



PIDE-Inflation Expectations Survey

Vol. 3, No. 2/2011

PIDE Inflation Expectations Survey reveals that public is expecting high inflation and high unemployment. Yet there are some signs of optimism too as respondents see a turnaround in the economy with a pickup in economic growth in the coming months. According to respondents, persistent high inflation, policy credibility and prevailing law and order situation are the major sources of public expectations about future high inflation. Respondents think that inflation in Pakistan is largely driven by bad governance, food prices, utility prices and oil prices. According to the survey results, relying just on a high policy rate is not sufficient to meet the inflation target of 12 percent.

1. Introduction

The prime objective of SBP's monetary policy is to deliver price stability. Price stability is defined by the Government's inflation target, which is announced each year in the annual budget statement. The current year (2011-12) inflation target is 12 percent (set by the government).

Pakistan's economy is facing double digit inflation for the last several years and this high inflation has an economic cost. It undermines the economy's ability to generate long-lasting gains in output, incomes, and employment. It creates uncertainty for consumers, businesses, and investors, and erodes the value of incomes and savings. High inflation and expectations of high inflation also encourage speculative activities rather than investments that increase production capacity. A credible commitment by the monetary authorities to keep inflation low and stable provides a climate conducive to sound economic decisions. It also leads to lower interest rates, supporting productive investments that allow the economy to grow at

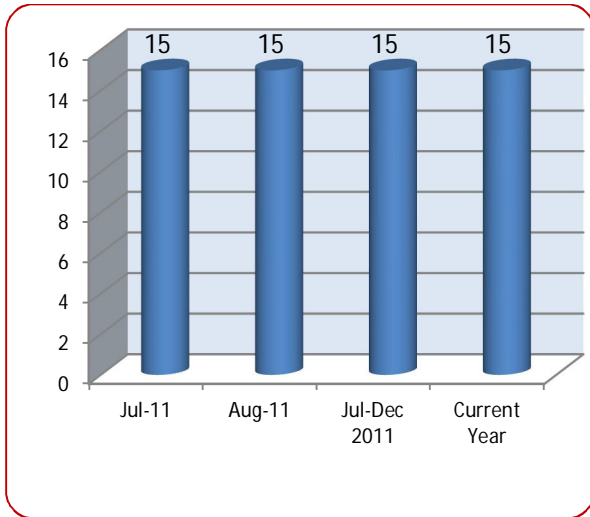
a sustainable, non-inflationary pace over time and to generate higher incomes and new jobs.

A combination of factors including government borrowing from SBP to finance budget deficit, continuously rising energy and food prices and low policy credibility have contributed to push up inflation for last several months. These factors are also contributing to high inflation expectations in the future.

2. Expected Inflation

In the first half of fiscal year 2011, there has been strong upward pressure on inflation in Pakistan because of high food prices and unrestrained government borrowing from the SBP. CPI inflation was 14.2 percent in January 2011, 13.2 percent in March 2011 and 13.2 percent in May 2011. However, food inflation declined from 20.4 percent in January 2011 to 15.9 percent in May 2011. Both general CPI inflation and food inflation fell down as compared to the previous months. This, however, has failed to lower inflationary expectations in the future.

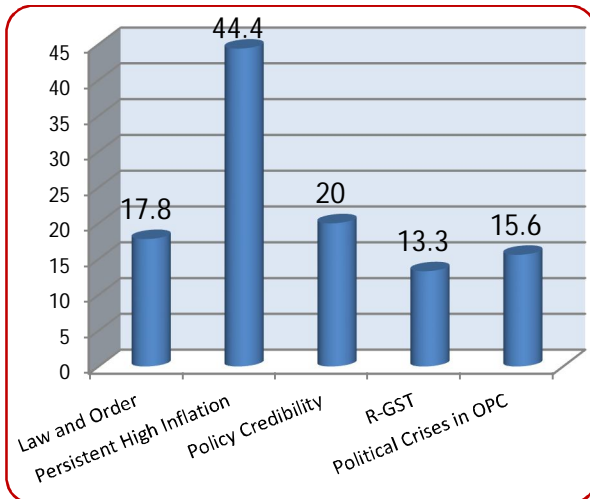
Figure 1: Expected Rate of Inflation



According to PIDE Inflation Expectations Survey of June 2011, respondents are expecting 15 percent inflation for July 2011 and August 2011 (Figure 1). The results also indicate that expected inflation will remain about 15 percent for the next six months and 15 percent for the current year (2011-12).

