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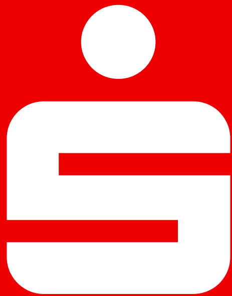

Inflation and Monetary Policy

- The goal of price stability has not yet been regained. The good news is that the cost of living has recently become much more predictable. This success must now be consolidated. Although the price shock we have suffered is largely behind us, it still has to be worked through definitively in economic terms. In particular, purchasing-power losses have to be cushioned without, in the process, paving the way for permanently higher inflation rates. Not least for this reason, current productivity trends and shifts in the terms of trade (ToT) need to be taken account of.
- Somewhat over a year after the wave of inflation in Germany and the wider euro area and peaked in October 2022, the annual HICP inflation rate has fallen back to below three percent.
- This has partly been due to market reactions and to the normalisation in the wake of the coronavirus disruption and of Ukraine war-related price shocks. At the same time, though, monetary policymakers executed one of the most acute tightening pivots in European monetary history. In the process, the ECB has added to its credibility.
- Meanwhile, the focus is turning back in the opposite direction: how long will the central banks have to wait before they can pivot to an easing stance again? In our view, key policy rate cuts are possible from June onwards if recent trends continue, but the pace of loosening is likely to be slower and more cautious than is currently being priced in by market forward rates.

3 April 2024

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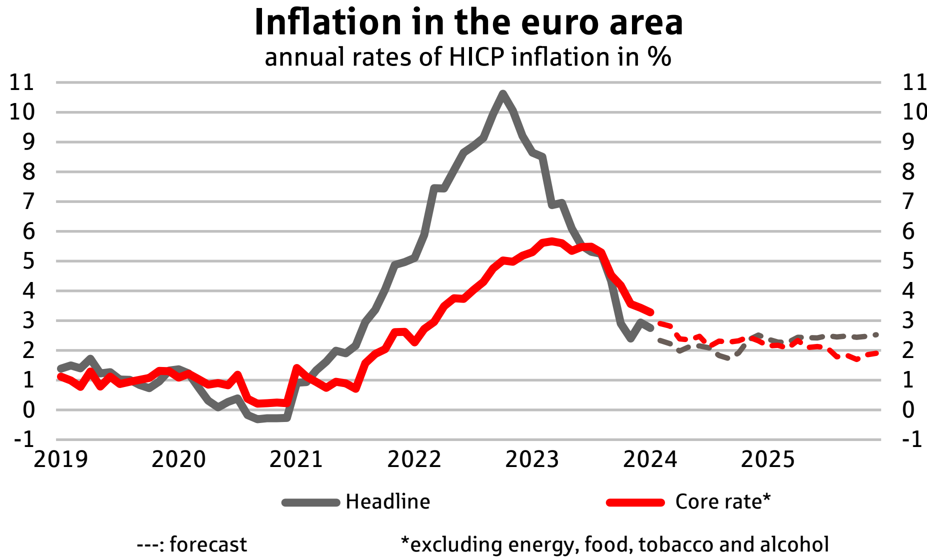
A provisional conclusion: inflation is trending lower, but purchasing power is eroding

Inflation has plummeted from a dizzying height to somewhere close to the stability target

During H2 2023, inflation rates did not yet come back down to their former levels close to the target variable, but they did at least visit somewhat more familiar territory. HICP inflation for the euro area as a whole hit a temporary low of 2.4% year-on-year last November and again in March this year. In retrospect, the vertiginous rate of change recorded just thirteen months previously (10.6% yoy), seems like a one-off maverick outlier. Will it now be possible to return to “business as usual,” with the 2% inflation target within tangible reach?



Sources: Eurostat, DSGV

Unfortunately, such a view on the issue does not do justice to the seriousness of the situation. A look at the lie of the economic land makes it patently clear that the price shock may have subsided, but that it is far from having been completely absorbed. This is because private households have so far been unable to support the economy after having to accept declining real incomes for over two years.

It is true that we are now witnessing genuine downward corrections in inflation dynamics. However, this only applies to certain galaxies within the Harmonised Index of Consumer Prices (HICP) universe, such as the energy price sphere. Indeed, the special trajectory followed by energy prices has so far been the decisive driving force behind the impressive easing in inflation momentum. That is not, however, sufficient to restore lost purchasing power across the board.

