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Will the financial world's two most powerful women agree?

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Christine Lagarde and Janet Yellen head the two most influential bodies of the financial world: IMF and the US Federal Reserve (the Fed).

There seem to be some differences in their policy approaches to get out of the mess the world got into since 2008.

While understandably, the Fed's foremost concern is with economic problems of US, the IMF's concern is global, because of the mandate given by its 188 member nations. They range from the struggling Eurozone; and Japan with the backlog of two decades of its own recessions to the emerging economies with their uncertain fortunes tied to the future of industrialized countries in the West; and a large number of developing countries dependent for their growth upon their exports of raw materials including minerals to the advanced countries

Disagreement between IMF chief Lagarde and the Fed chairperson Yellen is with regard to the monetary policy stance of the US central bank.

The IMF has never in the past tried to influence monetary policy stance of its most powerful member country, the US.

The advice from IMF is often to those countries, which were in dire straits, seeking bailout assistance. That is the price debt ridden countries have to pay as part of the usual Washington Consensus.

Advice by IMF to US Fed may sound strange.

The US has shown signs of recovery since 2011. But it is recovery with sluggish increase in number of jobs. The recovery is due to unorthodox central bank measures, including purchase of debts of failing private banking institutions falling under the label of quantitative easing (QE).

Inconsistent recovery

At one time, as the signs were encouraging, the former chairman Ben Bernanke predicted QE, which began in 2008 would soon end. It actually ended in late October 2014.

However, new Fed Chair, Janet Yellen indicated that the Fed would not raise interest rate until there were clear signs of any inflationary pressures building up as a result of sure recovery.

Interest rate is pegged to a near zero to 0.25 percent since December 2008. The Fed did not raise interest rates since June 2006, as it only decreased it.

Markets expect there is an 88 percent chance the Fed will raise rates on or before the December.

The worried IMF

The latest data indicate that US unemployment had gone up from 5.4 percent in April to 5.5 percent in May. Further, consumer spending, which is the dominant component of country's GDP has not recorded any rise, the key to recovery. US consumers seem to pocket their savings on petrol rather than spend it in the economy. Consequently, consumption was flat with zero percent increase in April, the weakest performance in three months. In fact, the March increase by 0.5 percent in auto sales and retail consumption was the biggest gain since August 2014.

On June 4, IMF revised downwards the forecasts for U.S. economic growth to 2.5 percent for 2015 from the previous estimate of 3.1 percent. There are several factors. They included anticipated rise in the value of dollar, due to expectations that the Fed would increase the interest rate. That dampened growth by hurting American exports. Others were the West Coast labour dispute and fall in oil-sector investment caused by declining energy prices.

The IMF says US dollar is "already moderately overvalued" and marked appreciation of the dollar would be harmful to the US economy.

So IMF advises the Fed: "Better defer any increase until the first half of 2016."

A trade-off

Given the "significant uncertainty around inflation prospects, the degree of slack and the neutral policy rate, there is a strong case for waiting to raise rates until there are more tangible signs of wage or price inflation," IMF advises.

There are risks building up in the insurance and money markets. Against the backdrop of ultra low rates of zero to 0.25 percent interest rate, investors are rushing their funds into riskier assets seeking higher returns.

IMF believes weak growth outweighs the financial risks.

"In either case, asset price volatility could last more than just a few days and have larger-than-anticipated negative effects on financial conditions, growth, labor markets, and inflation outcomes" around the world, IMF said.

Joining the fray, World Bank's Chief Economist said on June 10 that the US and global economy would be better off if the Fed holds its federal funds rate at the zero level until early next year.

"If I were advising the US Fed, I would recommend that this happens next year instead of late this year," he said.

So the Fed has got an advice from unexpected quarters**.** The Fed chair has not responded yet.