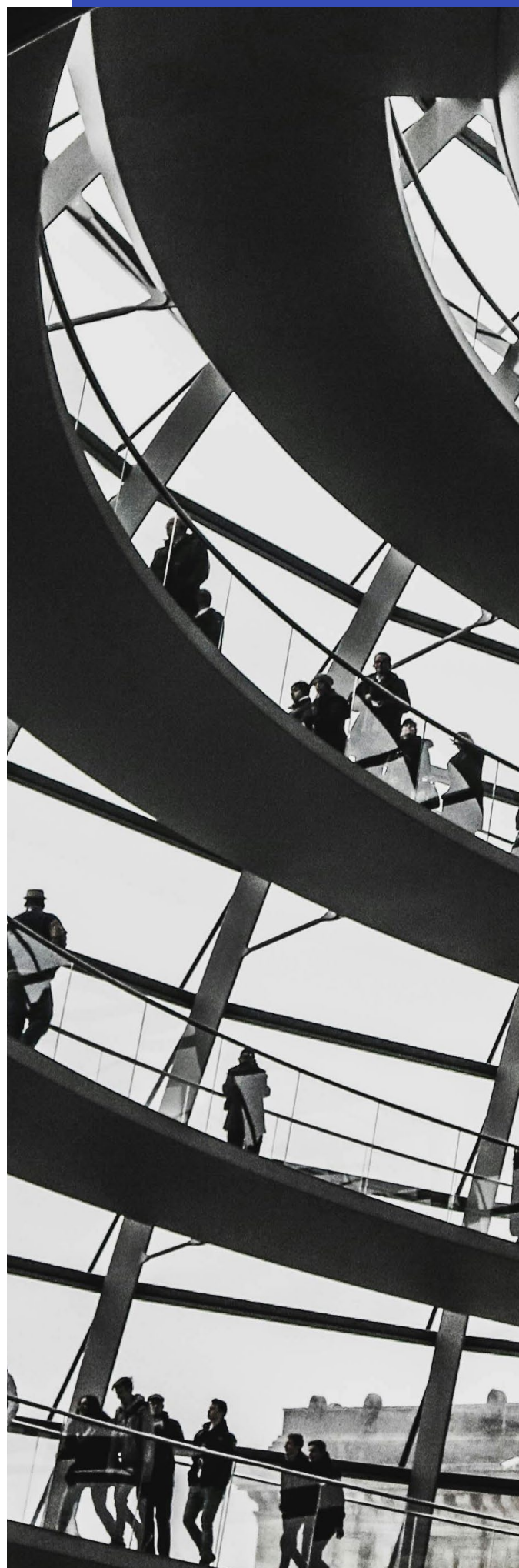
While overarching global trends are common, their impact and manifestation vary significantly across the regions due to local context, historical legacies and varying levels of development. For instance, the ageing population is a universal challenge, but its impact is more pronounced in regions such as Europe and East Asia, compared to Sub-Saharan Africa. Similarly, economic pressures, such as inflation and labour shortages may affect all countries but play out differently depending on local industries and workforce structures.

## EUROPE

The EU economy, after a period of broad stagnation, returned to growth in early 2024. Real GDP growth was 0.9% for the EU and 0.8% for the Euro area. Growth is anticipated to improve to 1.5% in 2025 as household spending gains momentum and investment rebounds from the contraction experienced in 2024. By 2026, growth is expected to expand by 1.8%, underpinned by steady demand growth. The Euro area is likely to follow a similar trend, with projected growth of 1.3% in 2025 and 1.6% in 2026.<sup>25</sup>

Inflation in the Euro area rose slightly, reaching 2.4% in December 2024, the highest level since July. This marks an increase from 2.2% in November. Among major economies in the region, inflation rose in Germany (2.8% compared to 2.4%) and France (1.8% compared to 1.7%) but eased slightly in Italy (1.4% compared to 1.5%).<sup>26</sup>

Labour shortages remain a persistent challenge across much of Europe, despite a drop in job vacancies. These shortages are particularly pronounced in sectors such as science,





technology, engineering, healthcare and ICT. Northern and Western European countries such as Norway, Denmark, Germany and France continue to face acute shortages, partly driven by skills mismatches and demand in emerging fields such as renewable energy and sustainable technologies. Eastern European countries like Romania and Croatia are also struggling with shortages, exacerbated by the emigration of young, skilled workers.<sup>27</sup>

Labour productivity is becoming an increasingly pressing issue in the region as well. Between 2021 and 2023, real labour productivity per hour worked fell by 0.1% annually, a stark contrast to the 1% annual growth recorded during the 2010 - 2019 period. This decline has been partly driven by labour hoarding, where firms retain workers despite economic uncertainties, a practice that has remained elevated since the pandemic. The issue of declining productivity is further exacerbated by persistent skills mismatches in the labour market, particularly in major economies such as Germany and France.<sup>28</sup>