A comparison with HICP inflation prints from before Russia's attack on Ukraine can illustrate this. The first half of 2021 is a suitable reference period on this score - a phase when supply bottlenecks and sharply rising commodity prices were already heralding emerging inflationary pressure, but when the spike in the actual cost of living had not yet made itself manifest. A juxtaposition of today's inflation readings with the index levels from that time reveals the following findings:

An interim conclusion about purchasing power

Comparison of the inflation level before and after the 2022 price shock

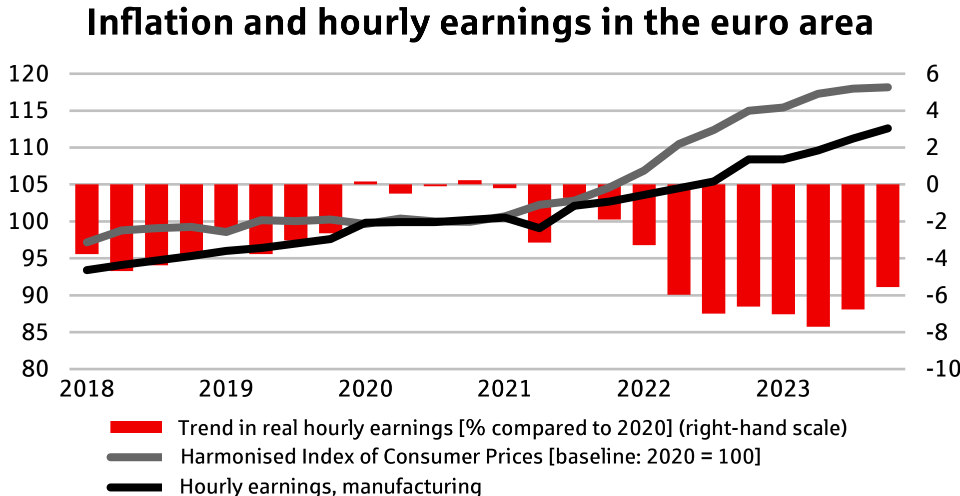
Changes in the period to February 2024 in %	HICP	HICPI energy	HICPI food	HICP-X
Since October 2022	+2.8	-12.2	+8.9	+3.7
Since H1 2021	+16.7	+41.1	+24.1	+10.7
Average annual rate	+5.5	+12.7	+7.8	+3.6

Sources: Eurostat, own calculations; HICP-X = HICP minus food and energy

Although energy prices were a little over 12% below their interim peak at last reading, they were still 41% higher than in the first half of 2021. This means that energy has become almost 13% more expensive for consumers on average each year over the past three years. The overall cost of living was likewise almost 17% higher this January than in the first half of 2021, which corresponds to an average annual inflation rate of 5.5% over the whole period.

This erosion of purchasing power should inevitably be made up for on the wage front. And the fact is that the seasonally-adjusted EU labour-cost index (LCI) for the last four quarters already shows year-on-year nominal hourly labour cost growth rates of almost 5% and therefore at least a stabilisation in terms of real incomes be avoided need to be backed up by sufficiently positive productivity metrics.

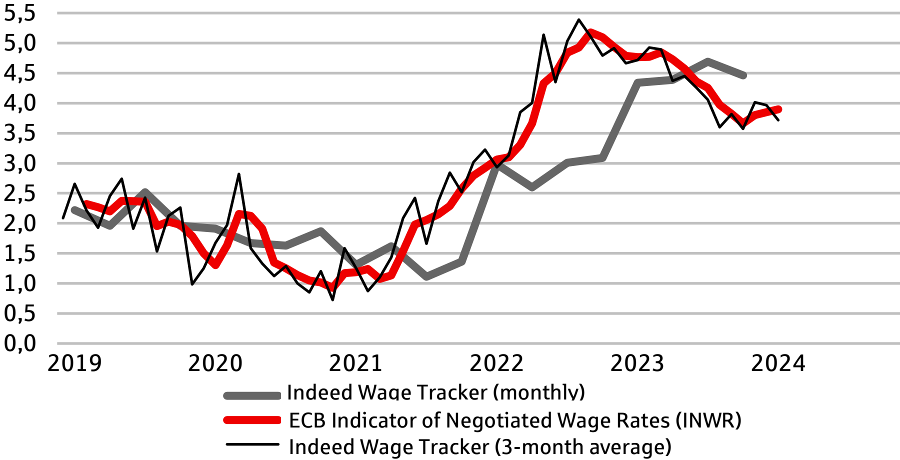
Real incomes are only now just beginning to catch up



Source: Eurostat, own calculation

It is true that the purchasing-power losses suffered by households over the course of 2022 have not yet been clawed back to a more pronounced extent, yet the now much flatter price trajectory implies that this should change in the near future.

At the same time, there are initial signs that the successful curbing of inflation is itself beginning to have a moderating effect on the wage-determination process. At any rate, the annual growth rate shown by The Indeed Hiring Lab's Wage Tracker has been back close to the 4 percent mark over the last four months.



