

A biannual publication of PIDE about performance  
and expectations of the business sector of Pakistan

---

No. 4

November, 2008

# PIDE

# BUSINESS BAROMETER



**PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS**

## **THE PIDE**

**The Pakistan Institute of Development Economics (PIDE)**, a premier research institute of Pakistan, has led the field in developing quality research in social sciences and informing public policy. PIDE is an academic institution that coordinates its work plan with the Planning Division, Government of Pakistan. Granted the degree-awarding status by the Government of Pakistan since 2006, PIDE functions as a research body with an educational mission.

Through recent restructuring, PIDE has developed several new initiatives such as the *PIDE Working Papers*, *PIDE Policy Viewpoint*, and a weekly PIDE Seminars series. It has been very active in the area of opinion evolution, breaking new ground in such areas as urban issues, governance and institutions, and civil service reform.

*PIDE Business Barometer* of Pakistan provides biannual information about the business sector's assessment and expectations of the state of economic activity in Pakistan.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means—electronic, mechanical, photocopying, recording or otherwise—without prior permission of the Publications Division, Pakistan Institute of Development Economics, P. O. Box 1091, Islamabad 44000.

© **Pakistan Institute of Development  
Economics, 2008.**



## C O N T E N T S

	<i>Page</i>
The Need for a Business Barometer	1
Overview	2
Macroeconomic Activities	5
<b>Declining Economic Growth</b>	5
<b>Inflationary Expectations Remain High</b>	8
The Non-financial Sector	9
<i>The State of Firms' Activities</i>	9
<b>Production is Increasing</b>	9
<b>Sales Increased with Conscious Future Expectations</b>	10
<b>Under-utilised Capacity</b>	12
<b>Firms are Building Up Inventories</b>	13
Prices and Wages	13
<b>Rising Input and Output Prices</b>	13
<b>Wage Pressure Is also Building Up</b>	15
Investment and Employment	16
<b>Higher Investment with Higher Expectations</b>	16
<b>Stable Current and Expected Employment</b>	17
Constraints on Firms' Production	18
<b>Regulatory Environment—A Major Constraint</b>	18
The Financial Sector Activities	19
<i>The State of Financial Sector Activities</i>	19
<b>High Actual and Expected Volume of Deposits and Advances</b>	19
<b>Credit Increased with High Expectations</b>	19
<b>Stable Activities in the International Market</b>	20
<b>Same Actual and Expected Capacity Utilisation</b>	21
Prices and Wages	22
<b>Mounting Wage Pressure</b>	22
<b>High Expected Rate of Interest on Deposits</b>	22
<b>High Advances Rate with Higher Expectations</b>	23
<b>High Actual and Expected Reserves</b>	24

	<i>Page</i>
Employment and Investment	<b>24</b>
<b>High Current and Expected Employment</b>	<b>24</b>
<b>Expected Level of Investment Is Higher as Compare to Actual Investment</b>	<b>25</b>
The Methodology	<b>26</b>
Appendix: PIDE Business Barometer Survey	<b>(i–vii)</b>

#### **List of Tables**

Table 1. Summary of Survey Results—Non-financial Sector	6
Table 2. Summary of Survey Results—Financial Sector	7
Table 3. Summary of Survey Results	28

#### **List of Figures**

Figure 1. Economic Growth	8
Figure 2. General Price Level	9
Figure 3. Production	10
Figure 4. Sales in the Domestic Market	11
Figure 5. Sales in the International Market	11
Figure 6. Capacity Utilisation	12
Figure 7. Inventories	13
Figure 8. Final Product Prices	14
Figure 9. Input Prices	15
Figure 10. Wage Level	15
Figure 11. Investment	16
Figure 12. Employment	17
Figure 13. Production Constraints	18
Figure 14. Production—Deposits, Advances, and Investment	19
Figure 15. Size of Activity in the Domestic Market	20
Figure 16. Size of Activity in the International Market	21
Figure 17. Capacity Utilisation	21
Figure 18. Wage Level	22
Figure 19. Interest Rate on Deposits	23
Figure 20. Interest Rate on Advances	23
Figure 21. Reserves	24
Figure 22. Employment	25
Figure 23. Investment in Banks	25

## THE NEED FOR A BUSINESS BAROMETER

PIDE has launched *Business Barometer* to provide independent biannual information about the state of economic activities in Pakistan. The *Business Barometer* is based on the survey of firms' assessments of the economy through their own activities. We have tried to get from firms information on their production, sales, inventories, prices, wages, employment and investment. This survey was conducted during August 2008.

We asked for information on the selected variables for the period, January to June, 2008. This information should be relatively easy since most managers will have a very real feel for events of the last six months even if they have not finally closed their books.

We then asked for their expectations for the same selected variables over the coming six months, July–December, 2008. Once again, the information provided by firms would be very useful given that they would have good knowledge of things to come from their order books and forward contracting arrangements.

We repeat the survey after every six months that is in July and January. This simple device allows us to assess market perceptions of the economy in a very real way. And we know from global experience that market perceptions are an important source of information on the economy that both policymakers and market participants can use.

We hope that this PIDE initiative will lead to the development of a diverse set of market sentiment indicators that all economic agents as well as the government will find useful as a barometer of coming economic activities.

## OVERVIEW

This edition of the Business Barometer of Pakistan is based on the views of 61 selected firms listed at the Karachi Stock Exchange (KSE). Following the previous edition, we have broadly categorised firms into two groups: financial and non financial sectors. In contrast to the previous survey, there is no substantial difference in both the assessment and expectations of the financial as well as non financial sectors about the economy. The analysis is based on firms' opinion about the overall performance of the economy such as growth and inflation as well as their own activities during the first half of the year 2008 and expectations about the last six months of 2008. This edition also includes analytical comparison of current with the previous survey. In order to validate expectations we compare it with actual situation also. The overlapping period in the two surveys is the first half of 2008, which is used to calculate the deviation of actual assessment from the expectations of the firms.

The business sector noted that level of growth of the economy during first half of 2008 has declined as compared to the growth level during the previous six months. The difference in the assessment of the financial and non financial sectors of the country diminishes for the year 2008. The financial sector has joined non financial sector in comprehending slower pace of growth for the first half of the year 2008.

The expectations of the business sector about the pace of growth of the economy in the last six months of 2008 is pessimistic. The net balance remains consistently negative as in the case of previous two assessments, therefore decline in the economic growth is expected for the second half of 2008. The overall net balance of the growth is negative, meaning thereby that the majority of the firms are anticipating lower growth. Even the financial sector which was initially showing positive net balance has now moved into the negative zone as their optimism resides.

The picture about the general price level, the rate of inflation, is noteworthy. In this survey, all the firms unanimously experienced higher prices in the first half of the 2008. Their expectations are also higher for the second half of the 2008. The analysis reveals that both financial and non financial sectors neither experienced nor anticipating any fall in the general price level for the year 2008. With 100 percent respondents reporting higher prices, the net balance remains consistently positive for the general price level.

In case of business activities the majority of the firms reported a higher level of production for the first half of 2008. This higher production is gaining momentum from the non financial sector. In terms of expectations the results turn around since the non financial sector is watchful, while the financial sector is optimistic. It is revealed that the business sector's activities in the domestic market were higher in the first half of 2008. The higher expectations for the second half of 2008 are mainly driven by the financial sector. In the international markets, the activities remained



high for the first half for the majority of firms but they are watchful for the second half of 2008. Thus retaining the higher level of inventories in the second half of 2008 as in the first. The financial sector is mainly accumulating higher level of inventories. Moreover there is increase in input prices, output prices, rate of interest on deposits, interest rate on advances and wages. This upward assessment of business sector is inline with high inflationary expectations. The financial sector is expecting increase in rate of interest on deposits, interest rate on advances and reserves which is in line with the tight monetary policy adopted by the State Bank of Pakistan. Their future expectations about their activities are also high. Business sector is expecting the level of investment to be higher in the second half of 2008. The higher investment expectations are driven by the visibly higher expectations of the financial sector. This higher investment is thus leading to higher employment in the financial sector.

As far as the other economic variables are concerned, the majority of the firms are reporting an increase in the production, investment and sales in domestic market. This is mainly driven by the higher expectations of the rise in the final product prices. At the same time the firms' expectations of an increase in the input prices and wage pressure is leading to the piling up of the inventories. The employment levels are reported to be stable as the firms continue to operate at below full capacity level. The financial sector optimism about employment indicates that more jobs will be created. The leading constraints affecting firm's production are the regulatory environment and the insufficient demand. The insufficiency of demand, particularly in the international market, could be attributed to the rising global inflation.

In summary we can say that the growth has slowed down and inflation has risen up during Jan – June 2008. Further decline in the growth level and rise in the rate of inflation is expected during the second half of the year. Thus implying an urgent need of a comprehensive macroeconomic policy framework for the control of inflation by the authorities. As pointed out in the last edition of business barometer, the problems of declining expected growth and rising inflationary expectations are demanding coordinated efforts by the State Bank of Pakistan and the Federal Government.

