



PIDE-Inflation Expectations Survey

September 2009

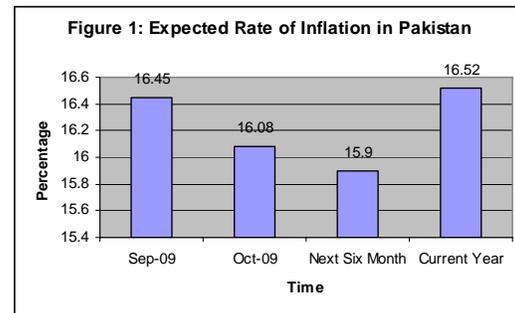
Declining Trend in Inflation Expectations

A recently conducted survey on inflation expectations by PIDE reveals that people are expecting low inflation during next six months as compared to previous months. The study shows that food, oil and utility prices are main contributor to the current inflation in Pakistan. According to the survey, current monetary policy actions has not been effective in curbing inflation, highlighting the need for coordinated fiscal and monetary policies to control inflation.

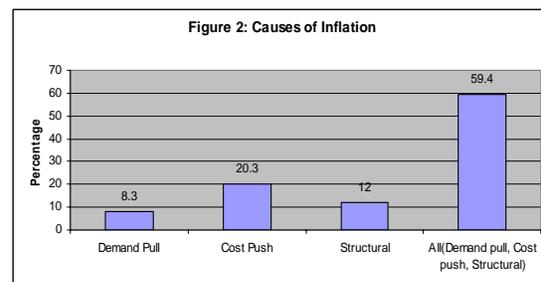
1. Inflation Expectations:-

An overwhelming majority of the respondents, 82.1 percent, expects that inflation rate during current year as compared to the target rate (9%) will be higher. Where as, 9 percent, are of the view that it will be lower and 9 percent of the respondents say that it will remain same (Figure 1).

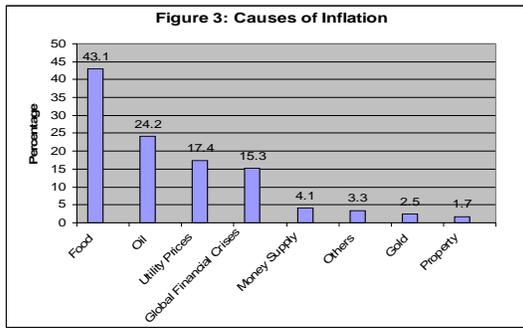
The respondents indicated that an average 15.9% expected rate of inflation for the next six months and 16.52% for the current year. Interestingly, a majority of respondents (86.7%) believe that the law and order situation affect inflation expectations. In addition, international inflation, foreign aid and financial development are also believed to affect inflationary expectations.



Cause of current inflation includes Demand Pull, Cost Push and Structural factors. In pervious surveys it is observed that Cost push factors were much responsible for causing inflation as compared to other factors, but recent survey reveals that effect of this factor on inflation is going to decrease. Collectively, all of the factors are responsible for causing inflation, but it has a major effect in recent survey.



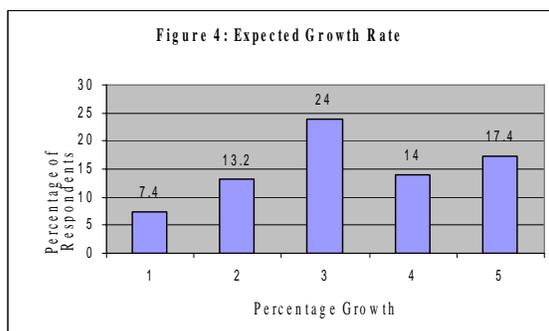
Current inflation is due to the hike in the food prices according to the majority (43%) of the professional forecasts. Another important contributor of the current inflation is increase in oil prices according to the 24% of the respondents followed by prices of utilities (17%). (Figure 3).



Majority of the respondents are of the view that coordinated monetary and fiscal policies are required to control inflation in Pakistan. It is revealed that the current monetary policy actions are not sufficient to curb inflation. However, when we compare these findings with previous surveys it indicates that the level of confidence on monetary policy to deal with inflation is increasing.

2. Growth and Exchange Rate:-

Expectations about economic growth rate appear to be different in view of different people. Average expected growth rate for next six months appears to be 3.54 percent. Majority of the respondents (24%) expect that economy would grow by 3 percent and 14 percent are of the view that it would increase by the value of 4 percent. According to 17.4 percent respondents, growth rate would be 5 percent.



Some of the respondents (57.4%) are of the view that unemployment in next six months will increase. Similarly, unemployment will keep on increasing by the next twelve months in opinion of 62.2 percent respondents.

The currency exchange rate in Pakistan will not vary in next six months in view of 34.8 percent respondents while, it will depreciate in opinion of 52.6 percent respondents and others say that it will appreciate. In case of next six months, some 23 percent of the respondents expect the exchange rate to appreciate whereas 63% of the respondents say that it will depreciate and others are of the view that there will be no change in it.

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