A biannual publication of PIDE about performance and expectations of the business sector of Pakistan

No. 3 June, 2008

PIDE BUSINESS BAROMETER

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

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The Pakistan Institute of Development Economics (PIDE), a premier research institute of Pakistan, has led the field in developing quality research in social sciences and informing public policy. PIDE is an academic institution that coordinates its work plan with the Planning Division, Government of Pakistan. Granted the degree-awarding status by the Government of Pakistan since 2006, PIDE functions as a research body with an educational mission.

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PIDE Business Barometer of Pakistan provides biannual information about the business sector's assessment and expectations of the state of economic activity in Pakistan.

THE NEED FOR A BUSINESS BAROMETER

The *PIDE Business Barometer* provides independent information, biannually, about the state of economic activities in Pakistan. The *Business Barometer* is based on the survey of firms' assessments of the economy through their own activities, including production, sales, inventories, prices, wages, employment, and investment. This latest survey was conducted during February, 2008.

We asked for information on the selected variables for the period from July to December, 2007. This information should be relatively easy to obtain since most managers will have a very real feel for events of the last six months even if they have not finally closed their books.

We then asked for their expectations for the same selected variables over the coming six months, January to June, 2008. Once again, the information provided by firms would be very useful given that they would have good knowledge of things to come from their order books and forward contracting arrangements.

We repeat the survey every six months, that is, in July and January. This simple device allows us to assess market perceptions of the economy in a very real way. And we know from global experience that market perceptions are an important source of information on the economy that both policy-makers and market participants can use.

We hope that this PIDE initiative will lead to the development of a diverse set of market sentiment indicators that all economic agents, as well as the government, will find useful as the barometer of coming economic activities.

THE METHODOLOGY

For this survey, we are focussing on firms that are listed in the Karachi Stock Exchange (KSE). In that sense, we are dealing mainly with large business. While this is largely because of the convenience and management of the survey, it is also true that large firms, because of their weight in the economy, may provide us with more information on developments in the economy.

The questionnaire was sent to all the firms listed in the Karachi Stock Exchange. The respondents included the financial sector, textile sector, sugar and allied industries, cement, oil and gas exploration companies, engineering, automobile assemblers, automobile parts and accessories, fertilisers, pharmaceuticals, chemicals, *banaspati* and allied industries, food and personal care products, and glass and ceramics. Some 11 percent of the firms responded, which gives us a fairly good sample to generalise from. There were 15 respondents from the financial sector, resulting in a separate financial section.

A common drawback of the studies involving forecasting of the variables from survey data is the authenticity or accuracy of the calculations about the expectations. Since the perceptions about the future inflation, production, investment, etc., are very vulnerable to any small change like a political event or shift of policy, the *Barometer* uses a deviation factor to evaluate the precision and accuracy of firms' future assessment of behaviour of selected variables in the next six months. This deviation factor is based on the responses of the same responding units to compare expectations and actual evaluations of July-December, 2007. The deviation factor has been calculated by taking the difference between the actual evaluations and the expectations of the overlapping period of July-December, 2007. For more careful calculation, only the same responding units have been used to derive the difference between the expectations and the evaluations. The application of this percentage difference, to the 'most favoured' category of the response, shows how much the actual evaluations deviate in reality from the expectations. The accuracy thus achieved reduces the possibility of a gap between the perceived figures and the actual figures. In other words, this factor supports our argument regarding the firms' perceptions about their activities in the next six months with corrected anticipations. Furthermore, we shall improve the coverage over time while also attempting to develop a panel of respondents to ensure comparability across semesters.

OVERVIEW

This edition of the *PIDE Business Barometer* is based on the views of selected 80 firms listed at the Karachi Stock Exchange (KSE) and broadly categorised as the financial and non-financial sectors. An attempt has been made here disaggregate the analysis sector-wise to reflect the views of the financial and non-financial sectors separately. This edition consists of firms' opinion about the overall performance of the economy, such as growth and inflation, as well as their own activities during the second half of the Year 2007, and the expectations about the first six months of 2008. This edition also includes an analytical comparison of the current survey with the previous survey. The overlapping period in the two surveys is the second half of 2007, which is used to calculate the deviation of actual assessment from the expectations of the firms. There is a substantial difference in both the assessments and the expectations of the financial as well as the non-financial sectors of the economy.

