The IMF Summit and not losing at cards

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Next week we will know the International Monetary Fund's diagnosis of the state of the economy at its weekly meeting with the World Bank, which also brings together governors from central banks, finance ministers and representatives from the financial sector and wider civil society from around the world.

This meeting comes at a good time in terms of growth expectations, as the IMF will almost certainly confirm in its review of forecasts to be published on 10 October. The profile for GDP growth will remain unchanged in 2017 and 2018, with rates that may exceed 3.6%. Nevertheless, the significant increase expected in the eurozone and in India, along with sustained growth in the US will more than compensate for the slowdown in growth in emerging economies taken as whole. In this second group, the importance of China, undergoing a process of convergence with lower growth rates than in the past, will overshadow improved performance in South America or emerging Europe. This trend will interrupt the continued deceleration of world GDP since 2009, although we should not forget either the uncertainty that is an inherent part of all future scenarios, but also certain new characteristics of the current economic recovery that the IMF is closely monitoring. There are certain indications as to the basis for the IMF's concerns in the analytical sections of the World Economic Outlook and the Global Financial Stability Report, published this week.

One of the elements that the IMF will be analysing is the reason for the moderate growth in salaries in the developed economies despite the fall in unemployment to levels that in some cases are lower than those at the start of the recession nine years ago. This ban can be explained using analysis published by the IMF regarding the combination, to a greater or lesser extent in each region, of two factors. Firstly, the greater importance of involuntary part-time employment, which makes the unemployment rate a benchmark that is less representative these days of the current state of the labour supply-demand balance. US unemployment is below 5% of the active population. However, if we add the part-time workers and those who have ceased to look for employment although they are available for work, the percentage of infra-employed and unemployed people rises to over 8% of the total. Secondly, the very limited increases in productivity put a cap on higher wages in competitive markets, even more so when reforms have been implemented in order to increase wage flexibility and to bolster higher employment, as has been the case in Spain. As far as Spain is concerned, Rafael Doménech has just published a paper for BBVA Research that explains in great detail the impact of recent labour market reforms

Reduced levels of tension in these markets are the result of the combined effect of both cyclical factors and permanent ones - ageing, globalisation and changes to labour relations with the arrival of digital platforms, among other factors-. Distinctions between the importance of each of these is key, for example, to the Fed and the ECB being able to implement a normalisation of their policies at the most suitable rhythm after the exceptional growth that has been recorded over recent years. Asset prices, the level of debt and its servicing are all-time highs, while central banks have to ensure that higher interest rates and liquidity tapering continue at a sufficient yet not overly intense speed which might lead to increased volatility and spreads which result in unwanted adjustments to business and domestic economies, with a subsequent negative impact on growth. As far as the indicators that highlight these risks are concerned, the IMF has also analysed this matter in depth, understandably, as their help is needed to ensure that the normalisation process that central banks are undergoing does not mean that have to exclaim what Don Mendo, the character in Pedro Muñoz Seca's play The Revenge of Don Mendo did, when he lost at cards: “Folding is painful, as it is a sure sign of how badly you have played your cards, that you are just another loser. But heaven help you if you overplay your hand! It's even worse if you do that!