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Strengthening the Foundations: Jobs, Rights, and Democratic Values Amid Global Conflict and Uncertainty

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Executive Summary

- As of early 2026, the global economy appeared more resilient than many had expected, with growth holding up, inflation easing, and labour markets broadly stable. Beneath these aggregate indicators, however, vulnerabilities had been accumulating. The global unemployment rate held steady at 4.9 per cent, but this stability reflected in large part a slowdown in labour force growth rather than robust job creation. The global jobs gap stood at 408 million, and the labour force participation rate continued its structural decline.
- The deeper challenge is one of work quality. Some 284 million workers remain in extreme poverty, and 2.1 billion — nearly 58 per cent of the global workforce — are in informal employment. The pace of structural transformation toward more productive and formal work has been roughly half what it was in the previous decade. Economic policy and trade uncertainty reached historic highs in late 2025, while rising sovereign debt threatens to further constrain the fiscal space governments need to invest in resilience.
- The conflict in the Middle East has further intensified global vulnerabilities. Beyond its human toll, it is generating wide-ranging economic spillovers through sharp increases in energy, food and fertilizer prices, disruptions to shipping routes and supply chains, and renewed inflationary pressures. These shocks are already weighing on global trade prospects and are expected to slow merchandise trade growth in 2026. Countries with strong trade, migration, remittance and energy links to the region — including many in Asia — are particularly exposed, while smaller and fuel-importing economies face heightened risks through rising living costs and weaker demand.
- The labour market consequences are likely to prove persistent and asymmetric. Adjustment will occur primarily through weaker hiring, falling real wages, rising informality and deteriorating working conditions rather than visible unemployment. The burden will fall disproportionately on low-income households, informal and migrant workers, and small enterprises. With many governments entering this period with limited fiscal buffers and constrained policy space, the risk of early temporary shocks hardening into lasting setbacks is real.
- Policy responses must prioritize protecting fiscal space for social protection and investment, rather than resorting to austerity. In conflict-affected settings, recovery should be designed from the outset as an investment in decent work. More broadly, persistent deficits in job quality reflect not only economic challenges but also gaps in rights and protections. Strengthening freedom of association, collective bargaining, and social dialogue is essential to building trust, supporting adjustment, and ensuring sustainable and inclusive recovery.
- Ultimately, economic stability cannot be separated from social justice. Jobs, rights, democracy, and social dialogue are not secondary outcomes but core foundations of resilient and inclusive growth.

► The Global Social and Economic Outlook: Resilience on the Surface, Fragility Beneath

As of early 2026, the global economy appeared more resilient than many had expected. Growth had held up, inflation had continued to ease, and labour markets in many countries appeared broadly stable. Yet beneath these aggregate indicators, vulnerabilities had already been accumulating. The global unemployment rate stood at 4.9 per cent in 2025, unchanged from 2024, and had been projected to remain at that level through 2027. Labour productivity growth, at 2.0 per cent in 2026, was expected to be close to its pre-pandemic average (IMF, 2026; ILO, 2026).

Yet the apparent stability of unemployment reflected not strong job creation, but in important part a slowdown in labour force growth, particularly in ageing high-income economies. The global labour force participation rate remains on a structural downward path and is projected to fall to 60.5 per cent by 2027. A broader measure of labour market slack, the global jobs gap, is projected at 408 million in 2026 (ILO, 2026). Low participation and persistent labour underutilization are not only social concerns; they also weigh on output potential, constrain productivity growth and weaken the revenue base on which fiscal sustainability depends.

The deeper challenge is one of work quality and structural transformation. Some 284 million workers continue to live in extreme poverty, while 2.1 billion workers, nearly 58 per cent of the global workforce, remain in informal employment. Rather than declining, the share of informal employment has been edging upward. The pace of economic transformation toward more productive and formal employment was only about half as fast during 2015 to 2025 as it had been in the previous decade (ILO, 2026). This matters not only for social outcomes, but also for macroeconomic performance: high informality and poor job quality depress productivity, narrow the tax base, weaken social insurance systems and reduce the effectiveness of both fiscal and monetary policy transmission.

At the same time, risks to this already fragile outlook have been accumulating. Economic policy uncertainty rose sharply in late 2025, reaching around twice its 2010 to 2019 average. Trade uncertainty also remained elevated. Rising sovereign debt poses an additional and serious threat, especially in low- and middle-income countries, where debt distress is often associated with recession, falling employment and prolonged austerity (IMF, 2026; ILO, 2026). Such pressures can sharply constrain governments' ability to invest in social protection, education, labour market institutions and other foundations of resilience. Against this backdrop, artificial intelligence is reshaping labour markets in ways that are still unfolding. While the productivity gains anticipated from AI have yet to materialize, expected impacts of automation on jobs will depend on the extent these technologies are integrated into business processes and workplaces (ILO, 2026).

► The Middle East Conflict: Compounding an Already Fragile Landscape

The conflict in the Middle East has added a major source of uncertainty to an already fragile global environment. Its human consequences are devastating and remain the foremost concern. At the same time, the conflict is generating significant economic and labour market effects, both in the directly affected countries and beyond. In the countries that are most immediately exposed, the damage to infrastructure, business disruption, displacement and insecurity are likely to result in substantial losses of jobs and labour income, while straining labour market institutions and public services, particularly in fragile countries.