The business sector perceived that the growth level of the economy during the second half of 2007 declined as compared to the growth level during the previous six months. However, there is a difference of assessment between the financial and non-financial sectors of the country. The financial sector perceived a stable growth, whereas the non-financial sector indicated a slower pace of growth.

The perception of the business sector about the pace of growth of the economy in the first six months of 2008 is rather pessimistic. The net balance[1] remains negative as in the case of the previous assessment, as economic growth is expected to decline during the first half of 2008. The financial sector, however, anticipates higher growth, whereas non-financial firms expect a lower level of growth. The analysis of expectations indicates the difference of forecasting about the level of growth during the remaining six months of the financial year.

The picture about the general price level and the rate of inflation is still alarming. Most of the firms reported higher prices in the second half of 2007, and their expectation is that these would be even higher in first half of 2008. The assessment seems to be uniform across all the sectors. The analysis reveals that both the financial and non-financial sectors neither experienced nor anticipated any fall in the general price level for the Year 2007-2008.

In the case of business activities, the majority of the firms reported an increase in the actual and the expected levels of their production. It is found that the business sector's activities in the domestic market increased whereas firms have been facing problems in the international market. However, firms are optimistic about their activities in both domestic as well as international markets. Moreover there is an increase in input prices, output prices, rate of interest on deposits, and the interest rate on advances and wages. This upward assessment of the business sector is in line with high inflationary expectations. The financial sector expects an increase in the rate of interest on deposits and the interest rate on advances and reserves,

[1]Net balance represents the percentage of respondents indicating "higher growth" minus the percentage of respondents indicating "lower growth".

which is in line with the tight monetary policy adopted by the State Bank of Pakistan. Their future expectations about their activities are also high. The business sector expects the level of investment to be higher in the current half of the year. Investment is expected to affect the employment level, as expected employment of both sectors is also high.

So far as the other macroeconomic variables are concerned, the majority of the firms reported an increase in the production, investment, and sales, both in the domestic and international markets. This is mainly driven by the higher expectations of the rise in the final product prices. At the same time, the firms' expectations of an increase in the input prices and the wage pressure is leading to the piling up of the inventories. The employment levels are reported to be stable as the firms continue to operate below the full capacity level. The firms' plans to maintain the stability in employment also reflect the inadequacy of skilled workforce, which is one of the major constraints reported by the firms. The leading constraints affecting firms' production are the regulatory environment and the insufficient demand.

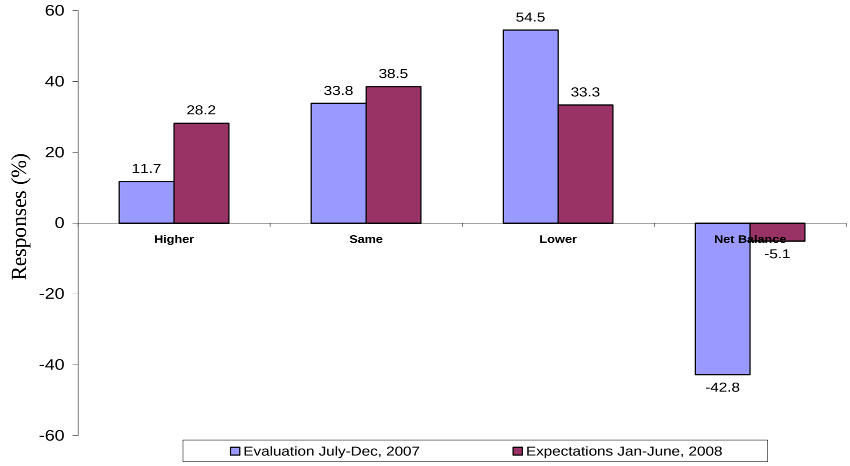
In sum, we can say that the growth has slowed down and inflation has risen during July–December 2007. Further decline in the growth level and rise in the rate of inflation are expected during the current half of the year. It implies that high actual prices negate the inflationary pressure sought to be curbed by the authorities. And high expected inflation highlights the need for bold decisions by the central bank to control it. The problems of declining expected growth and rising inflationary expectations require coordinated efforts by the State Bank of Pakistan and the federal government.

MACROECONOMIC ACTIVITIES

Declining Economic Growth

The analysis shows that during the second half of the Year 2007, economic growth declined as compared to the first half of 2007. As can be seen from the results presented in Figure 1, a majority of firms,

Fig. 1. Economic Growth



54.5 percent, saw slow economic growth, followed by 33.8 percent firms indicating the same level of growth. However, only 11.2 percent of the respondents indicated a faster growth in economy during the survey period (Table 1).