Sources: ECB, Indeed

As the Indeed Wage Tracker indicator is based on individual job vacancies, being a measure of growth in wages advertised in job postings, it is not only timelier than the ECB's Indicator of Negotiated Wage Rates (INWR). As a result of its methodological structure, the Indeed gauge is also likely to behave more dynamically than indicators based on the results of collective bargaining agreements.[1]

Real incomes are having quite a difficult time catching up

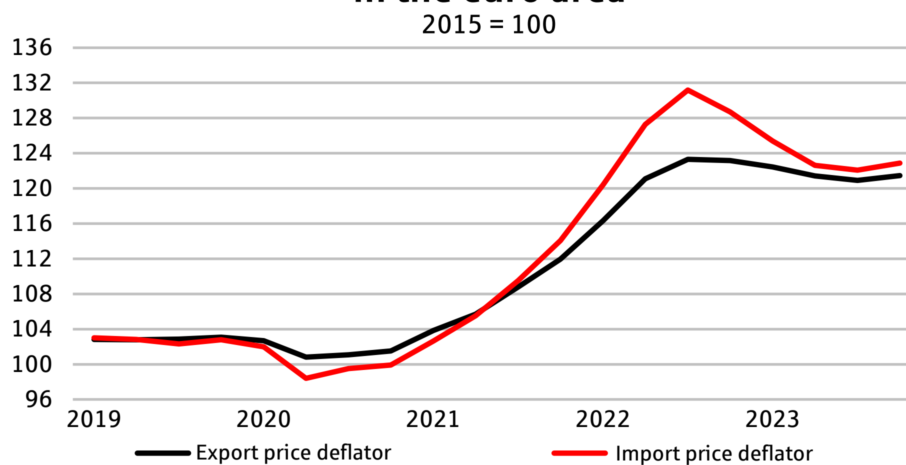
Framework factors should not be ignored

In principle, claims that wage settlements should at least compensate workers for losses in purchasing power are absolutely comprehensible - however, this assertion is subject to two qualifications. Firstly, purchasing-power losses would need to be tolerated more readily if they resulted from a deterioration in the terms of trade (ToT) in international trade relations for the economy as a whole. Secondly, demands that real wage losses should

[1] Both these indicators only provide annual rates of change and are not therefore consecutive indices. This makes interpretation more difficult because base effects are likely to cause distortions over time. In addition, the current-job-postings metric is less representative of general wage trends, whereas negotiated wage settlements (particularly those with a long period of validity) can have a major signal function for the medium-term outlook.

Changes in price relations in international trade in goods and services can be gauged from the respective export-price and import-price deflators. Using the first half of 2021 as the baseline, imports were still showing a cumulative inflation rate of a shade over 18% in the fourth quarter of 2023, compared to price increases of “only” 16% on the export side. Weighted in terms of the euro area’s degree of openness, this gap corresponds to price-related income losses of more than one percentage point of gross domestic product.

Price ratios in the international-trade arena are still looking less advantageous



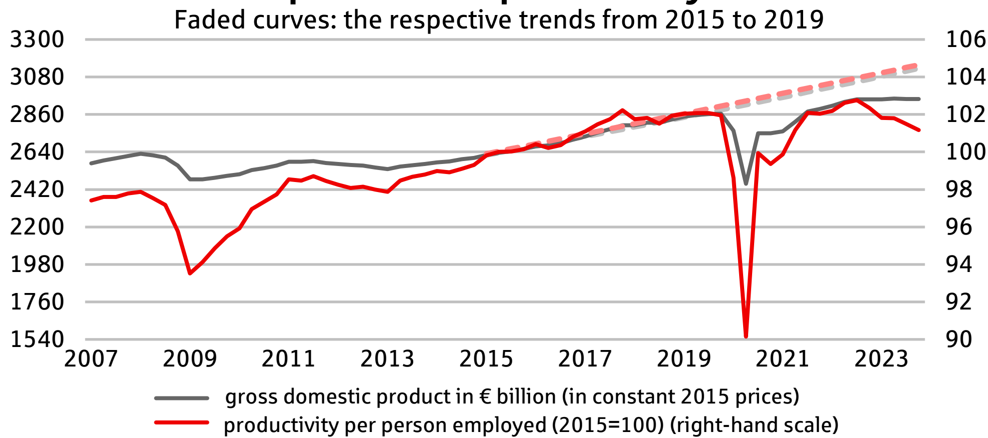
Source: Eurostat

Admittedly, that is nowhere near as much as in the final quarter of 2022, when price-related income losses peaked at in excess of 4% of GDP. Yet the second half of last year brought no further convergence in terms of foreign-trade prices.