**Declining Economic Growth**

The analysis reveals that during first half of the year 2008 economic growth declines as compared to the second half of 2007. As can be seen from results presented in Figure 1 and Table 3, a majority of firms, 68.3 percent, saw slow economic growth followed by 18.3 percent firms indicating the same level of growth. However, only 13.3 percent of the respondents indicated a faster growth in economy during the survey period.

The actual growth assessment of financial and non financial sectors is not different as the net balance of both sectors indicated lower level of growth with different intensity as compared to earlier six months. Analysis of financial sector reveals there are 50.0 percent, 33.3 percent and 16.7 percent units indicating lower, same, and higher level of economic growth, respectively (Table 2). While non financial firms saw lower, same and higher growth by 74.5 percent, 14.9 percent and 10.6 percent of firms than previous period, respectively (Table 1).

In terms of perception of business sector regarding the economic growth during second half of 2008, 76.7 percent firms anticipated that it will grow at a slower rate, 18.3 percent firms anticipated that it will grow at the same pace, while only 5.0 percent expected that it will grow at a faster rate as compared to first half of 2008. The analysis shows that business sector is expecting decline in growth during second half of 2008.

Sectoral analysis revealed that there is no substantial difference in the growth expectations of both non financial and financial firms. As can be seen from the Table 1, majority of the firms expect lowering of growth during the current period of year. In terms of their perception regarding the economic growth in the next six months, the percentage distribution of banks favouring higher, same and lower economic growth is 25.0 percent, 41.7 percent and 33.3 percent, respectively (Table 2). In case of non banks 12.8 percent, 0 percent and 87.2 percent firms are expecting growth to be higher, same and lower than previous period, respectively (Table 1).

Table 1

*Summary of Survey Results—Non-financial Sector*

Indicator	July – December 2007				January – June 2008				January – June 2008				July – December 2008			
	Evaluations			Net Balance	Expectations			Net Balance	Evaluations			Net Balance	Expectations			Net Balance
	Higher	Same	Lower		Higher	Same	Lower		Higher	Same	Lower		Higher	Same	Lower	
<b>Economic Growth</b>	11.3	30.6	58.1	-46.8	25.4	41.3	33.3	-8.9	10.6	14.9	74.5	-63.9	12.8	0	87.2	-74.4
<b>Business Activity</b>																
Production	42.2	21.9	35.9	6.3	57.1	36.5	6.3	50.8	53.2	25.5	21.3	31.9	29.8	42.6	27.7	2.1
Domestic Sales	43.8	23.4	32.8	11	58.7	31.7	9.5	49.2	44.7	27.7	27.7	17	36.2	36.2	27.7	8.5
International Sales	30.6	33.3	36.1	-5.5	47.2	47.2	5.6	41.6	53.6	25	21.4	32.2	31	48.3	20.7	10.3
Level of Capacity Utilisation	21.3	75.4	3.3	16	33.3	61.7	5	28.3	37	56.5	6.5	30.5	27.9	69.8	2.3	25.6
<b>Prices</b>																
Final Product Prices	52.4	31.7	15.9	36.5	61.7	28.3	10	51.7	87.2	6.4	6.4	80.8	89.1	10.9	0	89.1
Input Prices	84.4	7.8	7.8	76.6	93.5	4.8	1.6	91.9	95.7	2.1	2.1	93.6	93.5	4.3	2.2	91.3
Wage Level	84.4	15.6	0	84.4	71.4	15.6	1.6	69.8	82.6	15.2	2.2	80.4	80.9	19.1	0	80.9
General Price Level	96.8	1.6	1.6	95.2	83.6	14.8	1.6	82	100	0	0	100	100	0	0	100
<b>Inputs</b>																
Investment	49.2	47.6	3.2	46	50.8	49.2	0	50.8	64.4	31.1	4.4	60	48.9	46.7	4.4	44.5
Employment	33.9	56.5	9.7	24.2	33.9	59.7	6.5	27.4	34	55.3	10.6	23.4	27.7	66	6.4	21.3

*Source:* Survey results.

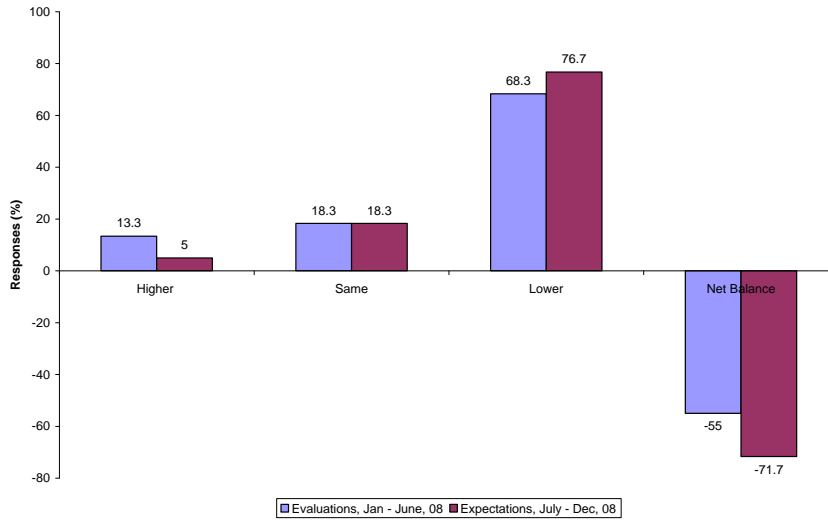
Table 2

*Summary of Survey Results—Financial Sector*

Indicator	July – December 2007				January – June 2008				January – June 2008				July – December 2008			
	Evaluations			Net Balance	Expectations			Net Balance	Evaluations			Net Balance	Expectations			Net Balance
Higher	Same	Lower	Higher		Same	Lower	Higher		Same	Lower	Higher		Same	Lower	Higher	
<b>Economic Growth</b>	14.3	50	35.7	-21.4	39.3	25	35.7	3.6	16.7	33.3	50	-33.3	25	41.7	33.3	-8.3
<b>Business Activity</b>																
Production (deposits advances, investment)	67.9	25	7.1	60.8	100	0	0	100	50	16.7	33.3	16.7	83.3	8.3	8.3	75
Domestic Sales (loans, advances, investments)	83.3	16.7	0	83.3	100	0	0	100	50	16.7	33.3	16.7	91.7	0	8.3	83.4
International Sales (loans, advances, investments)	45.5	54.5	0	45.5	66.7	33.3	0	66.7	50	50	0	50	50	50	0	50
Level of Capacity Utilisation	65	35	0	65	33.3	66.7	0	33.3	0	100	0	0	0	100	0	0
<b>Prices</b>																
Final Product Prices (interest rate on advances)	36	56	8	28	33.3	66.7	0	33.3	83.3	16.7	0	83.3	90.9	9.1	0	90.9
Input Prices (interest rate on deposits)	58.5	34.8	8.7	47.8	33.3	66.7	0	33.3	91.7	8.3	0	91.7	91.7	8.3	0	91.7
Wage Level	78.6	21.4	0	78.6	85.7	14.3	0	85.7	66.7	25	8.3	58.4	83.3	16.7	0	83.3
General Price Level	92.9	7.1	0	92.9	100	0	0	100	100	0	0	100	100	0	0	100
<b>Inputs</b>																
Investment	76	20	6	70	61.6	18.2	0	61.6	25	58.3	16.7	8.3	81.8	18.2	0	81.8
Employment	71.4	28.6	0	71.4	85.7	14.3	0	85.7	66.7	16.7	16.7	50	75	16.7	8.3	66.7

Source: Survey results.

**Fig. 1. Economic Growth**



**Inflationary Expectations Remain High**

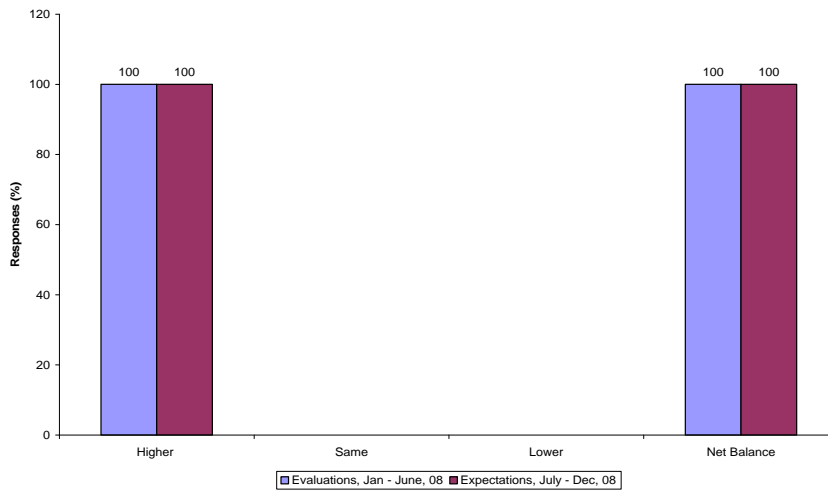
Business sector felt that during first half of the year 2008 inflationary pressure was higher as compared to second half of the year 2007. About 100 percent of the respondents indicated that during the first six months of 2008 the general price level increased as compared to the second half of the year 2007 (Table 3).