The actual growth assessment of the financial and non-financial sectors is not different as the net balance of both sectors indicates a lower level of growth with different intensity as compared to the earlier six months. Analysis of the financial sector reveals that there are 50 percent, 35.7 percent, and 14.3 percent units indicating the same, lower, and higher levels of economic growth, respectively (Table 2). But the non-financial firms see lower, the same, and higher growth (58.1 percent, 30.6 percent, and 11.3 percent) of firms, as compared to the previous period (Table 3).

In terms of perceptions of the business sector regarding the economic growth during first six months of 2008, 38.5 percent firms reported that it would grow at the same pace, 33.3 percent reported that it would grow at a slower rate, while only 28.2 percent expected that it would grow at a faster rate. The analysis shows that the business sector expects variable levels of growth during the current six months of 2008.

Sectoral analysis reveals the difference in the growth expectations of both the non-financial and financial firms. As can

Table 1

Summary of Survey Results

Indicator	July – December 2006 Evaluations				January – June 2007 Expectations				January – June 2007 Evaluations				July – December 2007 Expectations			
	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance
Economic Growth	8	60	33	–25	4	73	23	–19	16.2	64.9	18.9	–2.7	12.2	56.8	31.1	–18.9
Business Activity																
Production	43	32	24	19	65	32	3	62	67.6	23.9	8.5	59.1	48.6	31.1	16.2	32.4
Domestic Sales	45	33	19	26	68	24	7	61	58.3	29.2	12.5	45.8	57.5	27.4	15.1	42.4
International Sales	36	23	40	–3	53	27	20	33	38.5	25.6	35.9	2.6	34.9	44.2	20.9	14
Inventory	45	31	24	21	46	39	15	31	42.3	38.5	19.2	23.1	35.7	50	14.3	21.4
Level of Capacity Utilisation	23	45	32	–9	54	44	2	52	29.9	53.7	16.4	13.5	39.4	50	10.6	28.8
Prices																
Final Product Prices	48	36	16	32	43	47	9	34	42.3	31	26.8	15.5	34.8	53.6	11.6	23.2
Input Prices	92	8	0	92	78	22	0	78	85.3	10.3	4.4	80.9	82.1	17.9	0	82.1
Wage Level	88	12	0	88	67	33	0	67	85.1	12.2	2.7	82.4	74	26	0	74
General Price Level	80	13	7	73	75	20	5	70	90.5	5.4	4.1	86.4	83.8	14.9	1.4	82.4
Inputs																
Investment	58	33	9	49	54	46	0	54	58	34.8	7.2	50.8	47.9	52.1	0	47.9
Employment	36	52	12	24	32	61	7	25	35.2	47.9	16.9	18.3	31.5	58.9	9.6	21.9

Continued—

Table 1—(*Continued*)

Indicator	July – December 2007 Evaluations				January – June 2008 Expectations			
	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance
Economic Growth	11.7	33.8	54.5	–42.8	28.2	38.5	33.3	–5.1
Business Activity								
Production	46.8	22.8	30.4	16.4	65.4	29.5	5.1	60.3
Domestic Sales	50.6	22.1	27.3	23.3	66.2	26	7.8	58.4
International Sales	33.3	35.7	31	2.3	48.8	46.3	4.9	43.9
Inventory	63.2	26.3	10.5	52.7	49.3	37	13.7	35.6
Level of Capacity Utilisation	23.6	73.6	2.8	20.8	32.9	62.9	4.3	28.6
Prices								
Final Product Prices	53.3	32	14.7	38.6	56.8	35.1	8.1	48.7
Input Prices	76.6	15.6	7.8	68.8	82.9	15.8	1.3	81.6
Wage Level	83.5	16.5	0	83.5	74.4	24.4	1.3	73.1
General Price Level	96.2	1.3	2.6	93.6	88.2	11.8	0	88.2
Inputs								
Investment	52.7	43.2	4.1	48.6	56.2	43.8	0	56.2
Employment	41.6	50.6	7.8	33.8	44.2	50.6	5.2	39

Source: Survey results.

