



PIDE-Inflation Expectations Survey

Vol. 1, No. 4/2009

Expectations play a crucial role to determine the economy functions. It also plays a key role in central banking practice. Information about expectations can provide evidence on the extent to which shocks affect the inflationary process. PIDE inflation expectation survey reflects the opinion about the range of variables including inflation, state of the economy and monetary policy action.

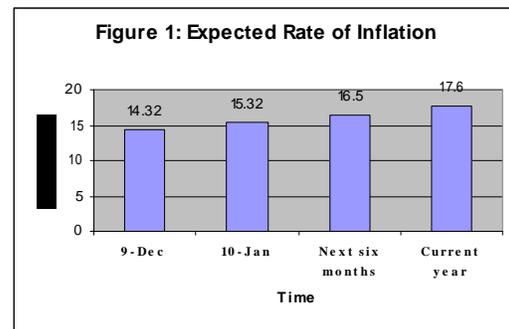
A recently conducted survey on inflation expectations by PIDE reveals that people are expecting low inflation against the previous month expectation, however they expect that inflation will rise in future. The results of the survey show that demand pull, cost push and structural factors are responsible for current inflation in Pakistan. According to the survey, Current Government Policies are not useful to enhance growth.

1. Inflation Expectations:-

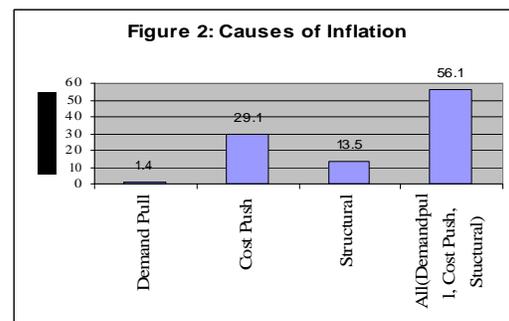
An overwhelming majority of the respondents i.e 91.9 percent expects that inflation rate during current year will be higher than the target rate (9%). Whereas, 3 percent are of the view that it will be lower and 4 percent say that it will remain same.

The respondents indicated that on average 15.23% is the expected rate of inflation for the month of January 2010. From January to June 2010 inflation is expected to be 16.50%. Interestingly, 90% of the respondents believe that the

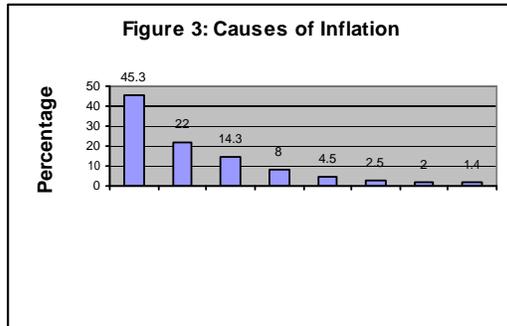
law and order situation affect inflation expectations. In addition, international inflation, foreign aid and financial development are also believed to affect inflationary expectations. (Figure 1)



Current cause of inflation includes Demand Pull, Cost Push and Structural inflation. Like previous survey, this survey also reveals that cost push factor is much responsible for causing inflation. The contribution of cost push inflation is 29.1%, followed by demand pull factor (14%) and structural factors (13.5%). Collectively, all of the three factors are contributing about 56.1% to current inflation.



Some of the professional i.e 45.3% predicts that increase in food prices is the current cause of inflation. About 22% of the respondents think that increase in oil prices also accelerate current inflation. Whereas, 14.3% respondents expect that utility prices are responsible for current inflation. (Figure 3)



Majority of the respondents (66.4%) think that coordinated monetary and fiscal policies are required to control inflation in Pakistan. When we compare these findings with previous findings it indicates that the level of confidence on monetary as well as fiscal policy to deal with inflation is increasing.

Expectations about the consumer prices appear to be different in view of different people. Some of the respondents (46.7%) say that consumer prices will increase more rapidly, 28.9% are of the view that it will increase at the same rate, while 3.9% of the respondents think that consumer prices will remain the same in the next year (2009-2010).

The results of the survey indicate that current government policies are not sufficient to curb inflation.

2. Interest Rate:-

Expectations of the people regarding interest rate shows that 67.5% of the respondents are in favor of

low interest rates, 11.9 % say that higher rates are best for the economy, while remaining say that there would be no change in it.

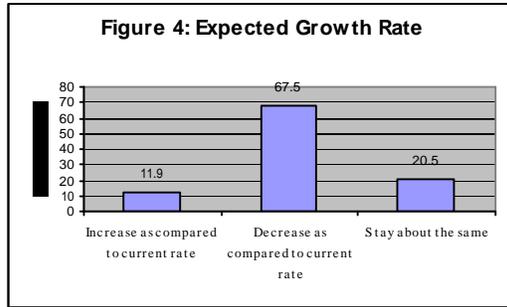
3. Exchange Rate:-

About 26.4% respondents think that during the month of January the value of domestic currency remains same, while 52.7% expect that it will depreciate and the remaining argue that it will appreciate. For the next six months, 20 percent of the respondents expect the exchange rate to appreciate whereas 69.1% 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.

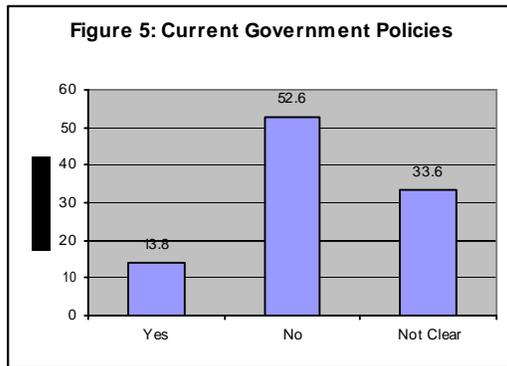
As far as unemployment is concerned 61.3% respondents think that unemployment will increase in the next six months. Furthermore, unemployment will keep on increasing by the next twelve months according to 67.6% of the respondents.

4. Growth Rate:-

Average expected economic growth rate for next six months appears to be 2.086 percent. Majority of the respondents (67.5%) are of the view that it will decrease as compared to current rate, 11.9% say that it will increase as compared to current rate, while others say that it will remain the same. (Figure 4)



In this regard 52.6% of the respondents are of the view that government current policies are not sufficient to enhance growth, 13.8% say that, these policies are useful, while remaining are not clear about the government policies.



Prepared by:

Dr Abdul Qayyum (Registrar, PIDE)

Email: abdulqayyum@pide.org.pk

Sana Afzal Bajwa (Research Assistant)

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

PIDE Inflation Expectations Survey

Pakistan Institute of Development Economics

P.O. Box 1091

Islamabad 44000, Pakistan

Tel. +92-51-9248051

Fax +92-51-9248065

Web: www.pide.org.pk