About 95.5 percent of the respondents are of the view that in the current year (2011-12) inflation will be higher than the target rate (12 percent) and 4.4 percent of the respondents are of the view that it will remain the same i.e. 12 percent

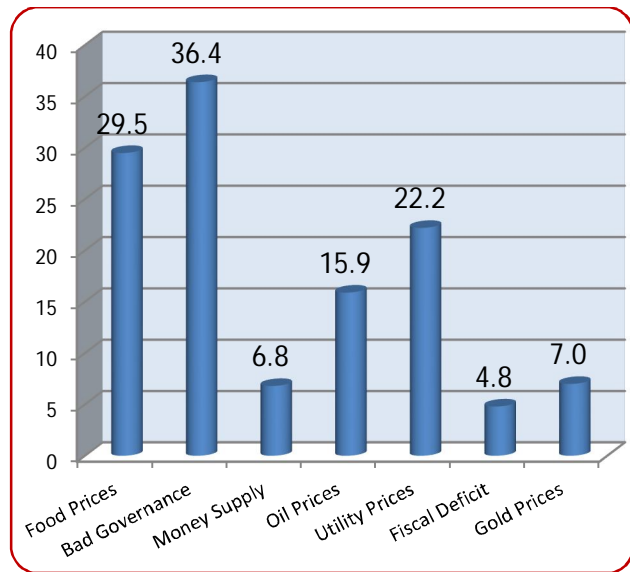
Figure 2: Factors Responsible for Inflationary Expectations



According to a significant number of respondents (44.4 percent), persistence of high inflation is fueling the public expectations about future high inflation, followed by policy credibility (20 percent), law and order situation (17.7 percent), political turmoil in some of the oil producing countries and future implementation of R-GST (13.3 percent)

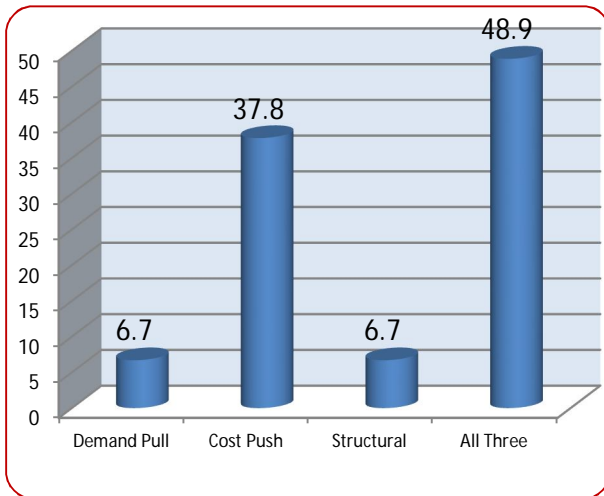
According to the survey 36.4 percent respondent think that bad governance is the major cause of high inflation. Other important causes are food prices (29.5 percent), utility prices (22.2) and oil prices (15.9 percent), followed by gold prices, money supply and fiscal deficit (Figure 3).

Figure 3: Causes of High Inflation



According to 37.8 percent respondents, current inflation is cost push whereas 6.7 percent of the respondents think that it is demand pull and structural in nature. A majority of the respondents (48.9 percent) think that current inflation is because of all three i.e. demand pull, cost push and structural (Figure 4).

Figure 4: Nature of Inflation



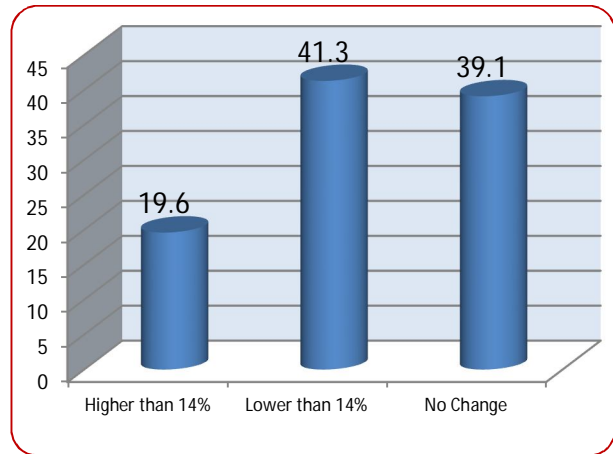
In response to a question that which class of the society is most hurt when there is an increase in inflation the majority of the respondents (55.6 percent) reply that middle class is most hurt by an increase in inflation, while 44.4 percent of the respondents are of the view that lower income group is most hurt by an increase in inflation.

3. Monetary & Fiscal Policies and Interest Rate

In response to the question regarding the effectiveness of measures to curb inflation, a vast majority of the respondents (91.3 percent) suggest that both monetary and fiscal policies should be used to curb inflation. Monetary and fiscal policy in isolation is not an effective way to control the inflation.

Respondents (41.3 percent) do not believe that a high policy rate will bring inflation down. Indeed, they believe that lowering the policy rate can reduce inflation by stimulating output. About 39 percent think that no change is required in the policy rate while only 19.6 percent say it should be higher than the current policy rate (14 percent).