Table 2

Summary of Survey Results—Financial Sector

Indicator	January – June 2007 Evaluations				July – December 2007 Expectations				July – December 2007 Evaluations				January – June 2008 Expectations			
	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance
Economic Growth	15.4	69.2	15.4	0	30.8	61.5	7.7	23.1	14.3	50	35.7	–21.4	39.3	25	35.7	3.6
Business Activity																
Production (deposits advances, investment)	81.8	18.2	0	81.8	63.6	27.3	9.1	54.5	67.9	25	7.1	60.8	100	0	0	100
Domestic Sales (loans, advances, investments)	75	25	0	75	69.2	23.1	7.7	61.5	83.3	16.7	0	83.3	100	0	0	100
International Sales (loans, advances, investments)	100	0	0	100	75	25	0	75	45.5	54.5	0	45.5	66.7	33.3	0	66.7
Level of Capacity Utilisation	18.2	63.6	18.2	0	55.6	44.4	0	55.6	65	35	0	65	33.3	66.7	0	33.3
Prices																
Final Product Prices (interest rate on advances)	36.4	54.5	9.1	27.3	55.6	44.4	0	55.6	36	56	8	28	33.3	66.7	0	33.3
Input Prices (interest rate on deposits)	42.9	42.9	14.3	28.6	57.1	42.9	0	57.1	58.5	34.8	8.7	47.8	33.3	66.7	0	33.3
Wage Level	69.2	23.1	7.7	61.5	84.6	15.4	0	84.6	78.6	21.4	0	78.6	85.7	14.3	0	85.7
General Price Level	92.3	7.7	0	92.3	69.2	30.8	0	69.2	92.9	7.1	0	92.9	100	0	0	100
Inputs																
Investment	72.7	18.2	9.1	63.6	58.3	41.7	0	58.3	76	20	6	70	61.6	18.2	0	61.6
Employment	58.3	16.7	25	33.3	84.6	15.4	0	84.6	71.4	28.6	0	71.4	85.7	14.3	0	85.7

Source: Survey results.

Table 3

Summary of Survey Results—Non-financial Sector

Indicator	January – June 2007 Evaluations				July – December 2007 Expectations				July – December 2007 Evaluations				January – June 2008 Expectations			
	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance	Higher	Same	Lower	Net Balance
Economic Growth	16.2	64.3	18.9	–2.7	12.2	56.8	31.1	–18.9	11.3	30.6	58.1	–46.8	25.4	41.3	33.3	–8.9
Business Activity																
Production	67.6	23.9	8.5	59.1	48.6	31.1	16.2	32.4	42.2	21.9	35.9	6.3	57.1	36.5	6.3	50.8
Domestic Sales	58.3	29.2	12.5	45.8	57.5	27.4	15.1	42.4	43.8	23.4	32.8	11	58.7	31.7	9.5	49.2
International Sales	38.5	25.6	35.9	2.6	34.9	44.2	20.9	14	30.6	33.3	36.1	–5.5	47.2	47.2	5.6	41.6
Level of Capacity Utilisation	29.9	53.7	16.4	13.5	39.4	50	10.6	28.8	21.3	75.4	3.3	16	33.3	61.7	5	28.3
Prices																
Final Product Prices	42.3	31	26.8	15.5	34.8	53.6	11.6	23.2	52.4	31.7	15.9	36.5	61.7	28.3	10	51.7
Input Prices	85.3	10.3	4.4	80.9	82.1	17.9	0	82.1	84.4	7.8	7.8	76.6	93.5	4.8	1.6	91.9
Wage Level	85.1	12.2	2.7	82.4	74	26	0	74	84.4	15.6	0	84.4	71.4	15.6	1.6	69.8
General Price Level	90.5	5.4	4.1	86.4	83.8	14.9	1.4	82.4	96.8	1.6	1.6	95.2	83.6	14.8	1.6	82
Inputs																
Investment	58	34.8	7.2	50.8	47.9	52.1	0	47.9	49.2	47.6	3.2	46	50.8	49.2	0	50.8
Employment	35.2	47.9	16.9	18.3	31.5	58.9	9.6	21.9	33.9	56.5	9.7	24.2	33.9	59.7	6.5	27.4