In case of inflationary assessment it seems that both financial and non financial sector have same opinion. In case of non financial sector 100 percent of firms indicated higher level of inflation as compared to previous half of the year 2007 (Table 1). Similar is the case of the financial sector, 100 percent respondents indicated higher inflation in the first half of the year 2008 than the second half of the year 2007 (Table 2).

The business sector is expecting high inflation during coming six months of the year 2008. As depicted in the Figure 2, for the first half of the year 2008, 100 percent of firms are anticipating an increase in the general price level. The financial sector is expecting higher level of inflation during the second half of year 2008 as compared to level of inflation prevailed during the first half of 2008. In case of non financial sector all the firms are expecting higher level of inflation (Table 1).

**Fig. 2. General Price Level**

Figure 2. General Price Level



## THE NON-FINANCIAL SECTOR

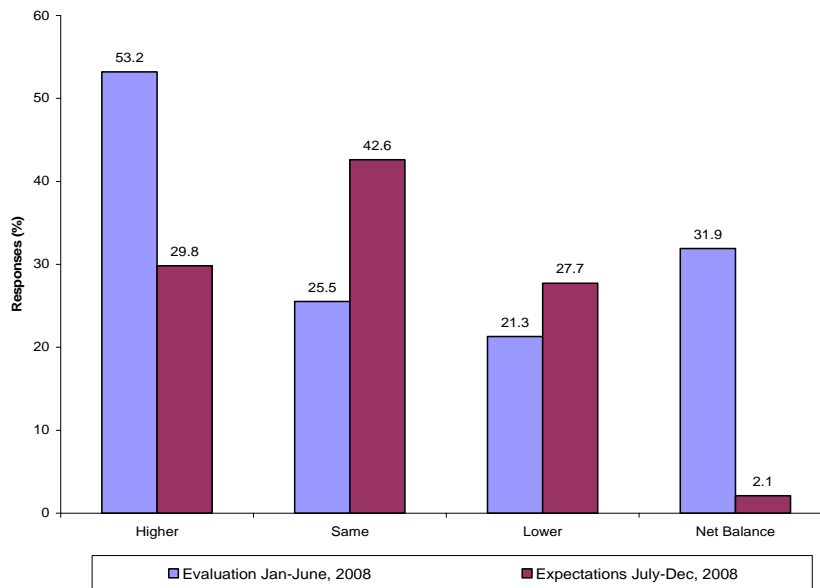
### THE STATE OF FIRMS' ACTIVITIES

#### Production is Increasing

Information about the production of firms is presented in Figure 3. It reveals that production has increased. The responses indicate that during Jan-June, 2008, 53.2 percent of firms had a higher level of production as compared to the second half of 2007. While 25.5 percent indicated no change in the volume of production and the rest of the firms (21.3 percent) indicated that their production was lower as compared to the second half of 2007.

In terms of the plans of the non financial firms for the next six months, only 29.8 percent responded that they are expecting their production to rise, 42.6 percent expected the same level and 27.7 percent expected a fall in their production.

**Fig. 3. Production**

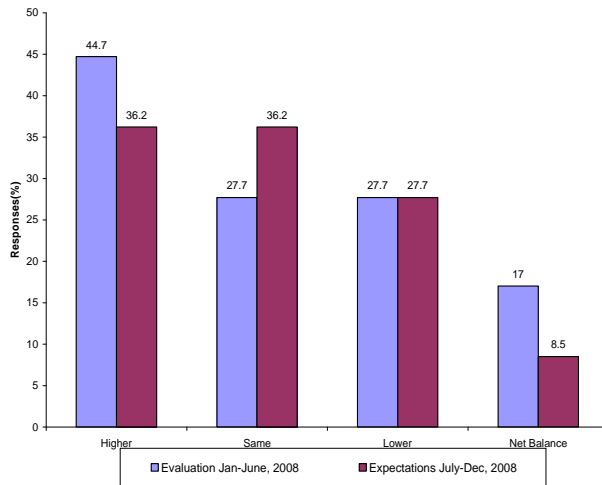


### **Sales Increased with Conscious Future Expectations**

Information about sales in the domestic and international market is presented in Figure 4 and Figure 5, respectively. Majority of business firms (44.7 percent) indicated that their sales in the domestic market during the first half of 2008 were higher than the second half of 2007. The firms which recorded decrease in their sales were 27.7 percent. However, there is no significant change in the sales of 27.7 percent firms (Figure 4).

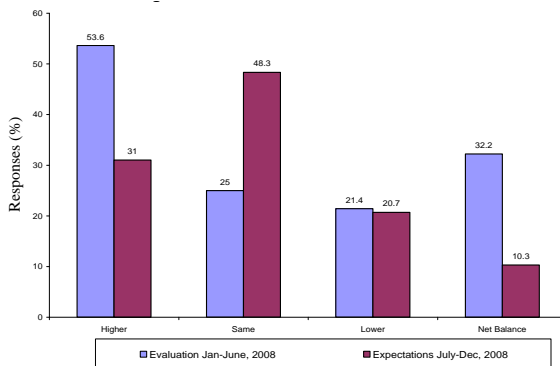
In terms of plan for the next six months 36.2 percent of the business firms are expecting that their sales in the domestic market would increase in the second half of 2008, 36.2 percent expected it to stay the same while 27.7 percent expected a fall in their activity in the domestic market. The analysis shows that non financial sector is conscious about their sales in domestic market during the second half of 2008. Furthermore the past experience about expectations indicates that sales in the domestic market would remain the same as deviation in the respondents favouring higher sales in the domestic market is -26.5 percent.

**Fig. 4. Sales in the Domestic Market**



Sales in international market increased as 53.6 percent firms reported an increase in the sales as compared with previous half of the year i.e. July-Dec 2007, 21.4 percent reported decrease in the sales activity in the international market, and 25 percent reported no significant change (Figure 5). For the next six months, 31 percent of business firms are expecting that their sales would be higher, 48.3 percent are expecting it to stay the same and 20.7 percent are expecting that sales may decrease.

**Fig. 5. Sales in the International Market**



### Under-utilised Capacity

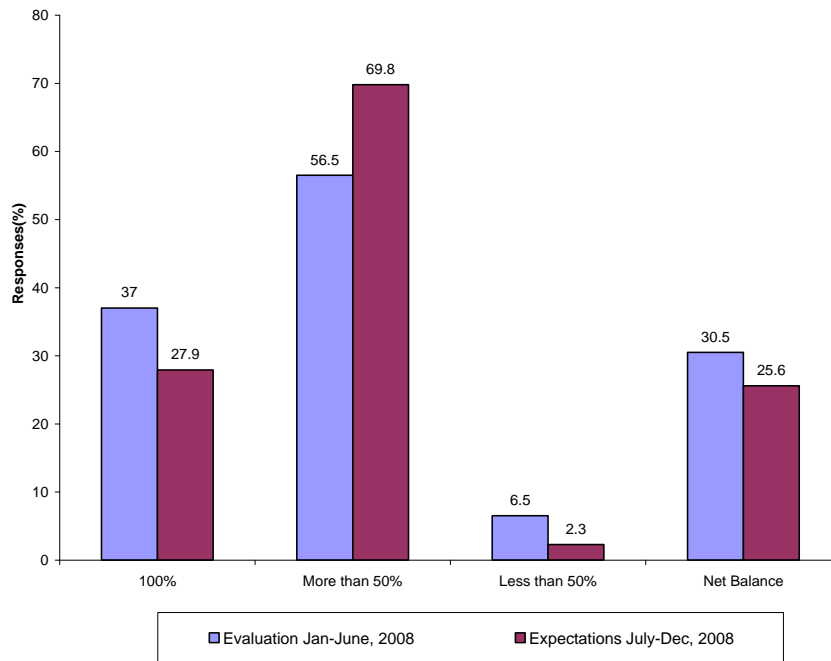
The evidence presented in Figure 6 shows that non financial sector still has the potential to expand its production because most of the firms are working less



then full capacity. In response to the question about capacity utilisation, 37 percent firms reported that their capacity utilisation was 100 percent, while 56.5 percent of the business firms reported that their capacity utilisation was more than 50 percent and the rest of the firms reported less than 50 percent.

Regarding the future course of capacity utilisation, 27.9 percent of firms are expecting to operate at full capacity during the second half of 2008 while 69.8 percent are expecting that their capacity utilisation will be more than 50 percent but less than full capacity and the rest are expecting to utilise less than 50 percent capacity. Following the previous experience about the realisation of expectations in Jan-June 2008, most of the business firms are expected to work at less than full capacity utilisation level.