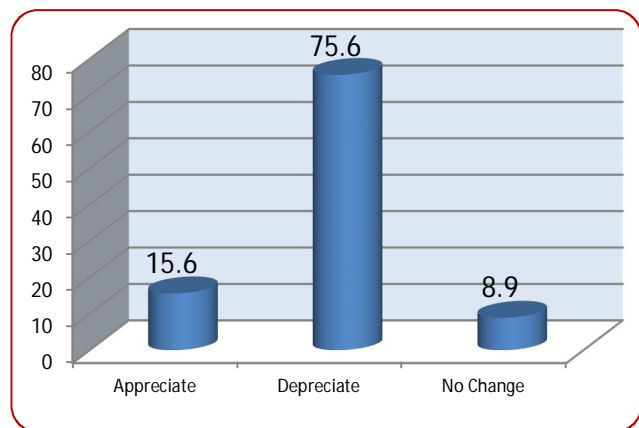
Figure 5: Best Policy Rate for the Economy



4. Exchange Rate

Pak rupee (Rs) is continuously under pressure since last several months. According to the results of survey 75.6 percent of the respondents are expecting that the rupee will depreciate in the next six months. About 15.6 percent of the respondents are expecting that exchange rate will appreciate, while remaining are of the view that there will be no change in it in the next six months (Figure 6).

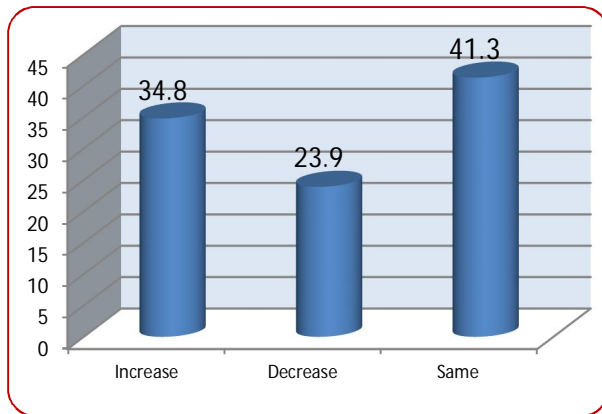
Figure 6: Expectations about Exchange Rate for the Next 6 Months



5. Growth Rate and Unemployment

The survey results indicate that respondents are optimistic about economic growth rate in the next six months. About 41.3 percent of them are of the view that the growth rate will remain the same in the next six months, whereas 34.8 percent are expecting higher growth in the coming months and 23.9 percent are expecting lower growth (Figure 7).

Figure 7: Expectations about Growth



Majority of the respondents (58.7 percent) considered that current economic policies are not useful to enhance economic growth and 32.6 percent of the respondents are not sure whether current policies are effective or not.

A vast majority (69.6 percent) of the respondents are expecting higher unemployment in the next six months (Figure 8).

Figure 8: Expectations about Unemployment for the Next 6 Months

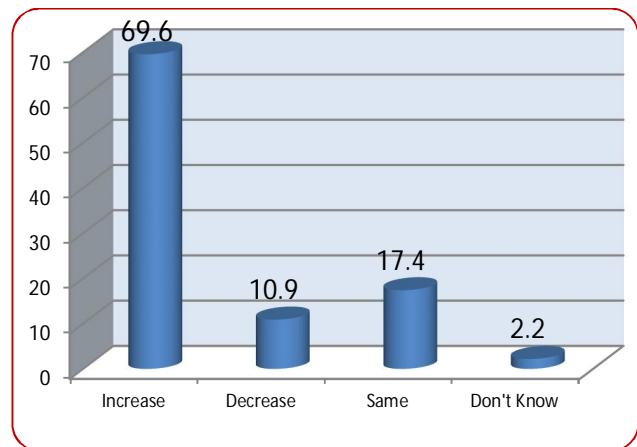
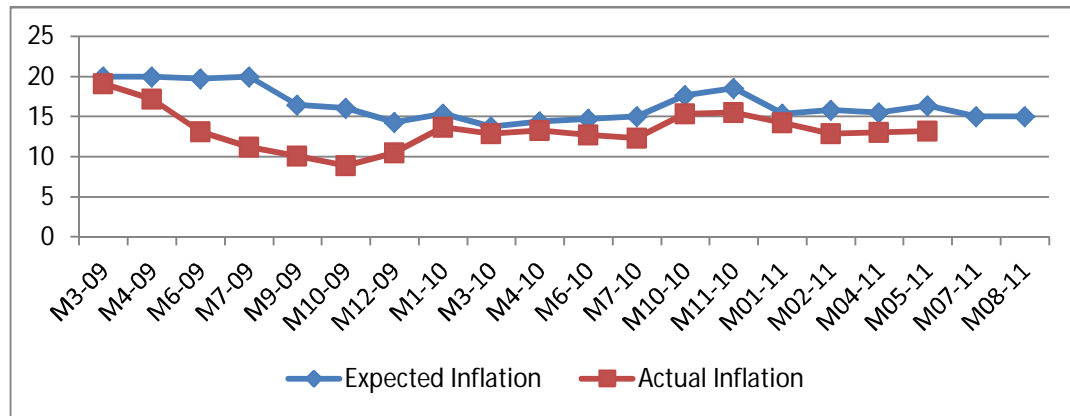


Figure 9: Trends in Actual and Expected Inflation



Note:

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

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This document is available at www.pide.org.pk

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