



PIDE-Inflation Expectations Survey

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According to PIDE inflation expectations survey economists expect high inflation, low growth and high unemployment in the future. Current stance of monetary policy is to be considered as ineffective to control inflation. The results of inflation expectations survey reveal that vast majority of the respondents expect higher inflation than the current year target (9.5 percent). According to the respondents, persistent high inflation, introduction of reformed GST, policy credibility and Law and order situation are the major factors of high inflationary expectations.

1. Introduction

The price stability is considered as the prime objective of the Central Bank. High inflation reduces welfare and growth by reducing investment and productivity growth. Inflationary expectations is one of the most important factors that is pushing prices upward. Inflationary expectations are influenced by high persistent inflation, government borrowing from the central bank and implementation of RGST. High inflationary expectations can be controlled through credible and coordinated monetary and fiscal policies.

2. Inflation Expectations:-

Experts expect high inflation in coming months. It is expected that inflation will remain about 22.2 percent for next six months and 20.5 percent for the current year. (Figure: 1). Moreover in view of 95 percent respondents' inflation will be higher than

target rate i.e. 9.5 percent set by the authority for the current year.

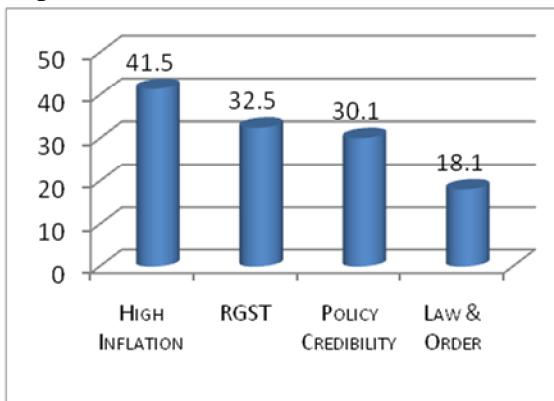
Figure: 1 Expected Rate of Inflation



High inflationary expectations are due to persistence of high inflation, reformed GST, policy credibility and law and order situation prevailing in the country. As shown in figure 2, according to 41.5 percent respondents persistence high inflation is the major cause of high inflationary expectations followed by reformed GST (32.5 percent), policy credibility (30 percent) and 18.1percent consider the law and order

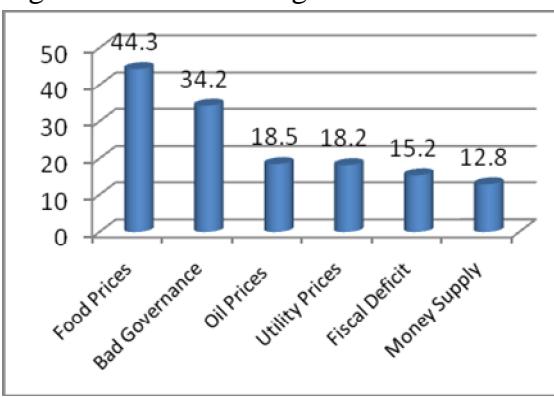
sition are important factors for high inflationary expectations.

Figure2: Factors Responsible for Inflationary Expectations



Experts are asked to indicate most important and less important factors responsible for current inflation. These factors include food prices, bad governance, oil prices, utility prices, fiscal deficit and money supply among others. It is indicated that food prices is the main cause of the high inflation(44.3 percent) followed by bad governance(34.2 percent, utility prices, fiscal deficit, and money supply.

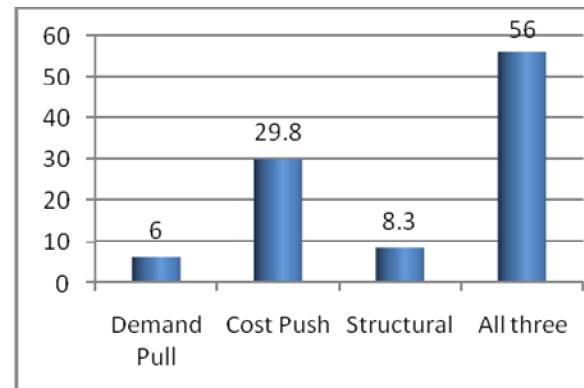
Figure 3: Causes of High Inflation



In response to question about nature of current inflation, 29.8 percent believes that it is cost push inflation and 6 percent says it is demand pull inflation. In view of 56 percent all three i.e. demand pull, cost push and structural

reasons are behind the current price hikes. (Figure 4)

Figure 4: Nature of Current Inflation



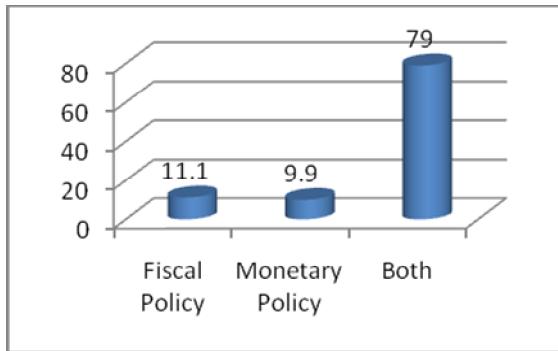
3. Monetary &, Fiscal Policies and Interest Rate

Inflation expectations play a vital role in setting and conducting monetary policy in modern times. Inflation expectations reflect the credibility of the monetary authority's commitment to the objective of price stability. The effectiveness of monetary policy is likely to be greater if inflation expectations remain anchored. A persistent rise in expectations causes the heightened inflationary pressures, so monetary authority needs to understand how inflation expectations are formed.