**Fig. 6. Capacity Utilisation**



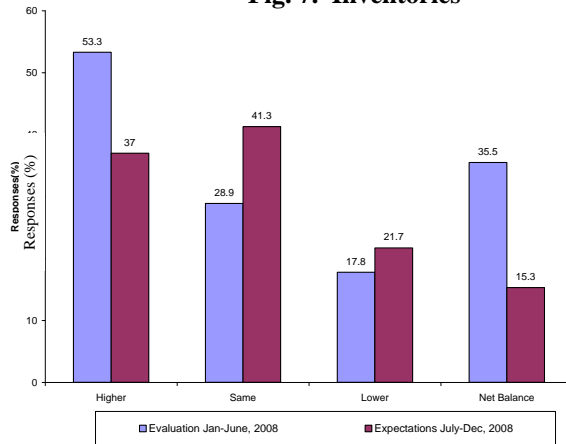
**Firms are Building Up Inventories**

Inventories are building up as firms in non financial sector are reporting an increase in production. Most of the firms, 53.3 percent reported a rise in the inventories during the first half of 2008, 28.9 percent kept it at the same level while 17.8 percent decreased their inventories in the first half of 2008 as compared to the second half of 2007 (Figure 7).

In the next six months, 37 percent firms expected an increase in their inventory, 41.3 percent expected it to stay at the same level while 21.7 percent

expected a decline in their inventory. Furthermore past experience about the expectations indicate that inventories would be even higher than what is expected as deviation in the respondents favouring higher inventories is positive.

**Fig. 7. Inventories**

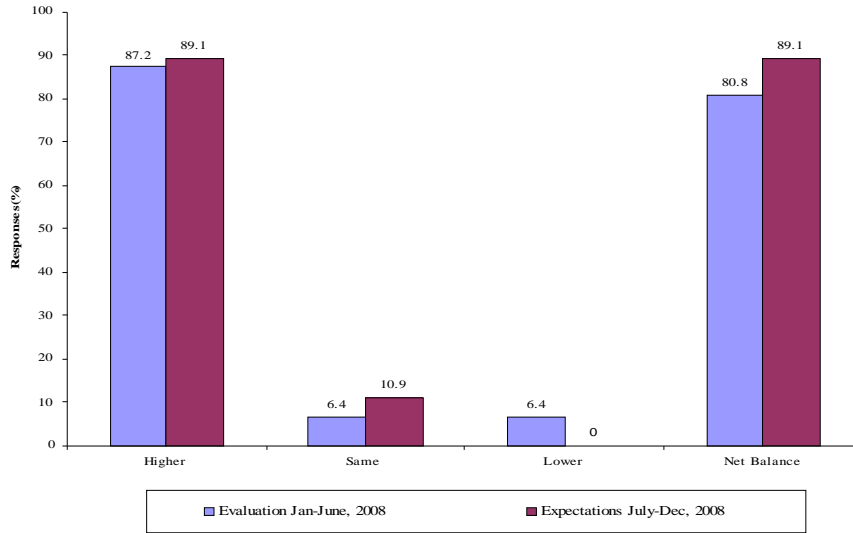


## PRICES AND WAGES

### Rising Input and Output Prices

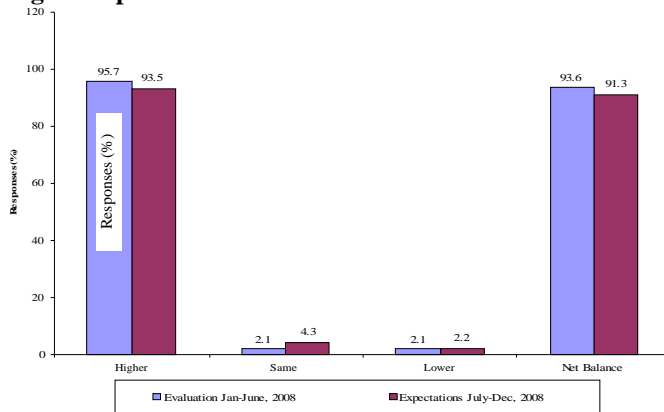
In case of the prices of final goods, 87.2 percent of the respondents experienced an increase in the prices of their product during the first half of 2008. For 6.4 percent, it remained the same, while for 6.4 percent the prices fell from the second half of the 2007 (Figure 8). Majority of the firms (89.1 percent) are expecting that the prices of their final products will increase during the second half of 2008. In the coming six months, only 10.9 percent firms are expecting that it will stay the same while none of the firms are expecting a fall in the price of their product. Final product prices would be even higher than the expectations of the business firms as deviation in the respondents favouring higher product price is 10.5 percent.

**Fig. 8. Final Product Prices**



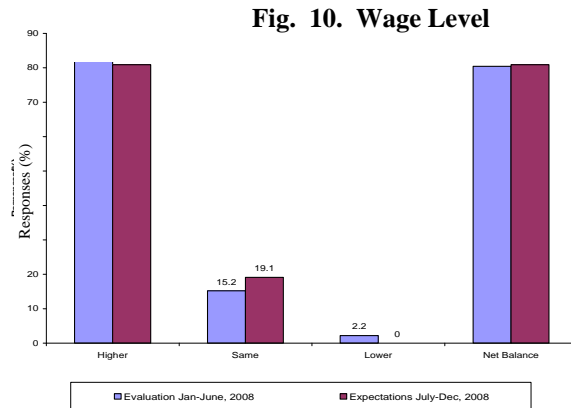
According to the majority of the firms, input prices have increased during the study period. The increase in input prices ultimately enforced the business firms to raise their own final goods prices. Only 2.1 percent of the respondents reported a decrease in the prices of their inputs (Figure 9). Large number of them, 95.7 percent, indicated that their input prices increased in the first half of 2008 while 2.1 percent reported no change. For the current half of the year 2008, 93.5 percent expect a rise in the prices of their inputs, while 4.3 percent expect it to stay the same. Only 2.2 percent of the firms expect a fall in the prices of their inputs.

**Fig. 9. Input Prices**



**Wage Pressure Is also Building Up**

Wage pressure is also building up along with the inflationary expectations. Only 2.2 percent of the business firms experienced a wage decline in the first half of 2008 and 82.6 percent of firms reported a rise in wages in the first half of 2008 over the second half of 2007, while 15.2 percent reported that the wage level remained the same during this period (Figure 10). In the coming six months, 80.9 percent continue to expect wage inflation, 19.1 percent anticipate stable wages and none of them are expecting wages to decline in the coming six months. Furthermore 17.7 percent deviation confirms expectations about higher wages.



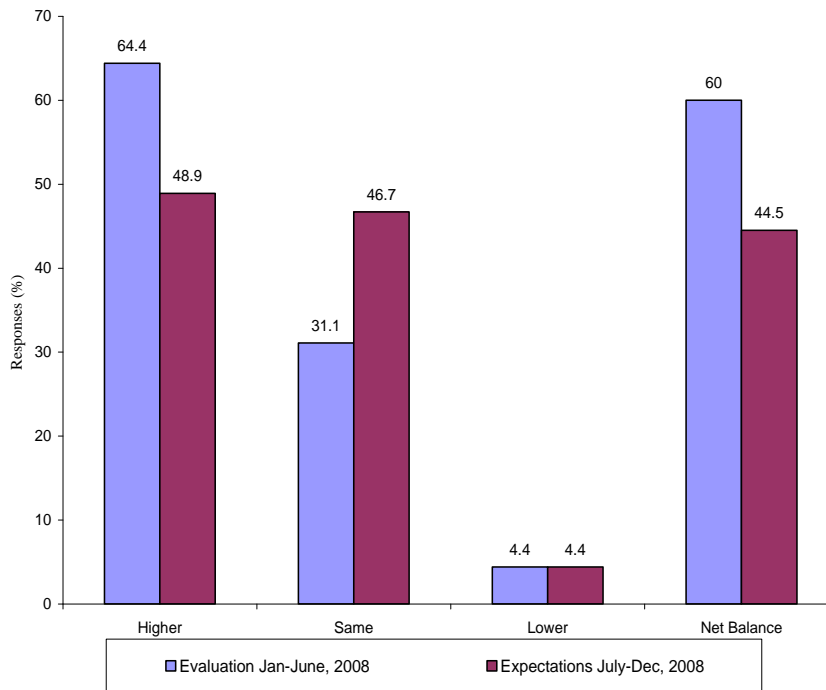
**INVESTMENT AND EMPLOYMENT**

**Higher Investment with Higher Expectations**

The investment behaviour of firms depicted in Figure 11 indicate that their investment plans are firmly positive as 64.4 percent have increased their investment in the first half of 2008 as compared to the second half of 2007 and 31.1 percent firms reported that it stayed at the same level. Only 4.4 percent firms reported a decline in investment.

For the second half of 2008, 48.9 percent firms are anticipating an increase in investment, 46.7 percent predicted no change in investment behaviour while only 4.4 percent of the firms have plans to decrease their investment. In general investment situation is encouraging for the economy.