## CHALLENGES IN FRANCE

Economic activity in France remained steady in 2024, but GDP growth is expected to slow to 0.8% in 2025 due to fiscal adjustments and to recover only in 2026, when it should reach 1.4%. Inflation is projected to fall below 2% by 2025.<sup>29</sup>

Public debt in France is projected to rise to 115% of GDP in 2025, up from 112% in 2024, and is expected to reach 117% by 2026. This growing debt has created significant uncertainty in the business environment. Political instability has added to this uncertainty, as the French parliament lacks a majority, making it difficult to pass reforms or set clear economic policies.<sup>30</sup>

France's labour market faces persistent challenges in recruitment and productivity. According to the Labour Needs Survey, which examined data from 1.6 million companies, six out of ten employers reported difficulties in hiring. These issues are primarily due to a lack of candidates and ongoing skills mismatches.<sup>31</sup>

We recently spoke with Pascal Lagoutte, Chairman of Ius Laboris and founding and managing partner of our French law firm, to explore the current situation in his country and the measures being taken by the government and businesses.

**France is facing significant recruitment challenges, which have persisted for several years already. What measures is the government taking to address the situation, and what steps are businesses taking to tackle it?**

"Yes, you're absolutely right, it's a big issue for most of our clients to find the manpower they need and the skills they require in today's labour market. Some efforts are being made by government, but there is a limit to what government can do.

In France, the government has a huge employment department that supports job seekers. In 2023, a new law was passed, and it came into force in 2024. By 2025, it should start producing results.



This law created a new organisation called *France Travail*. The idea is to reform the unemployment system by strengthening personalised support for unemployed individuals and expanding the range of services available to them. The focus is particularly on those furthest from employment, and the aim is to reduce the number of jobs that remain unfilled due to a lack of applicants.



**Pascal Lagoutte**

Chairman  
Ius Laboris

It's a strange situation when you think about it. On one hand, there are many people looking for jobs, and on the other, there are companies desperate to find workers. How do we reconcile this contradiction? The government's plan is to offer better, more targeted support to unemployed people to ensure they get the right assistance. At the same time, there's a push to reform unemployment benefits. It's going to be tougher to access benefits—you'll need to prove that you're seriously trying to find work, participating in training, or upgrading your skills. Benefits will also be reduced in duration, pushing people to engage more actively with the job market.

By combining these two approaches—the carrot and the stick—the government hopes to have

a real impact. They want to ensure that unemployed people either accept jobs or follow training programmes to help them become employable.

Companies are also doing a lot to address these issues. The first thing they focus on is retention—they're trying to hold onto their existing talent. It's so difficult to recruit new people that they can't afford to lose the ones they already have. Employers are introducing new salary policies and long-term incentives to keep employees on board for as long as possible.

At the same time, they're revisiting their recruitment practices. Companies are rethinking their methods and strategies to attract candidates in such a tight







labour market. Employer branding has become a big focus. Many are working to improve their image by addressing environmental, social, and governance (ESG) issues, which are especially appealing to the younger generation, who want their work to have meaning.

Another key area is training. Companies are investing in in-house training programmes to help their employees upgrade their skills and meet organisational needs. However, they're becoming more selective about the training they offer. Employees need to show that the training they're asking for is directly tied to the company's goals and the skills required for their roles."

**Alongside existing challenges, France is also facing growing public debt. This situation has heightened uncertainties in the business environment, affecting employers and their plans for 2025 and beyond. What are your observations on the situation, and what reactions have you seen so far?**

"In France, we're facing a significant issue with public debt, and this is creating a lot of uncertainty for businesses. On top of this, the political situation isn't helping. We have a fragmented parliament with no clear majority, making it nearly impossible to pass reforms.

Because of this, many companies are putting their investment plans on hold. Whether it's acquiring a new business, opening a new plant, or expanding operations, everything is being delayed. Businesses don't want to commit to investments while there's so much uncertainty about where the country is heading. There's also a widespread fear that taxes will increase—whether on companies, employers, or via social contributions—and that's further discouraging investment.

When it comes to hiring, the situation is similar. Most companies are only replacing staff or filling existing roles—they're hesitant to open new positions unless they were already budgeted for. Convincing management to approve new hires outside of the budget is incredibly challenging."

## What major changes can we expect in 2025?

“As for 2025, I don’t think we’ll see many major changes, at least in terms of employment law. The parliament is completely frozen at the moment—there’s no majority to push through reforms. The president can’t call elections until mid-2025, and even if a new law is proposed, it would take months to implement. So, realistically, we’re unlikely to see significant changes before September 2025.

The real question is whether the reforms introduced over the past seven years will hold. During that time, we saw a lot of progress in terms of flexibility and simplification of labour laws, which made the market more adaptable. However, with the government now relying on support from opposition parties, there’s a risk that some of these reforms could be reversed in exchange for political compromises.”