A worrying development: Productivity has been on the decline for five quarters now

Declining productivity is also a cause for concern at the present juncture. In any case, trend productivity growth has been comparatively meagre over the past few years, and not just in the euro area.[2] After five successive quarters in negative territory, though, productivity per employee[3] in the euro area had run up cumulative losses of no less than one and a half percentage points by the end of last year. On the one hand, this is not unusual for periods of economic weakness. However, in contrast to previous crises, it is not a question, this time round, of a short-term drop-off triggered by a sharp slump in production, but rather of a presumably more “secular,” more structural, decline in productivity in the aftermath of the pandemic. Explanations for this disappointing trend include a further increase in the propensity of companies to hoard labour, higher absenteeism due to illness and the shifting back of economic activity to more labour-intensive segments of the services sector.

[2] See the issue of *Statement by DSGV Chief Economists*, "Economy in transition," published in November 2023, which is also available on the DSGV website.
[3] The per-hours-worked metric of labour productivity currently does not look better either.



Sources: Eurostat, own calculations

The combination of rising wage costs and falling productivity is currently resulting in an even more marked increase in unit labour costs. At 5.7 percent, the growth rate in the latter category clearly exceeded the inflation rate on the basis of the GDP deflator (5.3 percent) for a third quarter in a row. The differential between these two metrics is simultaneously a profit-margin indicator, offering guidance concerning the way operating surpluses are shaping up. Their share of gross domestic product, it turns out, has also fallen to a no longer glaringly conspicuous 41.6 percent.[4]

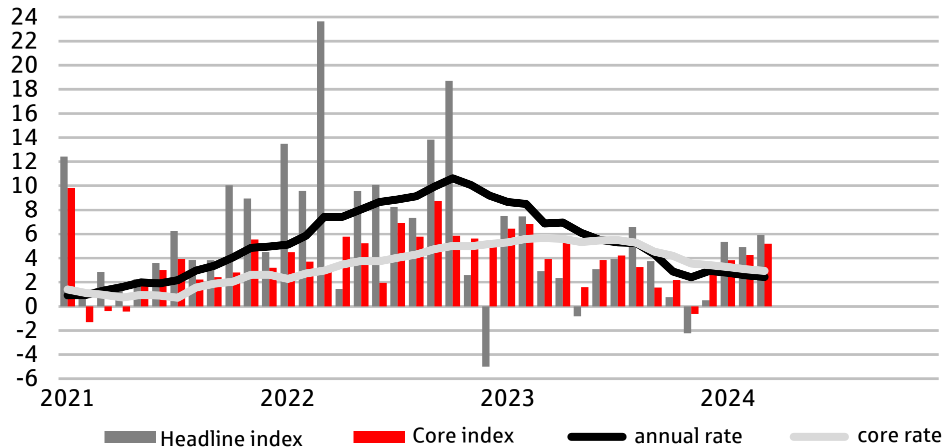
Price trends can now be estimated more reliably again

The wage increases that have already been negotiated of late will visibly reduce the past purchasing-power losses, as the general inflation rate is lagging behind them for the time being. The future inflation trend likewise looks to be more reliable again at present, even if Eurostat's flash estimate putting headline HICP inflation at 2.4% in March somewhat flatters the overall situation due to the special developments in volatile energy and food prices, meaning that the corresponding core rate, stripping out these volatile factors, provides better orientation here.[5] All the same, core inflation (HICP excluding energy, food, alcohol and tobacco) was also mostly more moderate on an intra-year basis during 2023. At any rate, the monthly price increases extrapolated to one year were always lower in the second half of 2023 after adjusting for seasonal effects. In March 2024 the core rate came down to 2.9%.

The intra-year trend was encouraging over the second half of 2023

[4] So far, this decline is more likely to be construed as a retracement from a temporarily high profit plateau. The profit ratio reached a provisional peak of 42.6% in the fourth quarter of 2022. It is to be assumed that the price shocks of 2022 could be passed on quickly to final consumers amid market conditions fraught with deep uncertainty, and thus to the overall cost of living. In contrast, the adjustment of employment income only began gradually, leaving aside tax-privileged one-off payments.

[5] Core inflation has been overshooting overall "headline" inflation for eight months now. Since December 2023, however, the gap between these two inflation metrics has been relatively small at half a percentage point. The effect of falling energy prices is being cancelled out by increases in food inflation, which have a double weighting in the overall index.



Sources: Eurostat, ECB, own calculations

However, this auspicious price environment cannot simply be taken for granted from now on. This is illustrated by the slightly higher month-on-month core inflation readings reported for January and February as well as by the provisional halt in the downward trend in the inflation-protection premiums paid on the capital market.[6]

An interim conclusion

The interim conclusion to be reached is that inflation started approaching stability-compliant levels at a pleasingly rapid pace last year. This decline in inflation dynamics has, moreover, prepared the ground for overcoming the price shock without any major second-round effects being provoked. However, bringing off this balancing act now requires moderate wage agreements in line with the scope for redistribution, with both parties to collective-bargaining processes also taking account of the shift in international trade exchange ratios and of recent (downwardly sloping) productivity trends.