**Fig. 11. Investment**

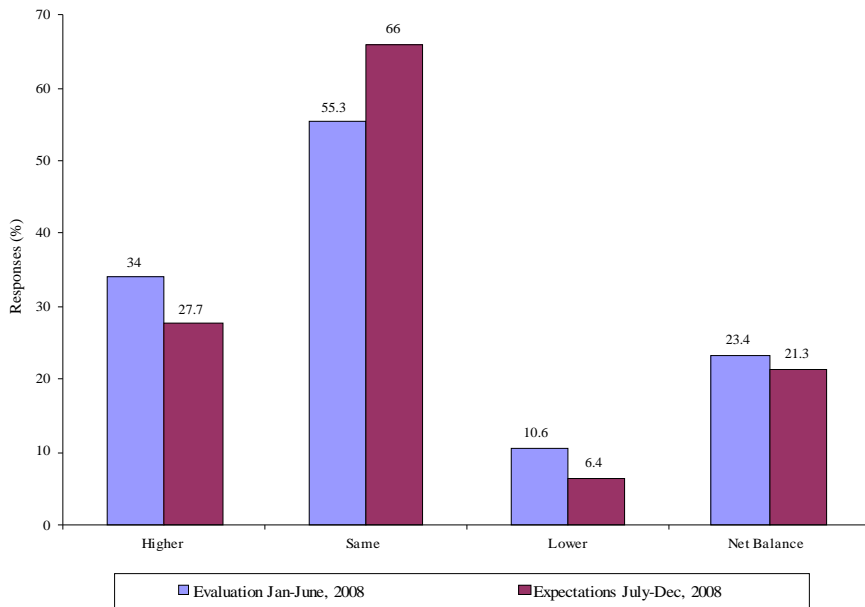


**Stable Current and Expected Employment**

The increase in production, sales in domestic and international market, increase in product prices and inflation is positively effecting employment which is putting pressure for increase in wages. Most of the firms (55.3 percent) reported that their employment situation did not change in the first half of 2008 over the second half of 2007 (Figure 12) and 34 percent reported an increase in the employment while the decline was reported by 6.4 percent of the respondents. The positive net balance indicates that overall there was some increase in the employment during the first half of 2008.

The positive net balance reveals that unemployment would decrease in future as majority of the firms (66 percent) are expecting no change in employment in the second half of 2008, 27.7 percent are anticipating that work force would increase while 6.4 percent are expecting a fall in their employment level for the next six months. The previous experience about expectations indicates that employment situation will remain stable.

**Fig. 12. Employment**

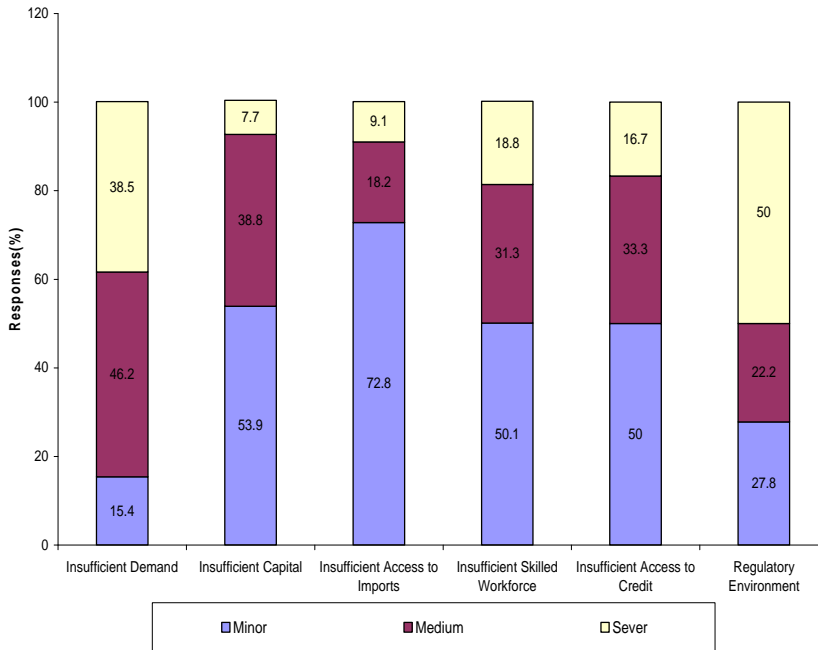


**CONSTRAINTS ON FIRMS' PRODUCTION**

**Regulatory Environment—A Major Constraint**

We also enquired about the constraints faced by the non financial sector of the economy. As can be seen from the Figure 13, 50 percent of the firms reported that their production is constrained by different factors. Out of the constrained firms, 50 percent of firms think that improper regulatory environment is the most important constraint, followed by insufficient demand (i.e. 38.5 percent) and insufficient skilled workforce (i.e. 18.8 percent). While 16.7 percent of firms think that insufficient access to credit creates hurdles in business growth while insufficient access to imports and insufficient capital is felt by 9.1 and 7.7 percent of business firms respectively.

**Fig. 13. Production Constraints**



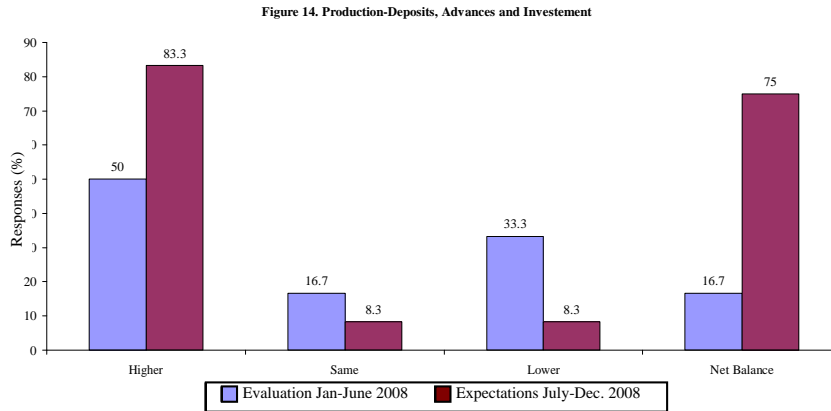
## THE FINANCIAL SECTOR ACTIVITIES

### THE STATE OF FINANCIAL SECTOR ACTIVITIES

#### High Actual and Expected Volume of Deposits and Advances

The financial sector is optimistic about its production. The responses (Figure 14) indicate that during Jan–June, 2008, 50 percent of the financial institutions had higher level of deposits and advances as compared to that of the second half of 2007. While 16.7 percent indicated that there was no change in the volume of advances and deposits, a 33.3 percent of financial institutions indicated that their production is lower. In terms of the plans for the next six months, 83.3 percent expected that their volume of deposits and advances would rise, while 8.3 percent it will be same and lower in the next six months. The analysis demonstrates that the financial sector is optimistic about its future growth.

**Fig. 14. Production—Deposits, Advances, and Investment**



### **Credit Increased with High Expectations**

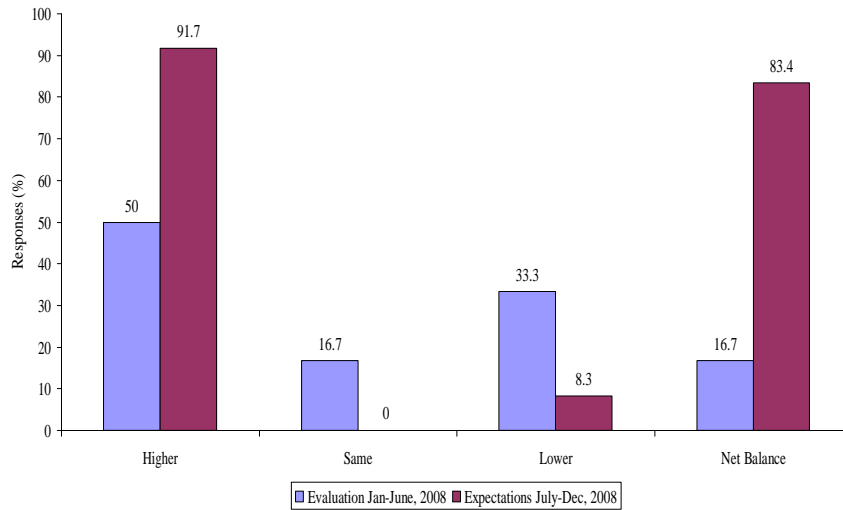
Figure 15 show that 50 percent of the institutions indicated that their activities in the domestic market during the first six months of 2008 were higher and 33.3 percent of the institutions recorded a decrease in its activities, while 16.7 percent reported the size of activity in the domestic market stayed at the same level during first half of 2008.

Interestingly, 8.3 percent of the institutions expect a decrease in their activities, while none of them reported the size of activity in the domestic market to stay at the same level during second half of the 2008. Furthermore, 91.7 percent institutions expect that their activities in the domestic market would increase.