Another significant challenge Europe has faced recently is a sharp increase in energy prices owing to geopolitical tensions. During 2022 and 2023, the EU experienced an unprecedented rise in energy costs, driving inflation and increasing the cost of living for millions. Gas prices spiked dramatically following disruptions in supply, impacting everything from household heating to industrial production. Even wealthier countries have felt the strain, and the effects are still being felt today.<sup>32</sup>

This has been especially true for Germany, where industries heavily reliant on natural gas, such as chemicals and fertilisers, have been hit particularly hard. Recent data shows a steep decline in key economic indicators, with some German businesses scaling back operations or temporarily shutting down due to soaring energy costs.

In early 2025, European gas prices rose again by 4.3%.<sup>33</sup> This may put further pressure on energy-intensive industries.



## THE POSITION IN GERMANY

Economic activity in Germany contracted by 0.1% in 2024, marking the second consecutive year of negative growth. The downturn was driven by weak domestic and foreign demand for industrial goods, high uncertainty impacting investment, and challenges in the construction sector, including labour shortages and subdued demand. Despite a mid-year rebound in household consumption and government spending, overall growth remained constrained. Inflation fell to an average of 2.4% in 2024, with further moderation expected in 2025 and 2026. Domestic demand is set to recover, supported by rising real wages, tax incentives for investment and lower financing costs. GDP growth is forecast to improve to 0.7% in 2025 and 1.3% in 2026, although high energy costs are expected to continue weighing on energy-intensive industries.<sup>34</sup>

In a recent conversation with Burkard Göpfert, partner in our German law firm, we discussed the country's current economic landscape and what to expect in the years ahead.

Germany technically entered a recession in early 2024, driven by reduced industrial output, energy price volatility and weak global demand for exports. The country also faced significant challenges in its labour market, including layoffs in the automotive and manufacturing sectors, as well as a skills mismatch in the renewable energy and tech industries. What is the current situation, and what can we expect in the near future?

"I don't see the situation in Germany as entirely negative. We are going through a transformation process, just like many other countries around the world. Yes, some



**Burkard Göpfert**  
Partner  
Ius Laboris Germany

areas of our industry have been hit particularly hard, but this is largely due to specific decisions made in recent years and the broader global industrial climate, which will continue to be shaped by future developments.

We are also seeing the end of the 'golden era' of foreign investment in Southeast Asia and China. For about 30 years, German companies experienced significant growth in those regions, but these are now mature markets, often facing challenges. This is a natural progression in global economic history—no market can be relied upon forever. We are now in a phase of adaptation.

What makes the current situation more complex is the upcoming national election in February, which is earlier than expected. Polls suggest that no political party—or even a coalition of two major parties—will secure a majority. This could lead to prolonged uncertainty, with Germany potentially going months without a stable government, possibly until the summer. In the worst case, we could see a situation similar to what's happened in countries like Italy or Austria recently, where forming a government has been very challenging.

When the current government came to power three and a half years ago, they introduced an ambitious policy agenda focused on green transformation and sustainable industry. While the vision was admirable, the execution has come at a significant cost, especially in the energy sector. The closure of nuclear power plants, without adequate replacements, has left gaps. Additionally, over-promising on electric vehicles has created challenges, as some of the expectations have not materialised.

In terms of unemployment, however, I don't see this as a major issue in Germany. Instead, the real challenge is the number of open positions that cannot be filled. We face an absolute shortage of workers and need to implement extensive retraining and reorientation programmes. This is particularly important as we prepare for the retirement of 20 million baby boomers in the next five to six years. At the same time, immigration policies need to attract skilled individuals to meet the demands of our labour market. However, we're dealing with waves of refugees who may not have the qualifications required for our advanced labour markets. This mismatch adds another layer of complexity.







As for industrial challenges, there are critical interconnections between Germany's chemical, steel and car manufacturing industries. The chemical industry is struggling due to high energy costs, the steel industry is under pressure from cheap Chinese imports, and the automotive sector faces challenges stemming from governmental decisions. When all three sectors face difficulties simultaneously, it creates a multi-layered problem.

However, I see opportunities within these challenges. Over the past 30 years, I've been involved in many transformation and restructuring efforts. Every crisis presents a chance to innovate and do better.

Germany's industry is also navigating a shift in global power dynamics. Depending on decisions made by the United States, there may be increased cooperation with Chinese companies, particularly in sectors like aviation, automotive and chemicals. Historically, Germany has maintained a delicate balance in its foreign policy, and this will remain crucial as we manage relationships with both the US and China.

Overall, I'm optimistic about Germany's future. While we face significant challenges in energy costs, industrial strategy and labour market dynamics, German companies have historically been resilient. They are already planning for the future, and I believe these transformation efforts will ultimately strengthen our economy. The question is whether government policies will adapt swiftly enough to support these efforts. For companies, I'm confident the answer is yes—they will adjust in socially responsible ways."



