



PIDE-Inflation Expectations Survey

Vol. 4, No. 1/2012

PIDE Inflation Expectations Survey reveals that public is expecting high inflation and high unemployment in the coming months. According to respondents, persistent high inflation, lack of policy credibility and budget deficit are the major sources of public expectations about future high inflation. Respondents think that inflation in Pakistan is largely driven by bad governance, high food and fuel price, and high fiscal deficit. According to the survey results monetary policy alone is not sufficient to achieve the inflation target of 9.5 percent and there is a need for better coordination of monetary and fiscal policies. The survey reveals that economic growth will remain weak. A vast majority of respondents think that current economic policies are not conducive to robust economic growth.

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 (2012-13) inflation target is 9.5 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, worse energy crises and low policy credibility have contributed to push up inflation for last several months. These factors are also fueling the high inflation expectations in the future.

2. Expected Inflation

In the second half of fiscal year 2012, there has been strong upward pressure on inflation in Pakistan because of worse energy crises and unrestrained government borrowing from the SBP. CPI inflation was 10.1 percent in January 2012, 10.8 percent in March 2012 and 12.3 percent in May 2012. However, food inflation increased from 9.2 percent in January 2012 to 11.3 percent in May 2012. Both general CPI inflation and food inflation increase as compared to the previous months. This is another indicator of high inflationary expectations in the future.

Figure 1: Expected Rate of Inflation



According to PIDE Inflation Expectations Survey of June 2012, respondents are expecting 12 percent inflation for July 2012 and 15 percent for August 2012 (figure 1). The results also indicate that expected inflation will remain about 13 percent for the next six months and for the current year (2012-13).

About 92 percent of the respondents are of the view that in the current year (2012-13) inflation will be higher than the target rate (9.5 percent) and 1 percent of the respondents are of the view that it will remain the same i.e. 9.5 percent

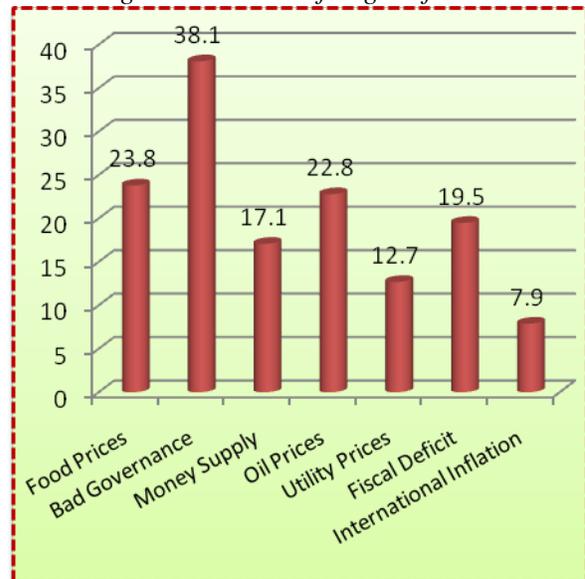
Figure2: Factors Responsible for Inflationary Expectations



According to a significant number of respondents (37.3 percent), persistence of high inflation is fueling the public expectations about future high inflation, followed by policy credibility (34.5 percent), budget (26.5 percent), and law order situation (18.1 percent)

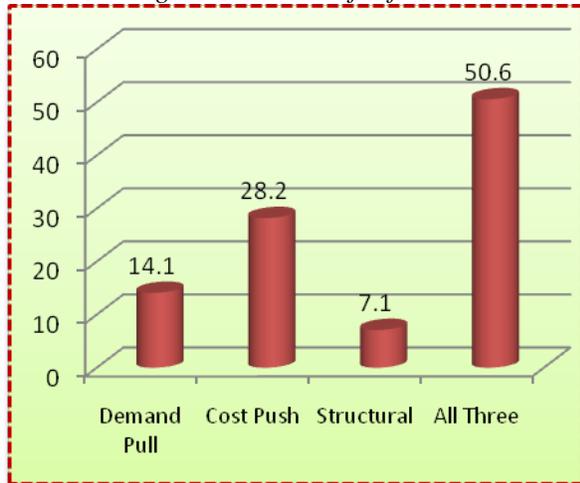
According to the survey 38.1 percent respondent think that bad governance is the major cause of high inflation. Other important causes are food prices (23.8 percent), oil prices (22.8) and fiscal deficit (19.5 percent), followed by money supply, utility prices and international inflation (figure 3).

Figure 3: Causes of High Inflation



According to 28.2 percent respondents, current inflation is cost push whereas 14.1 percent of the respondents think that it is demand pull and 7.1 percent consider it structural in nature. A majority of the respondents (50.6 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



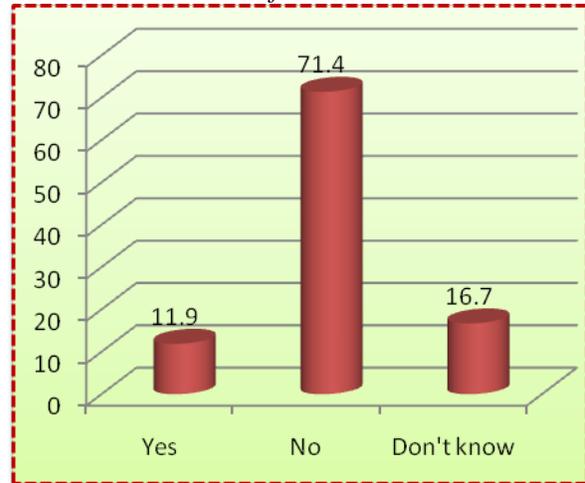
In response to a question that which class of the society is most hurt when there is an increase in inflation the majority of the respondents (57.1 percent) reply that middle class is most hurt by an increase in inflation, while 40.5 percent of the respondents are of the view that lower income group is most hurt by an increase in inflation.