Monetary policy: Hitting on the right response

Three factors have played a decisive role in diminishing price momentum:

External factors have recently brought relief on the inflation front...

Firstly, energy prices have once again fallen significantly. In Germany, for example, prices for electricity and some other forms of energy are still well above the levels prevailing prior to the Russian invasion of Ukraine, but have nevertheless come down a good way from their crisis-related cyclical highs.

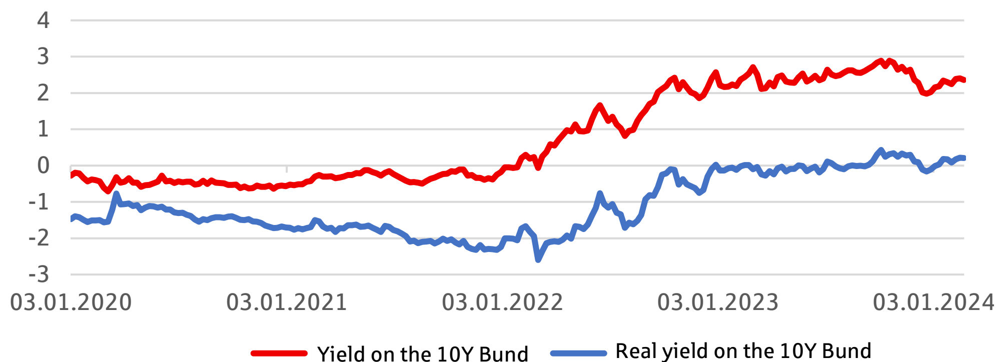
[6] The inflation-linked forward swap rate for five-year maturities based on a five-year period (5y5y), measuring inflation expectations going forward, has stayed at near 2.3% since the turn of the year.

Secondly, production conditions for industrial goods have recovered fully from the restrictions imposed by the coronavirus pandemic. This has helped to ensure that producer prices fell until the middle of last year and that they have since been in a steady sideways trend.

...but monetary policy has also made a significant contribution

The third factor which needs mentioning is monetary policy. Since July 2022, the European Central Bank has implemented one of the toughest tightening cycles in European monetary history. The ECB ramped up its key policy rates by as much as 4.5 percentage points in just ten steps. Capital-market interest rates, using the 10-year German government-bond yield as a proxy, had shifted around 3.5 percentage points higher when hitting their interim peak (October 2023). What is more, the expected real-interest-rate level, which is a particularly important parameter in the economic world, also ratcheted up by approximately three percentage points (cf. the chart on the following page). At the same time, the ECB and euro area national central banks tapered their bond purchases, and are now gradually reducing their holdings because the principal payments from maturing securities are no longer being reinvested. In addition, almost all the Eurosystem's targeted longer-term refinancing operations (TLTROs) have now been repaid. As a result, the balance-sheet volume of the European System of Central Banks (ESCB) has declined from a peak of EUR 8.8 trillion last February to EUR 6.8 trillion in February of the present year. These measures on the part of the ECB Governing Council have been accompanied by forward guidance stipulating that the key ECB interest rates will be set at sufficiently restrictive levels for as long as necessary to achieve a timely return of inflation to the 2% medium-term target.

It is not possible to disaggregate the overall picture to provide an exact breakdown of the extent to which each of these individual factors has contributed to inflation's retreat. It is true that energy prices can be stripped out of price indices, enabling the focus to be put on core rates of inflation. However, inflation has too many interlinkages for individual components to be neatly pigeonholed. Components not included in the core rate can also have a lasting impact on the overall inflation process.



Sources: Bloomberg, DekaBank

The ultimate responsibility for the way inflation trends in the medium term lies with the central bank. A currency zone's monetary policymakers shape the conditions for the supply of money to national economies and therefore have powerful instruments in their toolbox with which to influence the entire economic process, and therefore inflation as well. On the other hand, using these tools to combat inflation does not come free of charge. The negative side of fighting inflation is that it can depress economic activity and even tip the economy into recession. The difficult task facing monetary policymakers is to make their monetary-policy stance only just restrictive enough to contain inflation sufficiently, but not to tighten policy unduly so as keep the negative effects on the economy as slight as possible.