# THE AMERICAS

Economic growth in Latin America and the Caribbean is forecast to rise modestly, from 2.2% in 2024 to an average of 2.5% in 2025–26, partly supported by Argentina’s recovery from two years of contraction. While a projected easing of commodity prices is expected to have a moderate impact on some countries, risks to the outlook remain, including policy uncertainty and potential trade shifts in the United States, which could affect exports. Long-term challenges, such as persistent poverty, inequality, and low productivity, continue to weigh on growth prospects.<sup>35</sup>

In Northern America, growth is projected to slow from 2.6% in 2024 to 2.2% in 2025, driven by the United States’ deceleration following tighter monetary policy. However, as inflation stabilises, looser monetary policy is expected to support recovery in 2026. Canada’s growth is forecast to improve, rising from 1.3% in 2024 to 2.4% in 2025, aided by mid-year interest rate cuts. Labour market challenges persist, with ageing populations and skills mismatches contributing to shortages.<sup>36</sup>







## ARGENTINA'S RECOVERY PROSPECTS

Argentina is experiencing a recovery after two years of economic contraction. While inflation, which peaked at nearly 300% early last year, has eased, it remains significantly high. Growth is forecast to rebound, reaching 5% in 2025 and 4.7% in 2026, driven by agriculture, energy and mining. This recovery is supported by macroeconomic stability and recently-introduced business-friendly reforms. The government is expected to maintain tight fiscal policies to sustain progress in reducing inflation and ensure the credibility of its economic framework.<sup>37</sup>

In a recent conversation with Ignacio Funes de Rioja, partner in our Argentine law firm, Bruchou & Funes de Rioja, we discussed the country's recovery from recession, its impact on the labour market, and what to expect in 2025.

**Argentina is recovering from recession, and inflation, despite still being high in accumulative form, is already somewhat stabilising. What are your observations regarding the recovery and what kind of changes are happening in the labour market?**

"What has happened in Argentina so far is truly remarkable. By the end of 2023, the economy was on the verge of hyperinflation.

To me, hyperinflation means a situation where money has no reliable value. That's what we were facing at the end of Alberto Fernández's administration and the start of Javier Milei's presidency.

The transformation of the macroeconomy has been extraordinary. Nobody thought it could happen so quickly. Five years ago, during President Macri's term, similar reforms were attempted, but they were implemented gradually. Unfortunately, this approach failed. Javier Milei, on the other hand, did the opposite. He acted immediately, leveraging his political capital and recognising that the public wouldn't tolerate a slow pace.

It's difficult to say whether it was luck or skill, but it worked. Inflation, which had been the most pressing issue, is



**Ignacio Funes de Rioja**  
Partner  
Ius Laboris Argentina

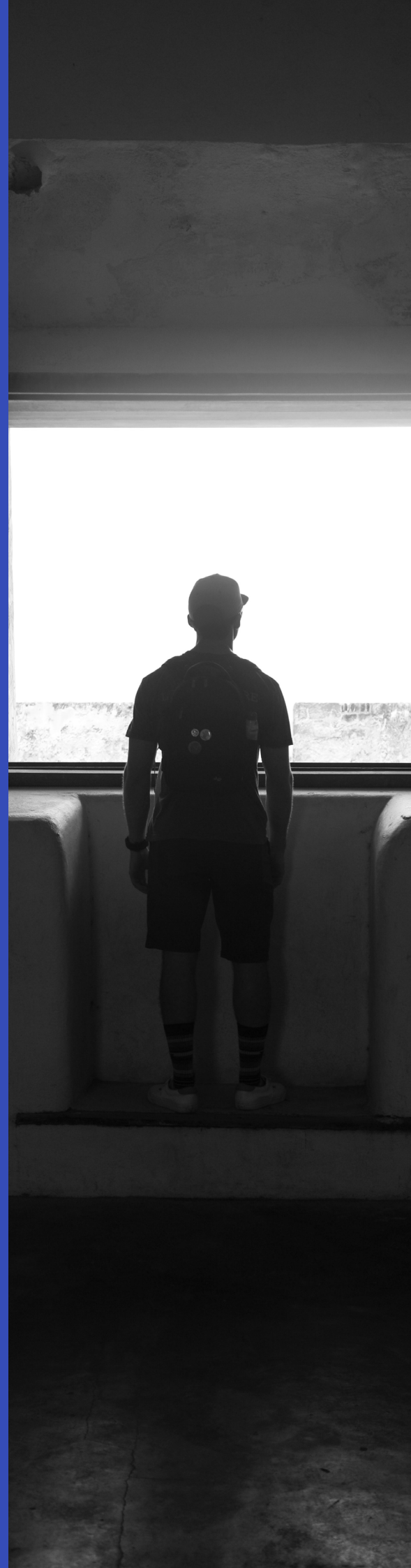
now under control. While it's still high—around 2% per month—it's a vast improvement. For us, it feels like moving from hell to somewhere much better. People can now hold onto their money and set prices in pesos without having to revise them constantly.

But let's not forget that inflation is a consequence, not a cause. The real causes were excessive public spending, unsustainable debt, and rampant money printing. At one point, Argentina was printing so much money that we had to import pesos because local production couldn't keep up. That's no longer the case. Money printing has stopped, and the surplus pesos are being absorbed at high rates.

There's also progress on other fronts. Argentina's risk index, measured by JP Morgan, has dropped from over 2,000 to 600. This brings us closer to accessing international markets for financing. Additionally, the president's unique political character has attracted international attention, which has boosted confidence."