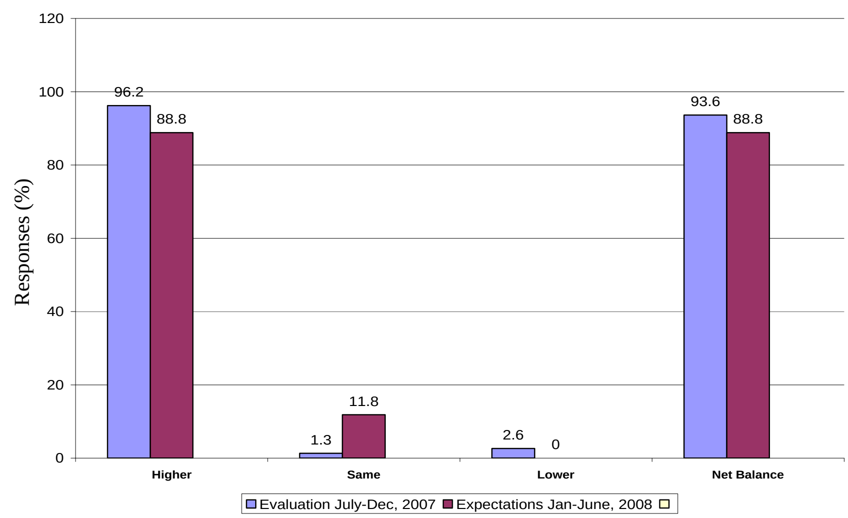
Source: Survey results.

be seen from the net balance figures, the non-financial sector expects lowering of growth during the current period of the year, whereas the financial sector expects a positive trend. In terms of their perception regarding the economic growth in the next six months, the percentage distribution of banks favouring higher, the same, and lower economic growth is 39.3, 25.0, and 35.7, respectively. In the case of non-banks, 25.4 percent, 41.3 percent, and 33.3 percent firms are expecting growth to be higher, the same, and lower than in the previous period, respectively (Table 3). We may conclude that the financial sector is more optimistic about economic growth as compared to the non-financial sector.

Inflationary Expectations Remain High

The business sector feels that inflationary pressure was higher during the second half of the Year 2007 than during the first half of the year. About 96.2 percent of the respondents indicated that the general price level increased during the last six months of 2007, as compared to the first half of the year. Only 1.3 percent firms reported that it stayed at the same level, while 2.6 percent indicated that it declined (Figure 2).

Fig. 2. Rate of Inflation



In the case of inflationary assessment, it seems that both the financial and the non-financial sectors have the same opinion. In the case of the non-financial sector, 96.8 percent, 1.6 percent, and 1.6 percent of firms indicated higher, the same, and lower level of inflation, as compared to the previous half of the Year 2007 (Table 3). In the case of the financial sector, 92.9 percent respondents indicated higher inflation in the second half of the Year 2007 than that is the first half of the year (Table 2).

The business sector expects high inflation during the first six months of the Year 2008. As depicted in Figure 2 for the first half of the year 2008, 88.8 percent of the firms anticipate an increase in the general price level, and 11.8 percent expect the same level. The financial sector expects a higher level of inflation during the first half of the Year 2008, as compared to the level of inflation prevailing during the second half of 2007. In the case of the non-financial sector, the percentage of firms expecting higher, the same, and lower levels of inflation is 83.6, 14.8, and 1.6, respectively (Table 3).

THE NON-FINANCIAL SECTOR

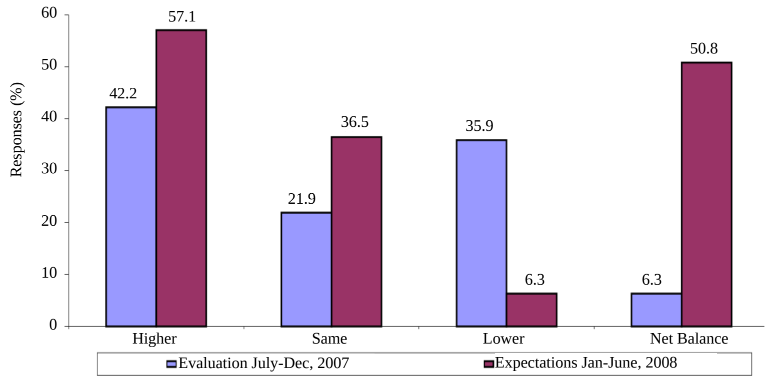
THE STATE OF FIRMS' ACTIVITIES

High Production with Increasing Expectations

Information about the production of firms is presented in Figure 3. It shows that production has increased. The responses indicate that during July–December, 2007, 42.2 percent of the firms had a higher level of production as compared to the first half of 2007. While 21.9 percent indicated no change in the volume of production, the rest of the firms (35.9 percent) indicated that their production was lower as compared to the first half of 2007.