Ultimate responsibility lies with the central bank

So far, the European Central Bank has been notably successful in this venture. It was essential in this context that Ms. Lagarde and her colleagues made it unmistakably clear back in 2022 that combating inflation henceforth had absolute priority over any strains on the economy which might materialise. The ECB Governing Council has gone on record as saying that its policymaking is not guided by general political interests or particular national views, but by a commitment to fulfil its legal mandate, which is to maintain price stability. The European Central Bank has thereby strengthened its most precious asset, namely its credibility. A central bank needs to continually reinvest in this asset, even if such investments may temporarily entail macroeconomic costs in the form of slower growth.

The ECB has made a decidedly good hand of fulfilling the requirements

Furthermore, this renewed commitment to price-stability maintenance fits smoothly into the wider historical context. This year marks the 25th anniversary of the launch of the European single currency. The lowish level of public attention that this anniversary has attracted may well - in a thoroughly positive sense - indicate just how natural this aspect of European integration has become for the citizens of the euro area. The main prerequisite for such near-universal acceptance is, however, that the euro works. Despite all the institutional shortcomings at whose hands the euro is

The euro is celebrating its 25th birthday in 2024 - a milestone anniversary

still suffering, the ECB has managed its share of the task well up to now. In the quarter of a century since the euro became legal tender, the consumer-price-inflation rate in Germany has averaged 1.9% per year - with this figure also factoring in the most recent wave of inflation - and has therefore undershot the average for the 25 years when the Deutschemark functioned as the lead currency (3.0% p.a.).

Over the decades, there have been alternating headwinds and tailwinds for limiting inflation

Admittedly, there have certainly been a number of favourable influencing factors promoting the extremely low inflation levels observed especially from 2010 onwards (such as the "double whammy" of severe economic shocks - the Great Financial Crisis and the coronavirus crisis - which knocked inflation out flat for a certain length of time). On the other hand, such an outcome would not have been achievable without a professionally executed monetary policy from a European Central Bank focused on safeguarding its credibility.

Last year, the ECB proved beyond doubt that it is capable of manoeuvering not only in accommodative territory but also in the more difficult terrain involving a restrictive policy stance. In our opinion, the ECB will continue on its current path until a climate of price stability has been restored on a broad basis across the European economy. Such a climate is characterised above all by the fact that economic agents and financial actors do not need to take possible inflationary distortions into account as a separate item when framing their strategies and plans.

No blueprints exist for combating inflation

The fact remains, however, that such a balmy climate of price stability has yet to return to the euro area after the recent ice age of steep inflation. We are still reeling from the inflation shock which we have all just experienced. Current inflation rates are still hovering too far above the European Central Bank's two-percent target variable, and there is too much uncertainty about whether inflation will manage to traverse the "last mile" down to the 2% mark during the coming quarters.

The balancing act will be to achieve the necessary degree of restrictiveness at the lowest possible cost

Current considerations are primarily focused on what degree of monetary restriction remains necessary. The challenge is going to be to accomplish the goal of restoring price stability at the lowest possible cost. Loosening the monetary-policy stance would, of course, shore up the economy, but it would, at the same time, augment the risk of setbacks and of the inflation target not being converged with even in the medium term. In that event, monetary policymakers would have to take restrictive countermeasures again within a short period of time.

Conversely, keeping key policy rates too high for too long would indeed be more likely to lead to convergence with the central bank's inflation target, but such an approach would place a very heavy burden on the economy and

could, under an extreme scenario, even cause inflation rates to undershoot, likewise with the consequence that monetary policymakers would have to once again quickly reverse the monetary-policy gears. At the present point in time, the art of monetary policy is therefore primarily about not doing too much and not doing too little.

It would be naïve to assume that the mechanics of such an ultra-complex process involving the development and interplay of millions of individual prices in an economy can be easily fathomed and, especially, replicated in models. It is a simple fact that our knowledge about the complexities of inflation processes is limited. Even comparisons with other inflationary phases, such as the 1970s, are only partially helpful, as the economic stage on which the inflation drama plays out is constantly changing. It has not even been unambiguously clarified from what level onwards a benchmark key rate will have a restrictive or expansionary effect on cyclical activity.

This indicates that monetary policymaking will always be dependent, to a certain extent, on the current flow of incoming data, i.e. that monetary custodians will always be compelled to change course in response to data surprises. The ECB has repeatedly emphasised this during the current phase of stickily high inflation, and we are entirely in agreement with the *modus procedendi* of ECB President Lagarde and her colleagues.

Despite all this, empirical assessments are possible in the battle against inflation, and empirical experiences are useful. We consider the following points to be important with respect to monetary-policy management moving forward:

Supply-side or demand-side inflation?

