

Foreign labour 'crucial' for rich economies

Central bankers warn that a shortage of workers poses threat to growth

Financial Times Europe

25 août 2025

CLAIRE JONES

The world's largest economies will lack the workers they need to power growth and keep prices stable in the coming decades unless they attract more foreigners, top central bankers warned.

Speaking at an annual gathering of leading policymakers in Jackson Hole, Wyoming, the heads of the Bank of Japan, European Central Bank and Bank of England all sought to highlight the challenge to economic growth posed by ageing populations. Kazuo Ueda, BoJ governor, told the Kansas City Federal Reserve's annual symposium that his country's rapidly ageing society had made labour shortages one of the country's "most pressing" economic issues.

While foreign workers accounted for 3 per cent of the labour force in Japan, Ueda said, they had been responsible for half of the recent rise in labour force growth. "Further increases will surely require a broader discussion," he said.

Across rich economies birth rates are at historically low levels, while people are living much longer. That has raised so-called dependency ratios, meaning that a far higher share of the population is no longer of working age.

ECB president Christine Lagarde said that an influx of foreign workers would play a "crucial role" in countering the negative impact of demographic trends on economic growth.

Lagarde noted that without an influx of foreign workers the euro area would by 2040 have 3.4mn fewer people of working age. The Eurozone's labour market came through the pandemic in "unexpectedly good shape", in part because of more older workers, but "even more" importantly due to a rise in the number of foreign workers, she said.

"Although they represented only around 9 per cent of the total labour force in 2022, foreign workers have accounted for half of its growth over the past three years," Lagarde said. "Without this contribution, labour market conditions could be tighter and output lower."

BoE governor Andrew Bailey said that the "acute" challenge that demographics and declining productivity posed to the UK economy had not been emphasised enough.

Attracting workers to fill labour shortages will be essential in keeping growth on track in the coming decades, economists believe — despite the rising pressures of populism and public sentiment souring on immigration.

Central bankers predict that population ageing will not only lower output but also risks pushing up inflation, as workers would be able to demand higher wages in an environment

where labour shortages were widespread. By 2040, 40 per cent of the UK population will be older than the standard working age group of 16-64, Bailey added.

The UK has also been hit by a fall in labour force participation rates, driven by a rise in the number of people defined as “long-term sick” and a significant drop in young people in work — two factors that Bailey suggested might be intertwined.

The BoE has become “much more focused on [measuring] inactivity” than on unemployment, Bailey said — although he acknowledged that labour force participation, and the reasons for its decline in the UK, were harder to measure than headline unemployment data.