**Fig. 15. Size of Activity in the Domestic Market**



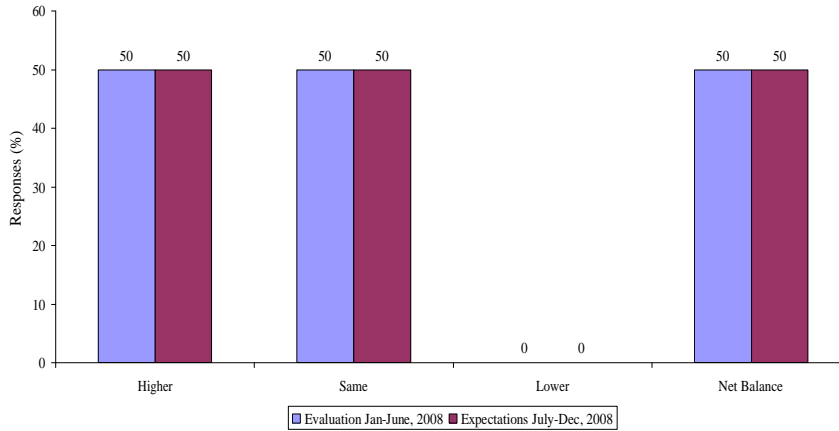
Figure 15. Size of Activity in the Domestic Market



### Stable Activities in the International Market

Interestingly, 50 percent of the respondents reported an increase in their activities (Deposits, Advances, Investments) in the international market during Jan-June 2008, as compared to the second half of 2007 (Figure 16); 50 percent reported no significant change. Regarding the future activities, the evidence shows that financial institutions are optimistic about the international market as 50 percent of the institutions hope that their activity would increase and 50 percent expect that there will be no change in the size of their international market activity. None of institutions expects a decline in its activity.

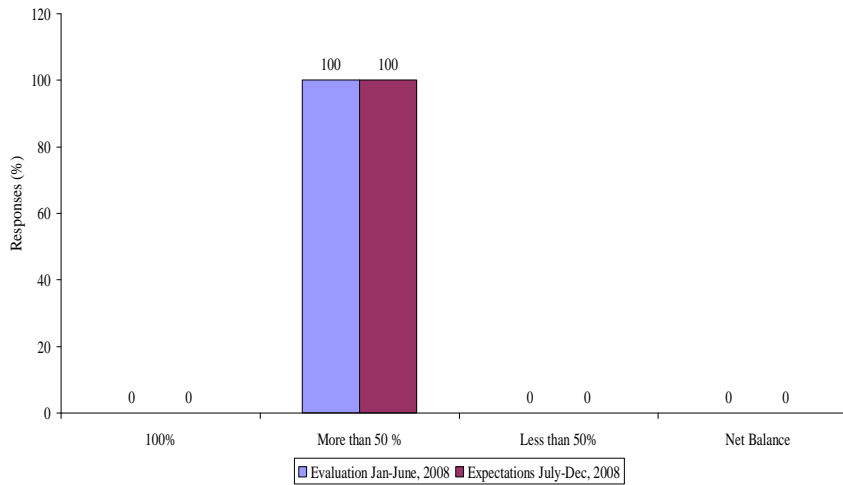
**Fig. 16. Size of Activity in the International Market**



**Same Actual and Expected Capacity Utilisation**

The evidence shows that 100 percent of financial institutions are working more than 50 percent of their capacity in the first half of 2008 (Figure 17). As for the future, 100 percent respondents expect to use their more than 50 percent and no one expect lower capacity utilisation during the second half of 2008.

**Fig. 17. Capacity Utilisation**

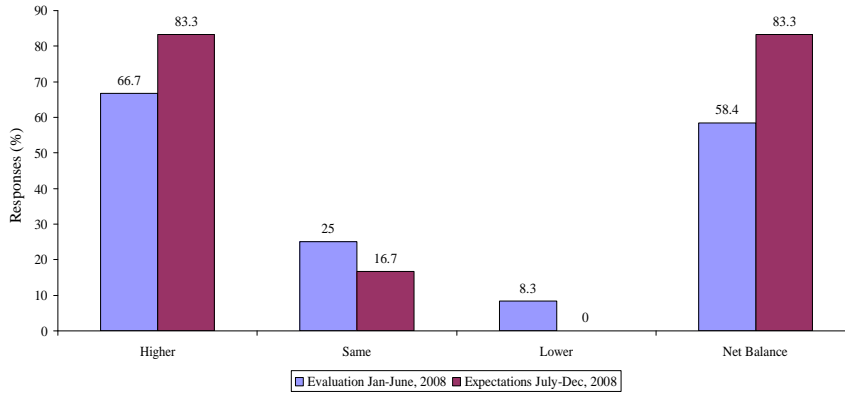


**PRICES AND WAGES**

**Mounting Wage Pressure**

Financial sector is also facing wage pressure is also building up along with the inflationary expectations (Figure 18). Only 8.3 percent of the respondents reported a wage decline in the first half of 2008. The majority of the respondents (66.7 percent) reported a rise in wages in the first half of 2008, while 25 percent reported that the wage level remained the same during this period. For the coming six months, 83.3 percent financial institutions expect a rise in wages, while only 16.7 percent predict a stable wage level in the second half of 2008.

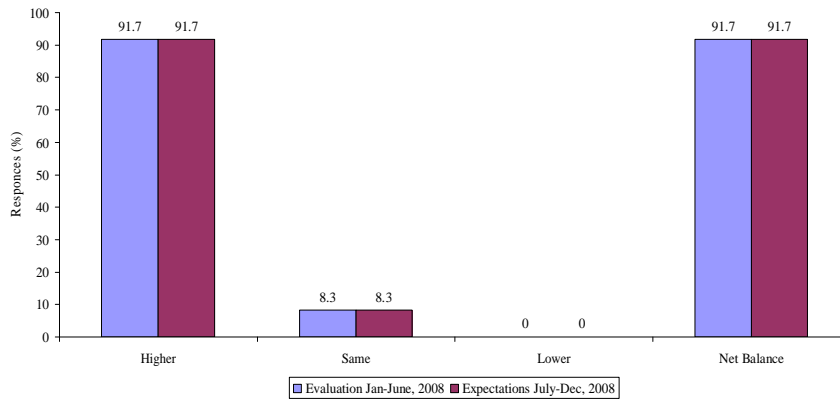
**Fig. 18. Wage Level**



### High Expected Rate of Interest on Deposits

Looking at the interest rate, 91.7 percent of the respondents experienced an increase in interest on deposits during the first six months of 2008 (Figure 19). While only 8.3 percent respondents report that interest on deposits remained the same. None of the respondent report that the interest was lower in the first half of 2008. For the next six months, only 8.3 percent reported that the interest rate on deposits would stay the same, 91.7 percent expected that the interest rate would increase, while none expected a fall in the rate of interest.

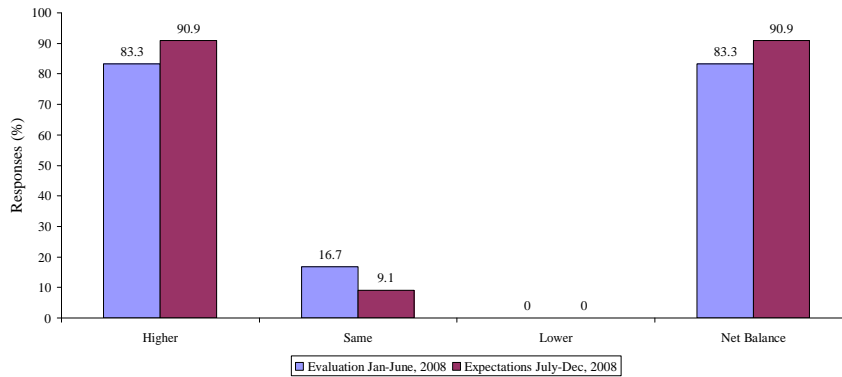
**Fig. 19. Interest Rate on Deposits**



**High Advances Rate with Higher Expectations**

The financial sector is feeling upward pressure on the interest rate on advances due to an increase in the deposit rate, wages, and other expenditure, which is forcing it to raise the prices of their advances. None of the respondents reported a decrease in the interest rate on advances (Figure 20), whereas 83.3 percent indicated that interest on advances increased during the first half of 2008 as compared to the second half of 2007. The majority of the institutions (i.e., 90.9 percent) were expecting a rise in the interest rate, while only 9.1 percent expect the interest on advances will be the same. None of the institutions anticipate a fall in interest rate.