It is argued that the first phase of the current inflation cycle was triggered by the supply side

From the very outset of the latest inflation process, it was possible to hear the argument that its causes were mainly to be found on the supply side. According to this line of argument, the coronavirus-related production restrictions and the Ukraine war-related surge in energy prices from the start of 2022 onwards were the factors responsible for the spike in the general price level. As both supply shocks have now subsided (so this argument runs), it should only be a matter of time before inflation once again heads back towards its target variable. Such a line of thinking would augur in favour of a patient monetary-policy approach that should avoid overreacting and that could even quickly revert to the neutral rate of interest (NRI), which is estimated to lie at a shade above 2% in the euro area's case.

But it is also important to add the demand side to the equation

There is certainly quite some evidence speaking in favour of such a supply-side origin for the recent spurt in inflation. For example, the fact that the classic "textbook" effects of a restrictive monetary-policy stance - via a reining-in of demand to the point of causing a recession, or via mounting

unemployment - have had far less of an impact than expected on bringing inflation rates down in recent quarters. The inference being that inflation's retreat should be attributed much more to improved supply chains and receding energy prices. All the same, we believe it is important to also look at demand-side causes of inflation, also over the further course of the inflation process.

The first item which needs to be singled out here concerns the fiscal stimuli which impacted the real economy during the coronavirus era: these appear to us to have been simply too massive for them to be ruled out as a possible root-cause of inflation. Although such stimuli from the fiscal side have, by now, waned in the euro area, they must continue to be monitored closely.

Those responsible for wage policy need to walk a fine line

The second item relates to the wage trend. Wage share dynamics are among the possible second-round effects that can entrench initial inflationary impulses into a permanent inflationary process. From the central bank's point of view, the parties to collective bargaining need to walk a fine line between offsetting past purchasing-power losses provoked by unexpected inflation, on the one hand, and refraining from exploiting the situation to push through wage increases that are in excess of the scope opened up by productivity gains. The point is that companies would respond to such wage increases with further price hikes, which would, moreover, be enforceable on the market in the present constellation due to the substantial rise in incomes. In other words, demand-side causes of inflation could definitely loom larger if wage-setting were to get out of hand.

As yet, wage momentum is mainly still a case of "catching up"

In 2023 as in the present year so far, wage momentum in the euro area has been very strong at over four percent. Nevertheless, we are currently still in a zone where wage gains are catching up to compensate for purchasing-power losses. Provided that the pace of wage growth slows significantly again next year, the ECB's inflation target will remain within reach. This means, however, that the inflation trajectory is going to hinge on future decisions reached by employers and employees. It would be too great a risk if monetary policymakers were to dish out premature praise and assume that a stability-oriented wage policy was already a certainty. The capacity-utilisation rate on European labour markets is high: the euro area unemployment rate has dipped to a historic low of 6.4%, and there is much to suggest that labour supply and labour demand will continue to diverge in the years ahead. This inevitably buttresses the negotiating power of the employee side. Although no wage-price spiral has been set in motion as yet, such a problematic scenario cannot yet be ruled out at the present juncture.

Inflation expectations are still too high

Inflation expectations ratcheted up as well...

One of the well-established insights of monetary-policy research is that the expectations of economic agents about the future inflation trend exert a strong influence on their current price-setting behaviour and thus on the

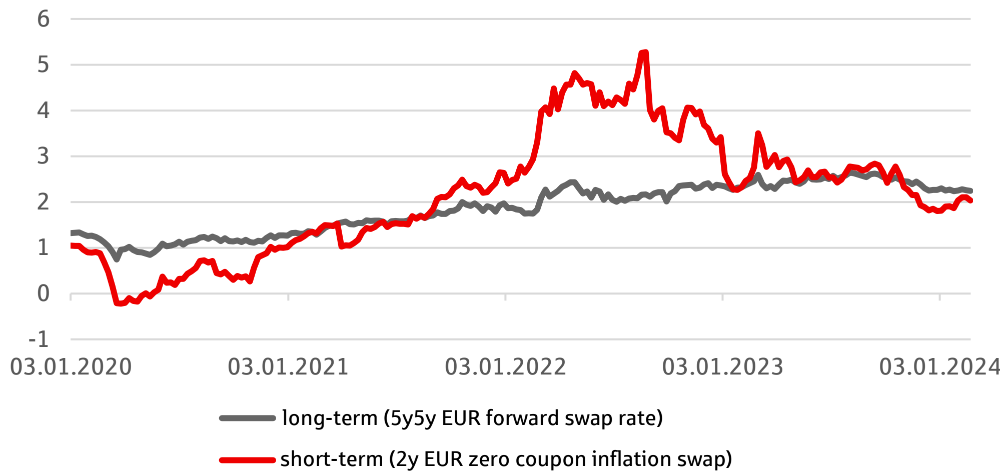
...but have nevertheless remained comparatively moderate

effective inflation trend going forward. Inflation expectations that are firmly anchored in line with a central-bank inflation target are therefore an efficacious antidote to a scenario involving inflationary stimuli becoming engrained and entrenched. When the current wave of inflation was beginning to take shape, inflation expectations across the euro area were probably more firmly anchored than ever before in history. And although long-term inflation expectations have admittedly risen in recent quarters, they have never exceeded 3%, even though reported inflation rates peaked at in excess of 10%. It stands to reason that the ECB's success in anchoring inflation expectations has greatly simplified the fight against inflation.