Survey results indicate that current monetary policy practice by SBP to control inflation is ineffective. Vast majority of the respondents (79 percent) suggest that both monetary and fiscal policy should be used simultaneously to control inflation rather than rely only on monetary policy. When asked about the suitability of current policy rate to control inflation, a vast majority of expert clearly indicate that it is not suitable to control inflation in Pakistan. Only 16 percent respondents are in the favor of using current monetary policy rate to control inflation.

Current monetary policy rate is considered to be higher by 56.3 percent of the respondents.

Figure 5: Effectiveness of Monetary and Fiscal Policies



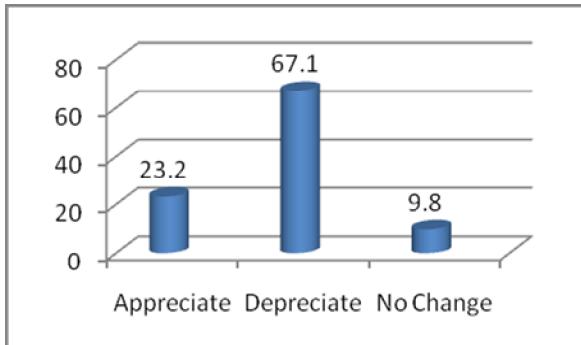
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Exchange Rate:-

About 55 percent respondents think that during the month of November the value of domestic currency depreciate, while 14.6 percent expects that it will appreciate and 30.5 percent says that it will remain same. For the next six months, 23.2 percent of the respondents expect the exchange rate to appreciate whereas 67.1 percent predict that it will depreciate and the remaining are of the view that there will be no change in it. All these observations show that majority of the respondents are of the view that exchange rate will depreciate in future.

Figure 6. Expectation about Exchange Rate for the Next 6- Month

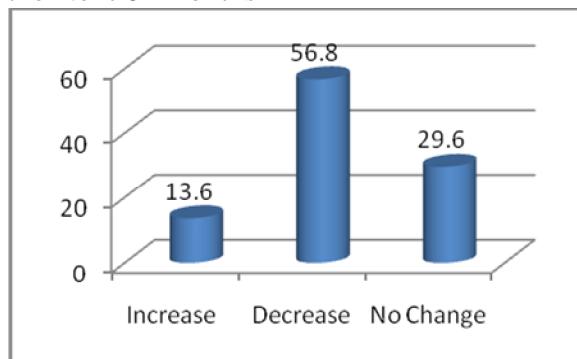


As far as unemployment is concerned, 69.5 percent respondents think that unemployment will increase in the next six months. Furthermore, unemployment will keep on increasing by the next twelve months according to 63.4 percent of the respondents.

5. Growth Rate:-

Majority of the respondents (56.8 percent) are expecting that growth rate will decrease in the next six months, as compare to the growth rate of the year 2009-10, while only 13.6 percent expect that it will increase, while others expect it will remain the same. (Figure 7)

Figure 7: Expectation about Growth Rate for the Next 6- Months



When asked about the usefulness of government policies to enhance the growth a majority of expert's indicate that current Government policies are not helpful for the enhancement of growth (79 percent)

Figure 8: Effectiveness of Government Policy for Growth

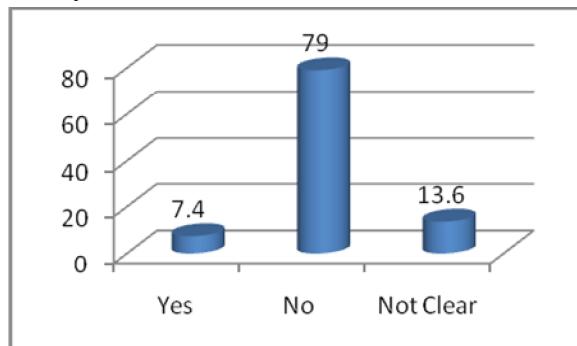
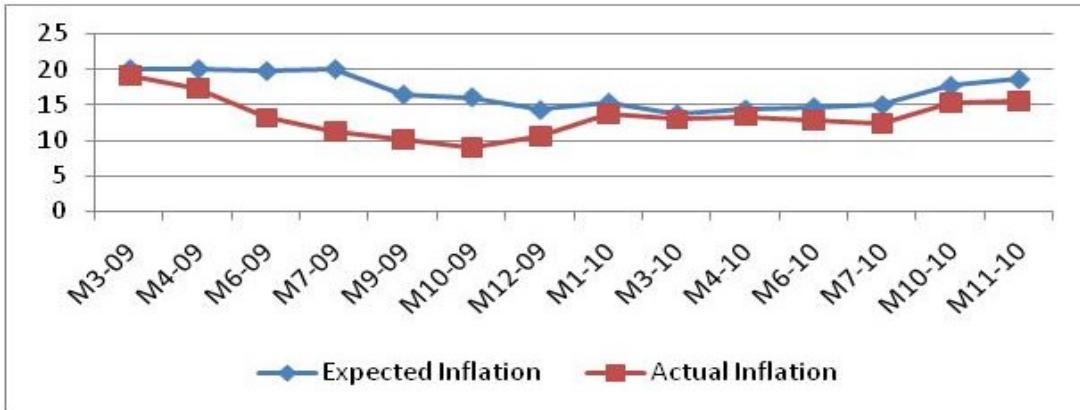


Figure 9. Trends in Actual and Expected Inflation



Note:

This report is the outcome of survey conducted by PIDE. Participants of the survey are economists and business men from all over the Pakistan.

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