Furthermore, the expectations of business firms for January–June, 2008 indicate that firms are optimistic about future production. In terms of the plans of the non-financial firms for the next six months, 57.1 percent expect their production to rise, 36.5 percent expect the same level, and 6.3 percent expect a fall in their production.

Fig. 3. Production



Sales Increased with High Expectation

The analysis shows that the non-financial sector is optimistic about sales in the domestic market as the majority of firms reported that domestic demand was expected to remain strong. The majority of the firms (43.8 percent) indicated that their sales in the domestic market during the second half of 2007 were higher than in the first half of 2007. The firms which recorded a decrease in their sales were 32.8 percent. However, there is no significant change in the sales of 23.4 percent firms (Figure 3).

The majority of firms (58.7 percent) expect that their sales in the domestic market would increase in the first half of 2008, 31.7 percent expect it to stay the same, while 9.5 percent expect a fall in their activity in the domestic market. The previous experience about realisation of expectations indicates that sales would be higher during the first half of 2008.

Sales in the international market declined as 36.1 percent firms reported a decrease in the sales as compared to the previous half of the year, i.e., January–June, 2007, 30.6 percent reported an increase in the sales activity in the international market, and 33.3 percent reported no significant change (Figure 4). The evidence shows that firms are confident about the international market, as 47.2 percent of the firms are hoping that their sales would increase; only 5.6 percent expect that sales may decline, and 47.2 percent expect no change.

Fig. 4. Sales in the Domestic Market

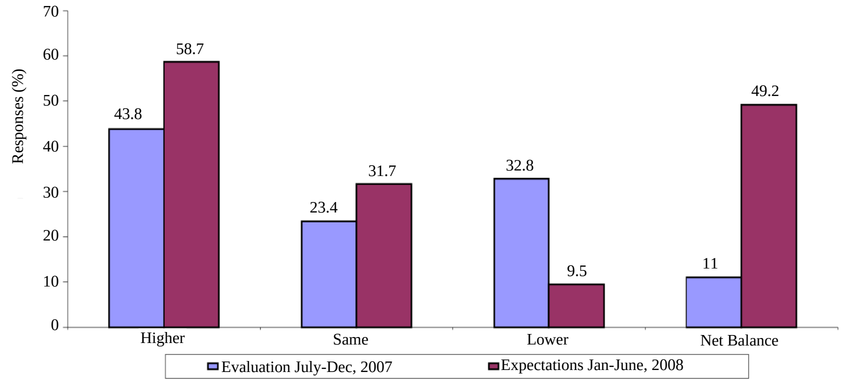
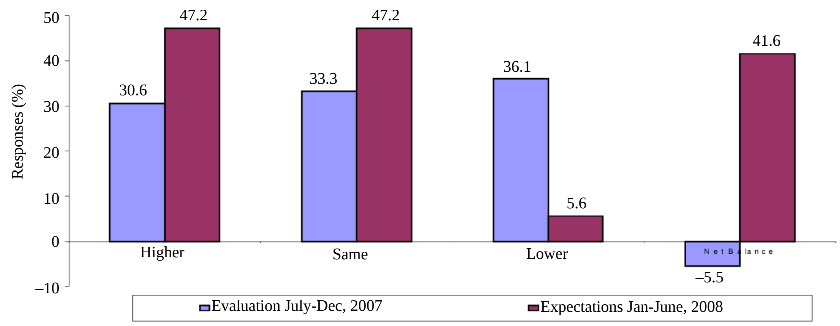


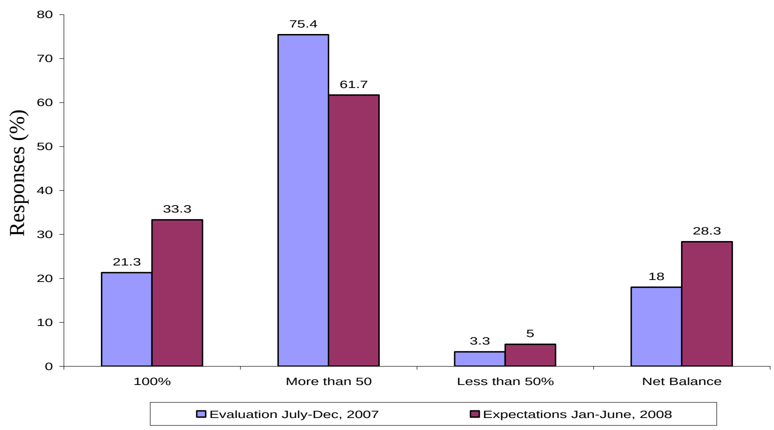
Fig. 5. Sales in the International Market



Under-utilised Capacity

The evidence presented in Figure 6 shows that the non-financial sector still has the potential to expand its production because most of the firms are working at less than the full capacity level. In response to the question about capacity utilisation, 21.3 percent firms reported that their capacity utilisation was 100 percent, while 75.4 percent of the business firms reported that their capacity utilisation was more than 50 percent, and the rest of the firms reported it at less than 50 percent.

