



PIDE-Inflation Expectations Survey

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PIDE conducts a quarterly inflation expectations survey based on professionals opinion towards inflation, state of economy and monetary policy action. The results of March, 2010 inflation expectations survey reveal that vast majority of people expect higher inflation than the current year target (9%). The results also indicate that oil and food prices are the major contributing factors for current high inflation. Majority of the respondent believe that lower interest rate is better for the economy. In view of 43% respondents, growth rate will rise and 26% expect growth rate will decline in the coming months. Most of the people suggest that both monetary and fiscal policy should be used to control inflation rather than solely rely on monetary or fiscal policy.

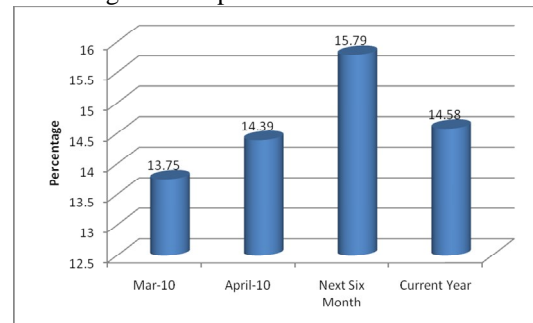
PIDE believes that monetary policy framework will be most effective, if it incorporates the views of independent professionals and experts to attain the objective of price stability. The main objective of this survey is to highlight the opinions of independent experts about inflation and state of the economy for the consideration of policy makers.

1. Inflation Expectations:-

According to present survey, 89% of the respondents believe that inflation rate during current year will be higher than target rate i.e. (9%). Whereas, 5 % are of the view that it will be lower and 6 % say that it will remain the same.

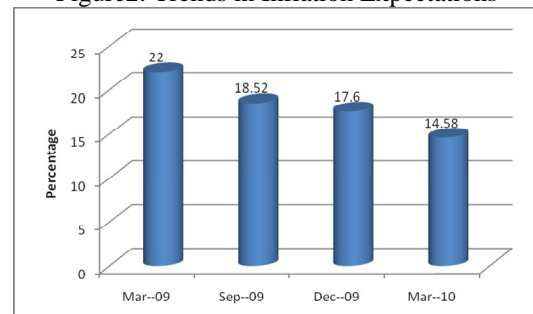
The respondents indicate that on average 14.39% is the expected rate of inflation for the month of April 2010, 15.79% for the next six months and 14.58% for the current year.

Figure 1: Expected Rate of Inflation

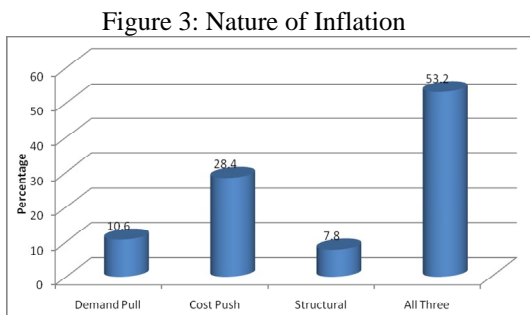


During March 2009 to March 2010 expectations about inflation show declining trend consistently. The current year expectations about inflation are 14.58% as compared to 22 % last year according to the majority of the respondents.

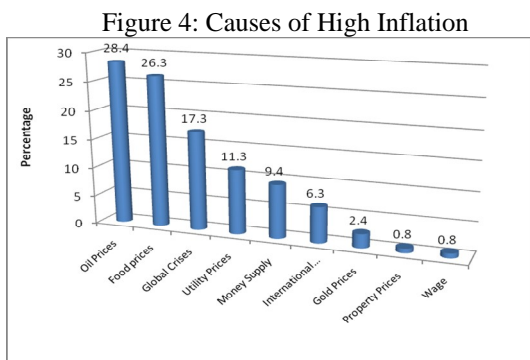
Figure2: Trends in Inflation Expectations



In response to question related to the nature of current inflation, 28.4% of respondents believe that it is cost push inflation, while 10.6% say it is demand pull. Whereas, 53.2% believe that demand pull, cost push and structural factors are the main sources of current price hike.

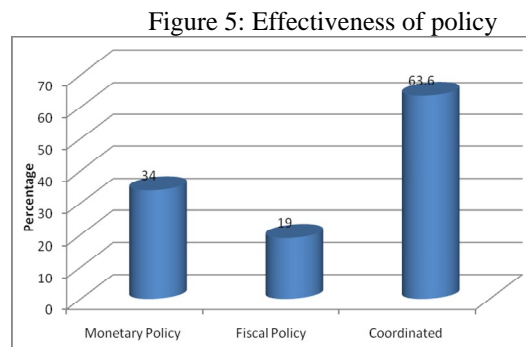


According to 28.4% of respondents, oil prices are the main contributing factor of high inflation, followed by food prices (26.3%). In addition to oil and food prices, other factors contributing to inflation are utility prices, money supply and global financial crisis.



Majority of the respondents (63.6%) suggest that coordination between monetary and fiscal policy is necessary to control inflation rather than entirely rely on monetary or fiscal policy. However, 34% of the respondents consider that monetary

policy is an effective tool to control inflation, and only 19% suggest that fiscal policy is the most important tool for price stability. These findings are consistent with the findings of previous two surveys which reflect the strong opinion of the experts about coordination of fiscal and monetary policies to control inflation.