**Fig. 20. Interest Rate on Advances**

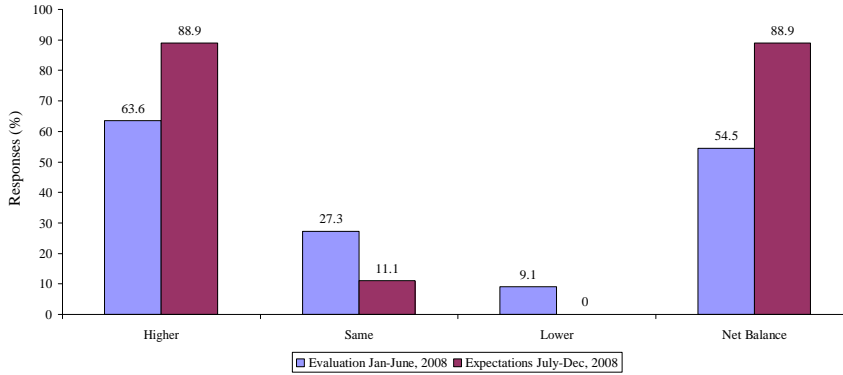


**High Actual and Expected Reserves**

The analysis shows that financial institutions are optimistic about their assets, as the majority of the institutions expect to maintain high reserves (Figure 21). As 63.6 percent of the institutions indicate that their reserves are lower than in the

second half of 2007 27.3 percent report that there is no change in reserves and 9.1 percent of the institution recorded a decrease in reserves in the evaluation period. The majority of institutions (88.9 percent) expect that their reserves would increase in the second half of 2008, 11.1 percent expect that the reserves would stay at the same level.

**Fig. 21. Reserves**

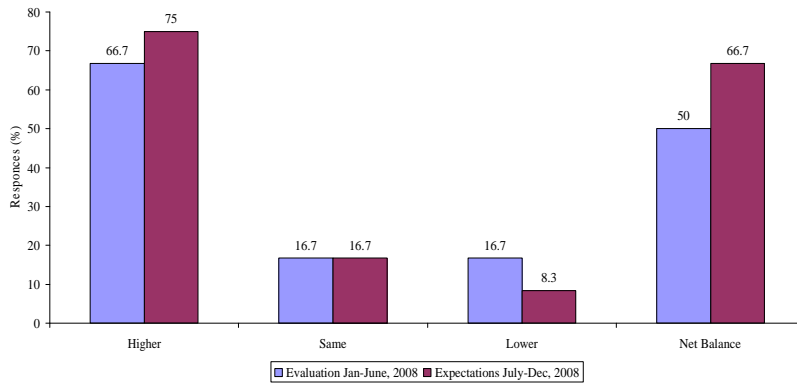


**EMPLOYMENT AND INVESTMENT**

**High Current and Expected Employment**

Most of the financial institutions (66.7 percent) reported an increase in the employment level during the first half of 2008 as compared to the second half of the 2007. Only 16.7 percent reported that it stayed at the same level. Figure 22 shows positive net balance, which indicates that there is some increase in employment during the second half of 2008. Only 16.7 percent banks are expecting stability in employment in the second half of 2008. Analysis reveals that there will be employment creation in the financial sector. This is in the line with the higher expectation of activities in the financial sector.

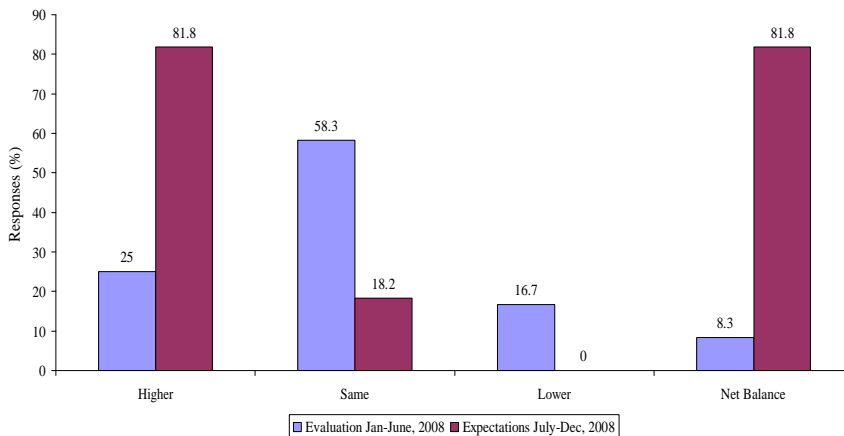
**Fig. 22. Employment**



**Expected Level of Investment Is Higher as Compare to Actual Investment**

Increasing investment in the economy is sustained by the investment behaviour. Figure 23 reveals that the 25 percent of the institutions reported an increase in their investment in the first half of 2008, 58.3 percent institutions reported that it stayed the same and only 16.7 percent reported a decline in investment. For the second half of 2008, 81.8 percent anticipate an increase in investment, 18.2 percent plan to maintain it at the same level, but none of the institutions reports a possible decrease in investment.

**Fig. 23. Investment in Banks**



**THE METHODOLOGY**

For this survey we are focussing on firms that are listed in the Karachi Stock Exchange (KSE). In that sense we are dealing mainly with large business. While this

was largely because of the convenience and management of the survey, it is also true that large firms because of their weight in the economy may provide us with more information on developments in the economy.

The questionnaire was sent to all the firms listed in the Karachi Stock Exchange. The respondents included financial sector, textile sector, sugar and allied industries, cement, oil and gas exploration companies, engineering, automobile assemblers, automobile parts and accessories, fertilisers, pharmaceuticals, chemicals, banaspati and allied industries, food and personal care products and glass and ceramics. Some 8.7 percent of the firms responded which gives us a fairly good sample to generalise from. Among these, there were 13 respondents from the financial sector resulting in a separate financial section.

A common drawback of the studies involving forecasting of the variables from survey data is the authenticity or accuracy of the calculations about the expectations. Since the perceptions about the future inflation, production, investment etc. are very vulnerable to any small change like a political event or shift of policy. The barometer thus uses a deviation factor to evaluate the precision and accuracy of firms' future assessment of behaviour of selected variables in the next six months. This deviation factor is based on the responses of same responding units to compare expectations and actual evaluations of Jan-June, 2008. The deviation factor has been calculated by taking the difference between actual evaluations and expectations of the overlapping period of Jan-June, 2008. For more careful calculation, only the same responding units have been used to derive the difference between the expectations and the evaluations. The application of this percentage difference, to the most favoured category of the response, shows how much actual evaluations deviate in reality from expectations. The use of this deviation factor helps in analysing the assessment of business firms with more accuracy, since the possibility of the gap between perceived figures and the actual figures is controlled. In other words this factor supports our argument regarding the firm's perceptions about their activities in the next six months with corrected anticipations.

The fourth edition of the business barometer is a step ahead of the previous editions since the collection of the two year data has enabled us to report the trend of the net balance. The net balance represents the percentage of respondents indicating "higher" minus the percentage of respondents indicating "lower". It thus provides us another tool to analyse the change in the behaviour of the firms more closely.

Furthermore, we will over time improve the coverage while also ensuring that we do develop a panel of respondents to ensure comparability across semesters.

Table 3

*Summary of Survey Results*

Indicator	July – December 2006				January – June 2007				January – June 2007				July – December 2007			
	Evaluations			Net Balance	Expectations			Net Balance	Evaluations			Net Balance	Expectations			Net Balance
	Higher	Same	Lower		Higher	Same	Lower		Higher	Same	Lower		Higher	Same	Lower	
<b>Economic Growth</b>	8	60	33	-25	4	73	23	-19	16.2	64.9	18.9	-2.7	12.2	56.8	31.1	-18.9
<b>Business Activity</b>																
Production	43	32	24	19	65	32	3	62	67.6	23.9	8.5	59.1	48.6	31.1	16.2	32.4
Domestic Sales	45	33	19	26	68	24	7	61	58.3	29.2	12.5	45.8	57.5	27.4	15.1	42.4
International Sales	36	23	40	-3	53	27	20	33	38.5	25.6	35.9	2.6	34.9	44.2	20.9	14
Inventory	45	31	24	21	46	39	15	31	42.3	38.5	19.2	23.1	35.7	50	14.3	21.4
Level of Capacity Utilisation	23	45	32	-9	54	44	2	52	29.9	53.7	16.4	13.5	39.4	50	10.6	28.8
<b>Prices</b>																
Final Product Prices	48	36	16	32	43	47	9	34	42.3	31	26.8	15.5	34.8	53.6	11.6	23.2
Input Prices	92	8	0	92	78	22	0	78	85.3	10.3	4.4	80.9	82.1	17.9	0	82.1
Wage Level	88	12	0	88	67	33	0	67	85.1	12.2	2.7	82.4	74	26	0	74
General Price Level	80	13	7	73	75	20	5	70	90.5	5.4	4.1	86.4	83.8	14.9	1.4	82.4
<b>Inputs</b>																
Investment	58	33	9	49	54	46	0	54	58	34.8	7.2	50.8	47.9	52.1	0	47.9
Employment	36	52	12	24	32	61	7	25	35.2	47.9	16.9	18.3	31.5	58.9	9.6	21.9

*Continued—*



Table 3—(Continued)