3. Monetary & Fiscal Policies and Interest Rate

In response to a question regarding which policy is effective in controlling inflation, 52.4 percent respondent think that monetary policy is effective in controlling inflation, while 51.8 percent are in favor of fiscal policy. A vast majority of respondent (48.8 percent) believe that money supply is the best instrument to control inflation in Pakistan.

State Bank of Pakistan did not change the policy rate in June, 2012, while respondents (71.4 percent) do not believe that this policy rate is sufficient to control inflation. About 11.9 percent think that it is sufficient to control inflation (figure 5).

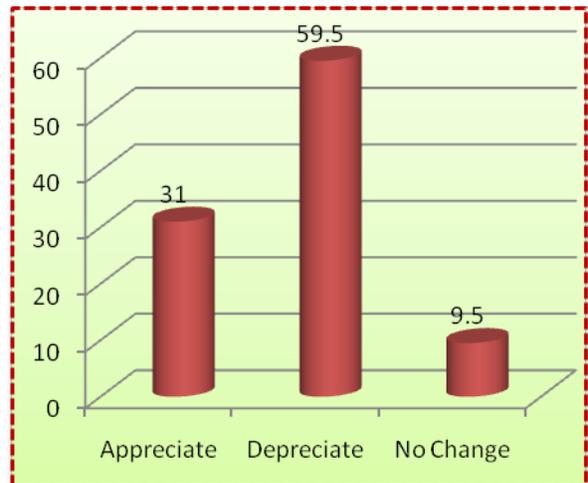
Figure 5: Policy Rate is Sufficient to Control Inflation



4. Exchange Rate

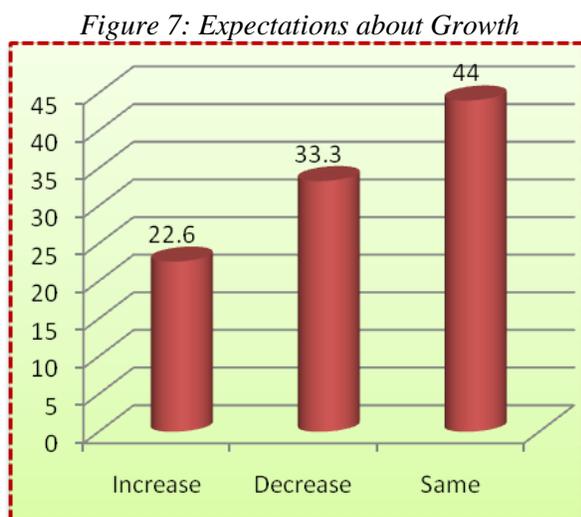
Pak rupee (Rs) is continuously under pressure since last several months. According to the results of survey 59.6 percent of the respondents are expecting that the rupee will depreciate in the next six months. About 31 percent of the respondents are expecting that exchange rate will appreciate, while 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



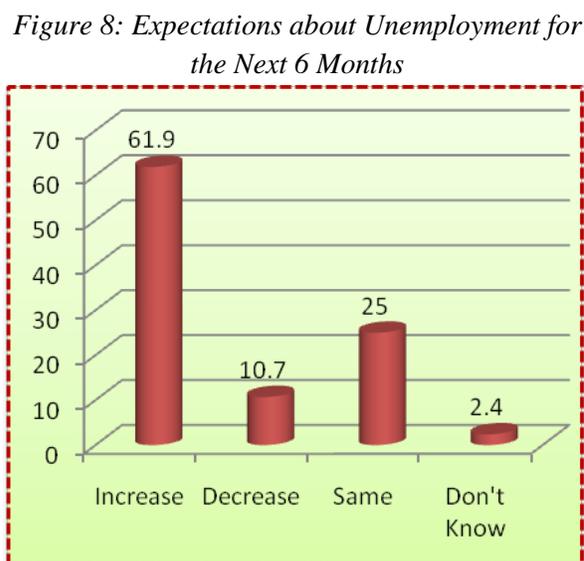
5. Growth Rate and Unemployment

The survey results indicate that respondents are pessimistic about economic growth rate in the next six months. About 44 percent of them are of the view that the growth rate will remain the same in the next six months, whereas 33.3 percent are expecting lower growth in the coming months and 22.6 percent are expecting higher growth (figure 7).



Majority of the respondents (78.6 percent) considered that current economic policies are not useful to enhance economic growth and 14.3 percent of the respondents are not sure whether current policies are effective or not.

A vast majority (61.9 percent) of the respondents are expecting higher unemployment in the next six months (figure 8).



Note:

This report is the outcome of survey conducted in PIDE during June 2012. Participants of the survey are economists and business men from all over the Pakistan.

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This document is available at
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