As far as question regarding the consumer prices in the next year is concerned, 55.6% of respondents think that consumer prices will rise more rapidly, 23.9% are of the view that it will increase at the same rate, while 2.1% of the respondents think that consumer prices will remain the same for the year 2010-2011.

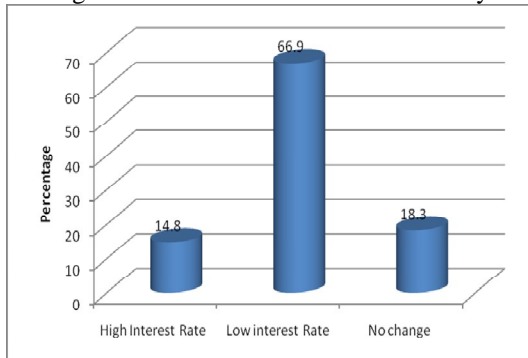
In view of 89.4% of respondents, law and order situation affects inflation expectations, while 7.7% are of the view that law and order has no impact on inflation expectation.

2. Interest Rate:-

To control inflation, State Bank of Pakistan is pursuing high interest rate policy. When question asked, what is best for the economy i.e. high or low interest rate, in view of 67% respondents, low interest rate is better for the economy, whereas only 14.8% respondents say that in current

inflationary situation high interest rate is better for the economy. (Figure 6)

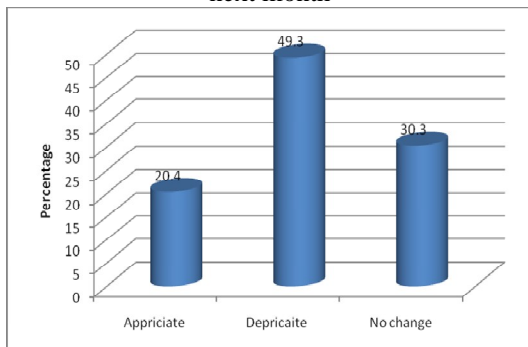
Figure 6: Best Interest Rate for Economy



3. Exchange Rate:-

In response to question regarding the people's expectations about exchange rate for next month and next six months, large group (49.3%) of respondents expect that domestic currency will depreciate in the coming month, while 30.3% of respondents think that value of domestic currency will remain the same. The opinion is depicted in figure 7.

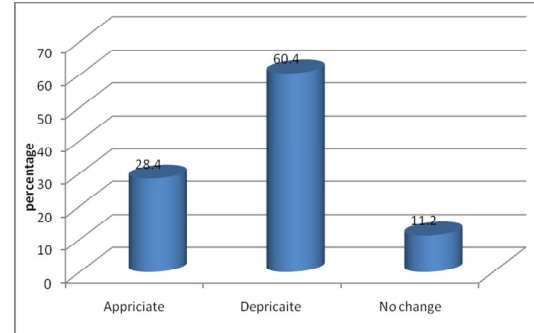
Figure 7: Expectations about Exchange Rate for next month



For the next six months, 28.4% of the respondents expect that the exchange rate will appreciate, whereas 60.4% predict that it will depreciate and the remaining is of the view that there will be no change.

These observations show that majority of the respondents believe that exchange rate will depreciate in the future.

Figure 8: Expectations about Exchange Rate for next 6 months

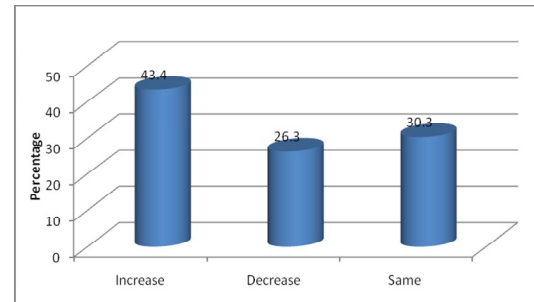


As far as unemployment is concerned, 58.7% of respondents think that unemployment will increase in the next six months. According to 63% of the respondents, unemployment will increase in next 12 months.

4. Growth Rate:-

Majority of the respondents (43.4%) are of the view that growth rate will increase as compared to the current growth rate, 26.2% says that it will decrease, while others say that it will remain the same.

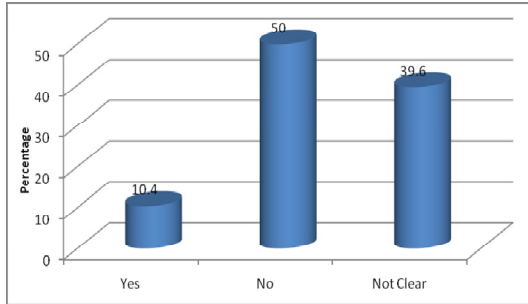
Figure 9: Expectations about Growth Rate



About 50% of the respondents are of the view that current government policies are not sufficient to enhance

growth, 10.4% says that these policies are useful, while remaining are not clear about the government policies.

Figure 10: Effectiveness of Government Policy for Growth



Note: *Survey based on the opinions of professional experts in the field of Economics and Business.*

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