### How is the labour market responding to these changes?

"We anticipated a more challenging







labour situation in 2024, especially in the informal sector, where many jobs were lost. However, at least until now, there hasn't been an unemployment crisis. Unemployment remains below 10%, and wages are improving in real terms.

Argentina is also benefiting from its natural resources. Sectors such as lithium, oil and gas, and mining are seeing significant growth due to global demand and the government's efforts to attract investment. These industries are driving job creation and compensating for losses in other areas. On the other hand, traditional industrial sectors are facing competitiveness issues, as productivity hasn't improved yet, and costs are rising."

### What challenges remain for 2025?

"A key challenge is productivity. A productivity transformation hasn't yet occurred in Argentina, which could hurt our competitiveness. More labour reforms are also needed. Some significant employment laws were passed last year, but further changes are required to allow more flexibility, particularly in collective bargaining.

Argentina's peso has been strengthening, while Brazil—our main trading partner since 1991—has been devaluing its currency. This creates additional challenges. To remain competitive, we need to improve productivity and adapt working conditions through reform.

Another challenge lies in fiscal reform. Argentina is a federal country with 24 provinces and numerous municipalities. Many of these local administrations haven't adjusted their public spending, and they impose taxes that hinder competitiveness. When we export, we effectively export these taxes, which makes our goods less attractive globally.

2025 will be a year with midterm elections. If the president emerges stronger from these elections, he will have greater support in Congress to push through critical reforms. Despite not having a majority in Congress last year, he managed to pass significant legislation.

For Argentina to succeed, we need to focus on productivity, fiscal reform, and labour reform. These transformations will require investment, training, and the right incentives. If done correctly, I'm optimistic about Argentina's future."



# ASIA PACIFIC

Southern and South-Eastern Asia are driving growth in the Asia-Pacific region, with GDP growth estimated at 4.4% in 2024 and projected to remain strong at 4.3% in 2025. While South-Eastern Asia benefits from robust global demand, particularly in electronics exports from countries like the Philippines, Singapore, Malaysia and Thailand, Eastern Asia is experiencing a slowdown. China, the largest economy in the subregion, is undergoing a structural deceleration due to weak domestic demand and ongoing trade disruptions, including challenges in the electric vehicle sector.<sup>38</sup>

In contrast, South-Eastern Asia grew by 4.6% in 2024 and is forecast to maintain a similar pace in 2025. Growth in the Pacific Islands is also improving, with GDP expected to rise from 1.1% in 2024 to 2.1% in 2025, driven by tourism and resource-based industries in countries such as Papua New Guinea.<sup>39</sup>







## AUSTRALIA'S OUTLOOK

Australia's real GDP growth slowed to an estimated 1.1% in 2024, down from 2.0% in 2023, but is projected to rebound to 2.2% in 2025 and 2.5% in 2026. Inflation has eased significantly, falling from 5.6% in 2023 to 3.1% in 2024, with overall inflation reaching 2.8% by September 2024. However, productivity remains stagnant, hovering at levels seen nearly a decade ago. This stagnation is largely due to weak business investment and slow adoption of new technologies. Australia is also among the countries experiencing a skills gap in its labour market.<sup>40</sup>

In a recent conversation with Katie Sweatman, partner in our Australian law firm, we explored the country's labour market challenges and its outlook for 2025.

**Migration continues to drive Australia's population growth, yet per capita GDP growth has been negative for seven consecutive quarters. Meanwhile, the country faces stagnating productivity, which has remained at levels last seen nearly a decade ago. What steps is the government taking or planning to take to tackle low productivity? And how are businesses responding to these challenges?**

"Productivity is an interesting issue in Australia because it hasn't been a key focus for the government, and we're not seeing any immediate signs of it becoming a priority in its policy platform. With a federal election due by May, we may see a change in government, but the opposition's policies don't appear to prioritise productivity either.



In recent years, the focus has been on employment security. The government's 'Secure Jobs, Better Pay' policy has aimed to provide predictability and permanency in work arrangements. This approach, however, often conflicts with efforts to drive productivity growth or maximise resource efficiency.

Historically, enterprise bargaining in Australia focused on trade-offs to achieve productivity gains. Now, the focus has shifted to ensuring job security. New mechanisms, such as intractable bargaining rules and industry-wide agreements, have made it difficult for employers to reform enterprise agreements that aren't delivering productive outcomes. Bargaining tends to start from the status quo, with little preparedness by unions and workers to give up perceived hard-won gains from previous rounds of bargaining.