Fig. 6. Capacity Utilisation



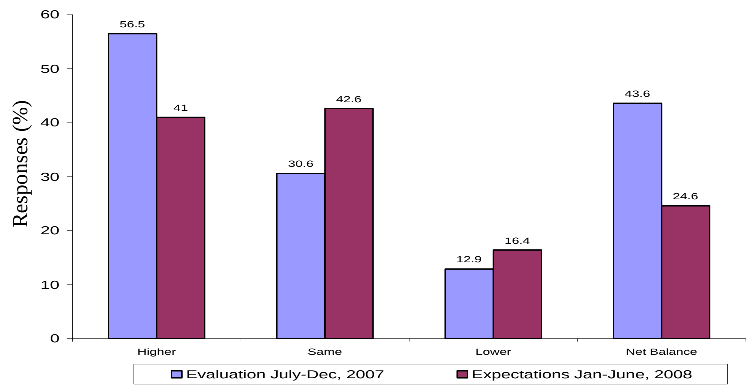
Regarding the future course of capacity utilisation, 33.3 percent of firms expect to operate at full capacity during the first half of 2008, while 61.7 percent expect that their capacity utilisation will be more than 50 percent but less than full capacity, and the rest expect to utilise less than 50 percent capacity.

Firms are Building Up Inventories

Inventories are building up as most of the firms in the non-financial sector are reporting an increase in production. Most of the firms (56.5 percent) reported a rise in the inventories during the second half of 2007, 30.6 percent kept it at the same level, while 12.9 percent decreased their inventories in the second half as compared to the first half of 2007 (Figure 7).

In the next six months, 41 percent firms expect an increase in their inventory, 42.6 percent expect it to stay at the same level, while 16.4 percent expect a decline in their inventory. Furthermore, past experience about the expectations indicates that inventories would be even higher than what is expected, as deviation in the respondents favouring higher inventories is 18 percent.

Fig. 7. Inventories

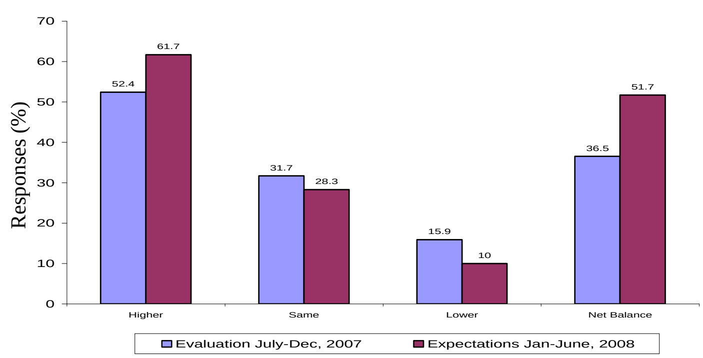


PRICES AND WAGES

Rising Input and Output Prices

In the case of the prices of final goods, 52.4 percent of the respondents experienced an increase in the prices of their product during the second half of 2007. For 31.7 percent, it remained the same, while for 15.9 percent the prices fell from the first half of 2007 (Figure 8). The majority of the firms expect that the prices of their final products will increase during the first half of 2008. In the coming six months, 28.3 percent firms expect that these will

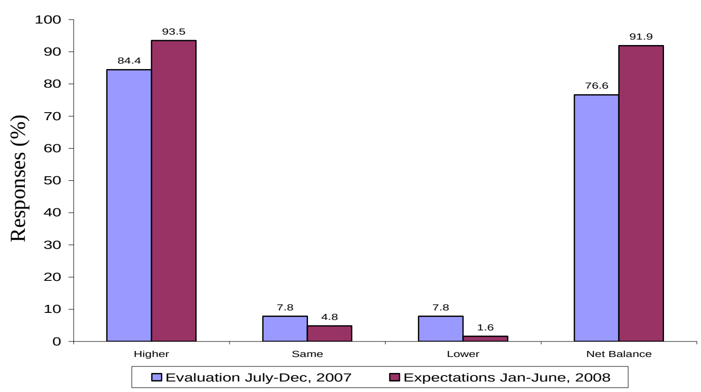
Fig. 8. Final Product Prices



stay the same, 61.7 percent firms expect that these are going to increase, while 10 percent expect a fall in the prices of their products. Final product prices would be even higher than the expectations of the business firms, as deviation in the respondents favouring higher product price is 23 percent.