These effects are unlikely to remain confined to the region. As the IMF had warned, a significant escalation of geopolitical tensions in the Middle East could trigger supply shocks, disrupt major shipping routes and destabilize energy and commodity markets (IMF, 2026). These risks are now materializing. The conflict is contributing to higher energy prices, rising transport and production costs, disruptions to trade and

logistics, and broader inflationary pressures. Recent United Nations estimates suggest that since late February, oil prices have risen by around 45 per cent, gas prices by 55 per cent and fertilizer prices by 35 per cent. These developments point to a shock that is transmitting rapidly through fuel, food and supply chains. If these disruptions persist, the implications for trade and labour markets could become more pronounced. WTO analysis suggests that world merchandise trade growth in 2026 could slow from 1.9 per cent to 1.4 per cent (WTO, 2026).

Such a slowdown would likely weigh on jobs and incomes across a wider range of economies, even if the transmission is uneven across countries and sectors. Economies with strong links through trade, migration, remittances, tourism and energy dependence, including many countries in Asia, are likely to be particularly exposed. Smaller fuel-importing economies, tourism-dependent economies and economies with strong labour migration links to the Gulf may face especially acute pressures. In many such cases, the most immediate effects may arise less through physical shortages than through higher living costs, weaker demand, delayed investment and heightened uncertainty.

The implications for the world of work extend beyond employment levels alone. Adjustment to external shocks often occurs initially through weaker hiring, falling real wages, deteriorating working conditions and rising informality rather than through open unemployment. The burden is likely to fall disproportionately on low-income households, informal workers, migrant workers and small enterprises. Under these conditions, pressures on household incomes may intensify recourse to harmful coping strategies, including deeper indebtedness, reduced consumption, school withdrawal and entry into more insecure and exploitative forms of work. Risks of child labour, forced labour and other severe decent work deficits may therefore also increase.

There is also a risk that the labour market consequences of the crisis will prove persistent. Unlike shocks that are concentrated in a short period, the current crisis may unfold through further price increases, sustained uncertainty, disrupted migration systems, weaker investment and prolonged pressure on household incomes. Such dynamics may gradually erode labour market conditions before the full scale of the damage becomes visible in headline indicators. A wait-and-see approach would therefore carry significant risks. By the time aggregate indicators fully reflect the deterioration, temporary shocks may already have translated into more lasting setbacks for jobs, incomes and working conditions. Early attention and timely policy action are therefore essential.

These risks are magnified by limited policy space. Many governments are entering this period with high debt, weak fiscal buffers and reduced room to respond. At the same time, official development assistance is under pressure and the global trade environment has become more fragmented and uncertain. Further monetary tightening in response to renewed inflationary pressures may also intensify the risk of weaker growth and worsening labour market outcomes. In this sense, the Middle East conflict is not an isolated shock superimposed on an otherwise stable global economy. It is compounding pre-existing vulnerabilities and increasing the likelihood of more severe and lasting effects on the world of work. This underlines that labour market conditions should be treated not as secondary outcomes, but as part of the core macroeconomic terrain on which debt, trade, inflation and stability are being contested.

► The Path Forward: Policies, Partnerships, and the Quality of Work

The immediate priority for governments, especially in countries most exposed to rising energy and food prices, is to protect people without undermining the foundations of long-term resilience. That means preserving fiscal space for social protection (including cushioning higher fuel and food cost) and investment rather than allowing it to be eroded by inflation-driven austerity. Effective social protection, support for livelihoods and active labour market policy measures are essential to prevent vulnerable workers and households from sliding further into insecurity. They also help sustain demand, preserve human capital and reduce the risk that temporary shocks produce deeper fiscal and growth costs over time. In countries directly affected by conflict, recovery and reconstruction must from the outset be

approached as an investment in decent work, with labour rights, social protection and fair working conditions embedded in the recovery process.

But immediate mitigation is not enough. The wider lesson of the present moment is that economic resilience cannot be built on weak labour market foundations. Where growth does not generate decent jobs, where informality remains pervasive, and where workers lack security, voice and protection, societies become far more vulnerable to shocks. This is why the persistence of decent work deficits is not only an economic concern, but also a rights concern. Workers in informal and precarious employment are often the first to absorb crisis and the least equipped to recover from it.

This is also why democracy and social dialogue matter so much in the current context. Freedom of association, collective bargaining and effective tripartite dialogue are not peripheral to recovery. They are practical instruments for building trust, managing adjustment and ensuring that difficult reforms are fairer, more credible and more durable. In a world marked by conflict, polarization and fragility, labour rights and democratic participation help strengthen social cohesion and institutional resilience. They are also essential to policy coherence, because durable macroeconomic stabilization ultimately depends on whether adjustment commands legitimacy and protects the social foundations of growth.

The ILO was founded on the conviction that peace must be built on social justice (ILO, 1944, 2019). That principle remains highly relevant today. As governments confront conflict, uncertainty and economic fragmentation, the task is not only to restore growth, but to ensure that growth is connected to decent jobs, protected rights and stronger institutions of dialogue. Jobs, rights, democracy and social dialogue are not secondary to economic stability. They are among its essential foundations.

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