Nevertheless, inflation expectations remain above the preordained inflation target. The short-term expectations of financial-market participants can quickly skyrocket in reaction to a spike in current inflation rates - these even peaked at above five percent in the recent phase.

Until the autumn of 2023, for example, market-based gauges were still putting two-year inflation expectations at 2.8%, but these have now fallen to just over 2%. Long-term expectations are currently running at 2.3%.

The exact role of inflation expectations in accounting for inflation has not yet been clarified; indeed, there are many ways of measuring inflation expectations, and they tend to produce different results. By way of illustration, the inflation expectations of euro area consumers captured by surveys are significantly higher than the inflation bets of financial-market participants referenced above, and such consumer expectations have a key bearing on the formulation of wage demands. A fortiori, we have no empirical experience of how a de-anchoring of inflation expectations would play out.



Sources: Bloomberg, DekaBank

Overall, it remains to be said, the current indicator readings do not yet appear to indicate that a price-stability climate compatible with the two-percent inflation target is anchored absolutely securely on a broad basis. Since this is the case, there is still a risk that the symmetric two-percent-inflation regime which ECB policymakers have been targeting, and intend to keep targeting, will morph into an expected-inflation regime with a bias towards higher rates. It is imperative that such a development should be prevented.

The transmission process has not yet been completed

The euro area economy is still in the "braking zone"…

…

…especially in the case of the real-estate sector

One complication in the monetary-policy domain is that the measures adopted today only take effect with a time lag of one or even two years down the road. Empirical research available to date suggests that the strongest overall restrictive effects of a central-bank rate-hiking cycle occur in the year after the key-rate peak has been reached. The implication, then, is that the euro area economy is currently still completely in the "braking zone" caused by the recent bout of monetary tightening. The currently sluggish economic trend in the euro area and shrinking loan portfolios are clear indications of this. Furthermore, the effects of tighter financing conditions on the commercial-real-estate market (which, to make matters worse, is also in the throes of an adjustment crisis due to the considerable structural changes involving property use in the services sector) have, very clearly, not yet faded out. Although financial-market stability has not yet been rocked by the notably robust tightening pivot, there is still a possibility of frictions arising in the financial sector, which, in turn, could have formidable repercussions on the real-estate sector and would reshape the playing field for monetary policy. For this reason, it is of great importance to keep a close eye on real-estate-market developments, but also on other factors influencing financial-market stability, especially in a phase when the monetary-policy stance has a restrictive skew.

These reflections of ours tend to imply that monetary policymakers should be cautious about pursuing an overly restrictive tack. It cannot be the strategy of monetary custodians to maintain an ultra-tight stance until the economy tumbles into recession or until inflation is, without any doubt, back at target on a permanent basis. In this direction too, it is essential to factor in the time-lag effects involved. To this end, of course, projections of the future trend are needed - with all the associated difficulties described above.

In the absence of any further upside inflationary shocks, and unless any, as yet undetected, second-round effects emerge, our past experience with time-lag effects definitely calls for a cautious easing of the monetary reins from June of this year onwards.

The way forward: Driving on sight

It would seem possible to embark cautiously on a loosening cycle

If all aspects are summarised, the main takeway is that the forward trajectory of inflation cannot be unequivocally predicted at the present time. Current inflation forecasts are predicated on the assumption that the impressive decline in inflation rates over the past few quarters will come to a provisional halt at slightly above the European Central Bank's 2% inflation target.

Getting down the "last mile" to the 2% finishing-line

However, wage growth across the euro area will need to cool down as the coming year approaches, for an excessive pace of wage dynamics would not be compatible with an inflation rate of two percent. What is more, the effects of the steep rise in interest rates over the recent tightening cycle on the economy and on financial markets have not yet run their course completely. Overall, the race against inflation is on the right track, but it is not yet over: the last few meters to the finishing-line will be the hardest. The European Central Bank cannot be satisfied with "almost" meeting its inflation target of 2%. It is of great importance for the capital markets as well as for the economy as a whole that the existing inflation regime remains in vigour. Delays in the effects of monetary policy measures must always be taken into account. If no unexpected negative inflation data emerges in the coming months, the ECB can and should begin with cautious interest rate cuts. Should the inflation environment deteriorate again, however, monetary policymakers would need to be prepared to postpone the onset of loosening measures, even at short notice.

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