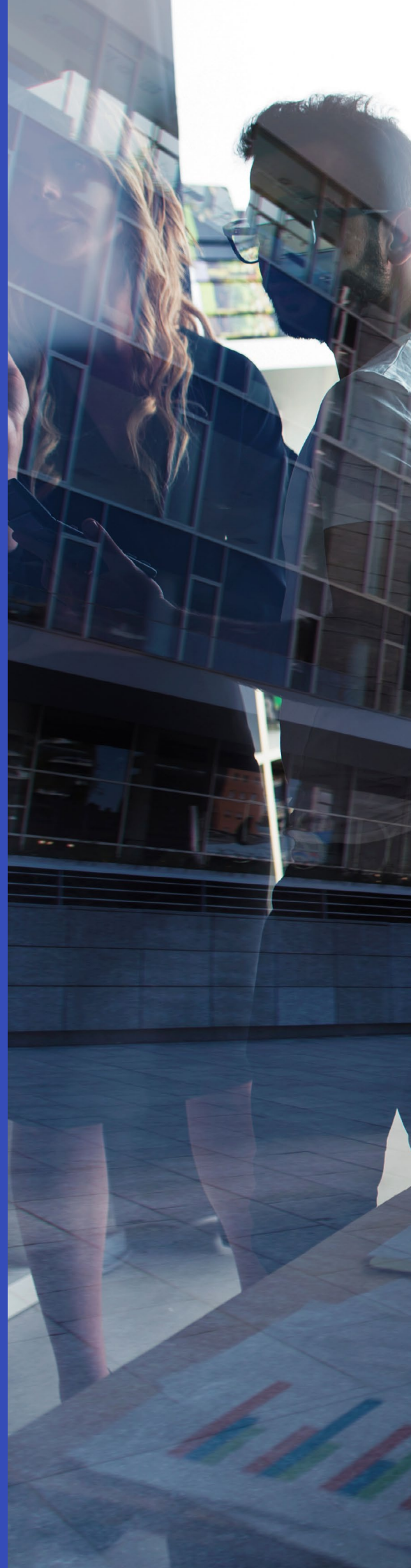
This trend of a focus on job security is reflected also in developments in regulating gig work and non-traditional employment. As of late last year, we've introduced the concept of an 'employee-like worker', a category aimed at providing

minimum standards for gig economy workers, such as those in on demand delivery. While this ensures better protections for these workers, it inherently reduces the flexibility of these roles.

As to what else is on the outlook in Australia, we've recently introduced wage theft laws in Australia, which impose criminal consequences for deliberate or reckless non-compliance by employers. Compliance has been a major theme in Australia for years, particularly as employers navigate a complex legal framework. High-profile cases involving well-known brands have added to the push for stricter regulations.

Another significant focus has been workplace behaviour. Initiatives like sexual harassment laws, anti-bullying protections, and measures to prevent hostile work environments are increasingly being viewed through a workplace safety lens. Employers are now required to proactively address these issues, with some jurisdictions mandating written prevention plans.

We're also seeing developments in psychosocial hazard







regulations, which aim to mitigate inappropriate workplace behaviour. While Australia's approach is evolving, we're beginning to notice some influence from US trends around diversity, equity, and inclusion. It will be interesting to see how these global attitudes impact Australia in the coming years.

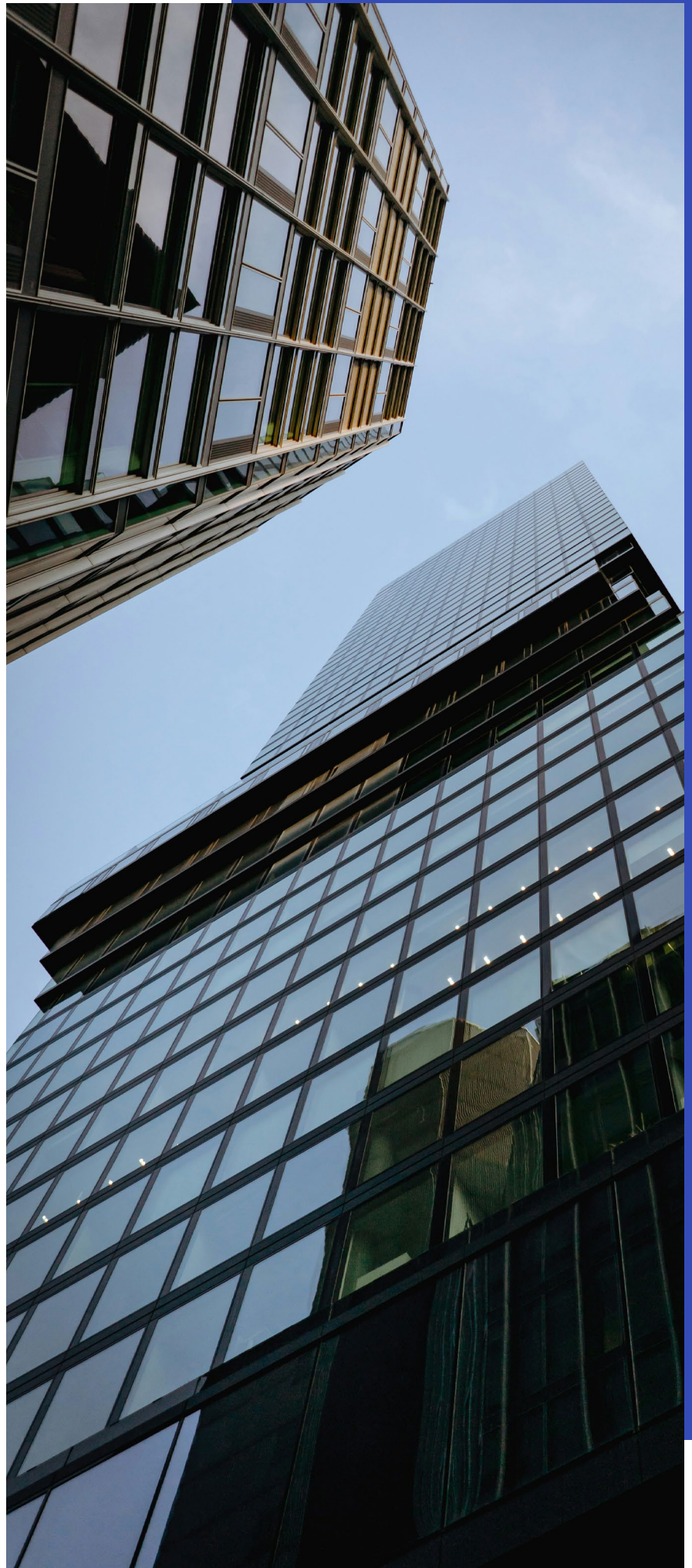
Despite the focus on employment regulation, addressing productivity and flexibility remains a challenge. These policies will likely continue to shape the labour market over the next 12 months, and as global trends evolve, we may see further shifts. It's certainly an area to watch closely."