Indicator	July – December 2007				January – June 2008				January – June 2008				July – December 2008			
	Evaluations				Expectations				Evaluations				Expectations			
	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance
<b>Economic Growth</b>	11.7	33.8	54.5	-42.8	28.2	38.5	33.3	-5.1	13.3	18.3	68.3	-55	5	18.3	76.7	-71.7
<b>Business Activity</b>																
Production	46.8	22.8	30.4	16.4	65.4	29.5	5.1	60.3	51.7	23.3	25	26.7	40	36.7	23.3	16.7
Domestic Sales	50.6	22.1	27.3	23.3	66.2	26	7.8	58.4	45	26.7	28.3	16.7	46.7	30	23.3	23.4
International Sales	33.3	35.7	31	2.3	48.8	46.3	4.9	43.9	54.8	25.8	19.4	35.4	34.4	46.9	18.8	15.6
Inventory	63.2	26.3	10.5	52.7	49.3	37	13.7	35.6	55.4	28.6	16.1	39.3	46.4	35.7	17.9	28.5
Level of Capacity Utilisation	23.6	73.6	2.8	20.8	32.9	62.9	4.3	28.6	30.9	63.6	5.5	25.4	23.1	75	1.9	21.2
<b>Prices</b>																
Final Product Prices	53.3	32	14.7	38.6	56.8	35.1	8.1	48.7	86.7	8.3	5	81.7	89.7	10.3	0	89.7
Input Prices	76.6	15.6	7.8	68.8	82.9	15.8	1.3	81.6	95	3.3	1.7	93.3	93.2	5.1	1.7	91.5
Wage Level	83.5	16.5	0	83.5	74.4	24.4	1.3	73.1	79.7	16.9	3.4	76.3	80	20	0	80
General Price Level	96.2	1.3	2.6	93.6	88.2	11.8	0	88.2	100	0	0	100	100	0	0	100
<b>Inputs</b>																
Investment	52.7	43.2	4.1	48.6	56.2	43.8	0	56.2	56.9	36.2	6.9	50	56.1	40.4	3.5	52.6
Employment	41.6	50.6	7.8	33.8	44.2	50.6	5.2	39	41.7	46.7	11.7	30	36.7	56.7	6.7	30

Source: Survey results.

**Appendix**

FOR OFFICIAL USE ONLY

Case ID #: \_\_\_\_\_

**PIDE BUSINESS BAROMETER**  
**Biannual Survey**

**Respondent Information**

Enterprise Name: \_\_\_\_\_ Respondent Name: \_\_\_\_\_

Position: \_\_\_\_\_

Enterprise's Specialisation: \_\_\_\_\_ Date: \_\_\_\_\_

Sector:  public  private

Year of Foundation: \_\_\_\_\_ Number of Employees: \_\_\_\_\_

**Contact Information [Postal (optional)]:** \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
(City) \_\_\_\_\_ (Province) \_\_\_\_\_

**Telephone:** Office: \_\_\_\_\_ Residence: \_\_\_\_\_  
Mobile: \_\_\_\_\_ E-mail: \_\_\_\_\_



Please return the filled questionnaire to:  
**PIDE Business Barometer**  
Pakistan Institute of Development Economics  
Quaid-i-Azam University Campus  
P.O. Box 1091, Islamabad 44000  
PAKISTAN

## Non-financial Sector Questionnaire

### 1. During the last six months relative to the preceding six months

- a) Was your production/volume of activity  
 higher     normal     lower     %    ?
- b) Was your sales volume/size of activity in the domestic market  
 higher     normal     lower     %    ?
- c) Was your sales volume/size of activity in the international market  
 higher     normal     lower     %    ?
- d) Did prices for your products  
 rise     stay the same     fall     %    ?
- e) Did prices for your inputs  
 rise     stay the same     fall     %    ?
- f) Did the wage level  
 rise     stay the same     fall     %    ?
- g) Did your inventories  
 rise     stay the same     fall     %    ?
- h) Was your capacity utilisation  
 %     more than 50%     less than 50 %    ?
- i) Did your employment  
 rise     stay the same     fall     %    ?
- j) Did your investment  
 rise     stay the same     fall     %    ?

### 2. Is your production currently constrained?

- Yes     No

a. If yes, please rank on a scale from 1 to 6 the following constraints to your production process, where 1 indicates a minor constraint and 6 refers to severe constraints.

Insufficient demand	<input type="text"/>
Insufficient capital	<input type="text"/>
Insufficient access to imports	<input type="text"/>
Insufficient skilled workforce	<input type="text"/>
Insufficient access to credit	<input type="text"/>
Regulatory environment	<input type="text"/>

**3. In the next sixth months, do you expect**

- a) your production/size of activity to  
 rise       stay the same       fall       %      ?
- b) your sale/size of activity in the domestic market to  
 rise       stay the same       fall       %      ?
- c) your sale/size of activity in the international markets to  
 rise       stay the same       fall       %      ?
- d) prices for your products to  
 rise       stay the same       fall       %      ?
- e) prices for your inputs to  
 rise       stay the same       fall       %      ?
- f) the wage level to  
 rise       stay the same       fall       %      ?
- k) the inventories to  
 rise       stay the same       fall       %      ?
- l) capacity utilisation to  
 100 %       more than 50 %       less than 50 %      ?
- m) employment to  
 rise       stay the same       fall       %      ?
- n) investment to  
 rise       stay the same       fall       %      ?

**4. Did the economy during July – Dec, 2007 (as compared to Jan – June, 2007) grow**

faster                       at the same rate                       slower    ?

**5. In the July – Dec 2008 (as compared to Jan – June 2008), do you expect the economy to grow**

faster                       at the same rate                       slower    ?

**6. In the last six months, did the general price level**

increase    stay at the same level    decrease    %    ?

**7. In the next six months, do you expect general price level to**

increase    stay at the same level    decrease    %    ?

**Thank you very much.**

## Financial Sector Questionnaire

### 1. During the last six months relative to the preceding six months

- o) Was your volume of activity (deposits, advances, investment)  
 higher     normal     lower     %    ?
- p) Was your size of activity (loans, advances, investments) in the domestic market  
 higher     normal     lower     %    ?
- q) Was your size of activity (loans, advances, investment) in the international market  
 higher     normal     lower     %    ?
- r) Did interest rate on advances  
 rise     stay the same     fall     %    ?
- s) Did interest rate on deposits  
 rise     stay the same     fall     %    ?
- t) Did wage level:  
 rise     stay the same     fall     %    ?
- u) Did your reserves:  
 rise     stay the same     fall     %    ?
- v) Was your capacity utilisation  
 100 %     more than 50%     Less than 50 %    ?
- w) Did your employment  
 rise     stay the same     fall     %    ?
- x) Did investment in your bank  
 rise     stay the same     fall     %    ?

### 2. Are your operations currently constrained?

- Yes     No

a. If yes, please rank on a scale from 1 to 6 the following constraints to your operations, where 1 indicates a minor constraint and 6 refers to severe constraints.

Insufficient demand	<input type="text"/>
Insufficient capital	<input type="text"/>
Insufficient skilled workforce	<input type="text"/>
Banking laws	<input type="text"/>
Cash reserve ratio requirement	<input type="text"/>
Default risk	<input type="text"/>
Intermediation cost	<input type="text"/>

**3. In the next sixth months, do you expect**

- g) your size of activity (deposits, advances, investment) to  
 rise       stay the same       fall       %      ?
- h) your size of activity (deposits, advances, investment) in the domestic Market to  
 rise       stay the same       fall       %      ?
- i) your size of activity (deposits, advances, investment) in the international markets to  
 rise       stay the same       fall       %      ?
- j) interest rate on advances to  
 rise       stay the same       fall       %      ?
- k) interest rate on deposits  
 rise       stay the same       fall       %      ?
- l) wage level to  
 rise       stay the same       fall       %      ?
- y) capital reserves to  
 rise       stay the same       fall       %      ?
- z) capacity utilisation to  
 100 %       more than 50%       less than 50 %      ?
- aa) employment to  
 rise       stay the same       fall       %      ?
- bb) investment in your bank to  
 rise       stay the same       fall       %      ?

**4. Did the economy during July – Dec, 2007 (as compared to Jan – June, 2007) grow**

faster                       at the same rate                       slower     ?

**5. In the July – Dec 2008, (as compared to Jan – June 2008), do you expect the economy to grow**

faster                       at the same rate                       slower     ?

**6. In the last six months did the general price level**

increase     stay at the same level     decrease  %     ?

**7. In the next six months, do you expect that general price level**

increase     stay at the same level     decrease  %     ?

**Thank you very much.**



Please do not hesitate to contact the *PIDE Business Barometer* team:

1.     **Dr Abdul Qayyum**  
      Head *PIDE Business Barometer*  
      Tel.: +92-51-9201140
  
2.     **Ms Saba Anwar**  
      Staff Economist  
      Tel.: +92-51-9219960
  
3.     **Ms Umaima Arif**  
      Staff Economist  
      Tel.: +92-51-9209299
  
4.     **Mr. Usman Ahmed**  
      Staff Economist  
      Tel.: +92-51-9201240

Pakistan Institute of Development Economics  
Quaid-i-Azam University Campus  
P.O. Box 1091  
Islamabad  
E-mail: <[businessbarometer@pide.org.pk](mailto:businessbarometer@pide.org.pk)>  
URL: <[www.pide.org.pk](http://www.pide.org.pk)>