**Katie Sweatman**  
Partner  
Ius Laboris Australia

Labour markets in the Asia-Pacific region are undergoing significant changes, shaped by shifting demographics and evolving economic trends. While growth patterns vary across countries, one common challenge is the steady decline in labour force participation rates. Over the past two decades, the overall participation rate has dropped by nearly 5 percentage points, from 65.2% in 2004 to 60.7% in 2024.<sup>41</sup>

Two key factors are driving this trend. First, fewer young people aged 15 - 24 are entering the workforce early, as more choose to extend their education. This shift has led to a sharp decline in youth labour force participation, which fell from 51.9% in 2004 to 39.3% in 2024. Second, the population is ageing, with a growing share of individuals over 65 who are less likely to remain in employment. As a result, the overall workforce is shrinking, raising concerns about long-term economic stability.<sup>42</sup>







# JAPAN'S RESPONSE TO ITS AGEING WORKFORCE

Japan's economy experienced a significant decline in 2024, with real GDP growth dropping to 0.3%, down from 1.7% in 2023. However, the IMF predicts a rebound, with GDP growth expected to reach 1.1% in 2025 before declining to 0.8% in 2026. At the same time, inflation is stabilising at 2% in 2025 and is projected to maintain this rate in 2026 and 2027, marking a shift from 3.3% in 2023 and 2.2% in 2024.<sup>43</sup>

Beyond short term economic fluctuations, Japan is also grappling with long-term demographic challenges. An ageing population and a rising old-age dependency ratio are placing increasing pressure on the workforce. This demographic shift is expected to persist, prompting the government to introduce measures aimed at addressing these challenges.

In a recent conversation with Yuka Kamio, partner in our Japanese law firm, we explored the country's labour market challenges and its outlook for 2025.

**Japan has been grappling with an ageing workforce and shrinking labour markets for a long time already. What measures is the government taking in response to this situation, and how are employers reacting?**

"To encourage workforce participation, the Japanese government has implemented several policies aimed at retaining older workers and increasing female labour force participation. The eligibility age for public pension



benefits has been raised, encouraging older employees to remain in the workforce for longer. Additionally, subsidies are provided to employers who implement measures to promote the employment of older employees, such as abolishing the mandatory retirement age, extending the retirement age to 65 or older or converting fixed-term contracts of older workers into indefinite-term employment. Companies are now required to continue employing workers until they reach the age of 65 and are encouraged to extend employment opportunities up to the age of 70.

Efforts to increase female participation in the labour market have also been reinforced. The government has expanded childcare services and parental leave allowances, while large companies are now obliged to disclose gender pay gaps. There are ongoing discussions about extending this requirement to small and medium-sized enterprises in the near future. Moreover, the possibility of mandating the disclosure of the percentage of women in managerial positions is being considered.

To counter labour shortages, Japan has also relaxed immigration rules for skilled workers. The introduction of the “Specified Skilled Worker” visa aims to attract foreign talent in sectors facing acute shortages, such as caregiving and construction. At the same time, adjustments to the healthcare and pension systems are being introduced to ensure long-term sustainability, including increasing contributions and reducing benefits.

Employers, too, are taking proactive measures to respond to the growing pressure of demographic changes. An increasing number of companies are introducing flexible work systems and remote work options to better accommodate older employees and those with childcare or caregiving responsibilities. Similarly, there is an increasing focus on addressing and correcting long working hours to improve work-life balance.

Policies by companies to better integrate women, older workers, and foreign employees into their organisations should create more







inclusive workplaces. At the same time, in order to reduce reliance on human labour, companies are increasingly investing in automation, artificial intelligence, and robotics to enhance productivity.

Recognising the challenges many employees face in balancing work and caregiving responsibilities, employers are providing additional support, such as leave policies and caregiving assistance programmes for those looking after children or elderly family members. Further, the importance of career support is gaining attention, with an increasing number of companies focusing on reskilling initiatives that help employees adapt to changing environments and develop new skills to enable them to work in different roles or fields.”



**Yuka Kamio**

Partner

Ius Laboris Japan





# MIDDLE EAST AND AFRICA

The Middle East and North Africa continues to grapple with heightened geopolitical tensions and ongoing conflicts, adding to economic uncertainty, particularly in fragile and conflict-affected economies. Despite these challenges, growth in the region is expected to improve, rising from an estimated 1.8% in 2024 to 3.4% in 2025 and further to 4.1% in 2026. Several risks, however, could hinder economic recovery. The escalation of armed conflicts, increasing political uncertainty and unexpected global policy shifts remain significant concerns. In addition, delays in planned oil production increases by major exporters could slow growth across the region.<sup>44</sup>

Among oil-exporting nations, inflation has remained relatively stable in Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), largely due to their currencies being attached to the US dollar. Core inflation in these economies has remained around zero since mid-2024. In non-GCC oil exporters, such

as Iran, inflation has eased from previous highs, following policy interventions, including stricter reserve requirements and higher interest rates.<sup>45</sup>

In Sub-Saharan Africa, economic growth is projected to strengthen, averaging 4.2% in 2025 and 2026. This improvement is primarily driven by a better outlook for industrial-commodity-exporting nations, including the region's largest economies. However, fiscal constraints remain a challenge, with high levels of government debt and elevated interest rates limiting spending capacity. Many governments are focusing on fiscal consolidation efforts, although financing needs remain substantial.<sup>46</sup>

Despite the anticipated growth, per capita income gains are expected to be insufficient to drive significant reductions to extreme poverty. The region also faces several downside risks, including weaker global growth owing to economic uncertainty, shifts in trade policies, and a sharper-than-expected slowdown in China. Rising instability, particularly conflicts in Sudan and the Middle East, could push up energy and food prices, exacerbating inflationary pressures. Additionally, prolonged high global interest rates may heighten the risk of government debt distress, while increasingly frequent extreme weather events pose further economic threats.<sup>47</sup>





# CHALLENGES COME WITH OPPORTUNITIES

# CHALLENGES COME WITH OPPORTUNITIES

The world rarely moves in a straight line. Just when we believe we have found a rhythm, the pace shifts and the trajectory changes. Yet, history reminds us that challenges and opportunities come together: they are merely reflections of one another, simply two sides of the same coin. Every period of uncertainty promises to become a birthplace of innovation and a forge of new ideas. Perhaps the greatest mistake is to fear challenges rather than embrace transformation. The future belongs not to those who wait for the storm to pass, but to those who learn to navigate the winds of change.

## — 1 — 2 — 3 —

The ageing workforce is no longer a distant concern, it is a present reality. Labour markets are shrinking, and reversing demographic shifts is not something that can be achieved overnight. In this changing landscape, fostering a diverse and inclusive workplace is not just a moral imperative but a strategic necessity.

Yes, labour markets are facing a growing skills gap. Over the past decade, rapid technological advancements have reshaped not only the way we live but also the way we work. As a result, new job roles demand new skills, while even traditional roles are evolving and requiring continuous adaptation. In this context, upskilling and reskilling have become essential tools. However, it is crucial to ensure that these opportunities are accessible to everyone, leaving no one behind. Inclusive and equitable training programmes must be a priority, enabling workers of all backgrounds, ages and industries to adapt to the changing job market.

Reducing income inequality is not just the right thing to do from a moral perspective. Economic disparities create a cycle that traps not only the current generation but also those to come. When a portion of society lacks access to good quality education and healthcare, their opportunities in the labour market are automatically limited. In a world where labour markets are already shrinking, this cannot be allowed to happen.





# — 4 — 5 —

While inflation is often seen as a primary economic threat, the steady decline in productivity is the hidden fox that not everyone is paying attention to. Over the past decade, productivity has been falling, yet it has not received the same level of concern. Productivity, measured as GDP per worker, is particularly crucial during periods of economic slowdown, as its decline threatens to push economies toward long-term stagnation. And yes, old keys won't open new doors: reversing the drop in productivity requires new approaches, innovation and investment in both people and technology.

During economic slowdowns and periods of declining productivity, businesses face an undeniable challenge - how to remain competitive in an increasingly uncertain environment. While cost-cutting and efficiency measures may offer short-term relief, long-term success depends on people. Strategic workforce management and talent development are not just HR concerns, they are essential pillars of business resilience. Perhaps the smartest way to navigate the current economic headwinds is to innovate and invest in your people.

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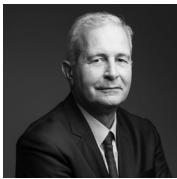


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