According to the majority of the firms, input prices have increased during the study period. The increase in input prices ultimately forced business firms to raise the prices of their own final goods. Only 7.8 percent of the respondents reported a decrease in the prices of their inputs (Figure 9). A large number of them (84.4 percent) indicated that their input prices increased in the second half of 2007, while 7.8 percent reported no change. For the current half of the Year 2008, 93.5 percent expect a rise in the prices of their inputs, while 4.8 percent expect it to stay the same. Only 1.6 percent of the firms expect a fall in the prices of their inputs.

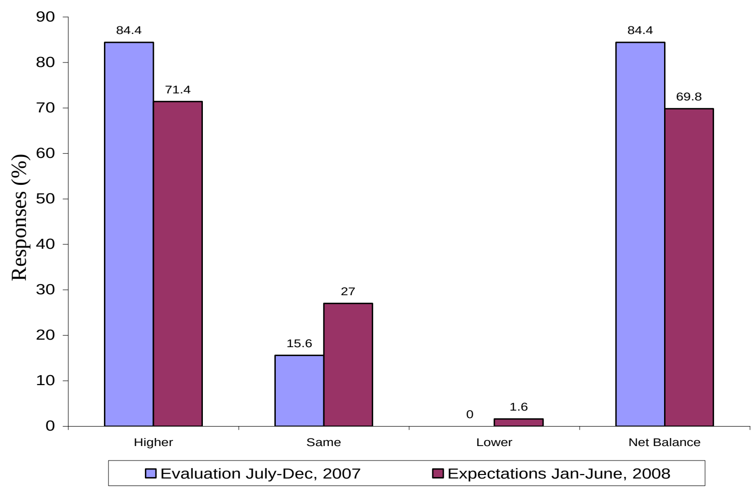
Fig. 9. Input Prices



Wage Pressure Is Also Building Up

Wage pressure is also building up along with the inflationary expectations. None of the firms experienced a wage decline in the second half of 2007, and 84.4 percent of the firms reported a rise in wages in the second half of 2007 over the first half of 2007, while 15.6 percent reported that the wage level remained the same during this period (Figure 10). In the coming six months, 71.4 percent continue to expect wage inflation, 27 percent anticipate stable wages, and only 1.6 percent of them are expecting wages to decline in the coming six months.

Fig. 10. Wage Level



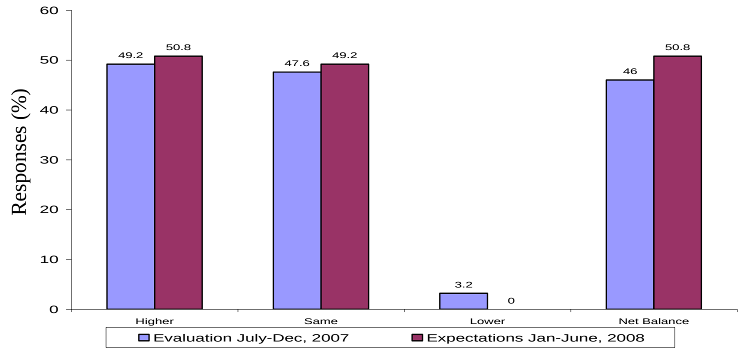
INVESTMENT AND EMPLOYMENT

Higher Investment with Higher Expectations

The investment behaviour of the firms depicted in Figure 11 indicates that their investment plans are firmly positive, as 49.2 percent have increased their investment in the second half of 2007 as compared to the first half of 2007; 47.6 percent firms reported that it stayed at the same level. Only 3.2 percent firms reported a decline in investment.

For the first half of 2008, 50.8 percent firms anticipate an increase in investment, 49.2 percent predict no change in investment behaviour, while none of the firms has plans to decrease investment. In general, the investment situation is encouraging for the economy.

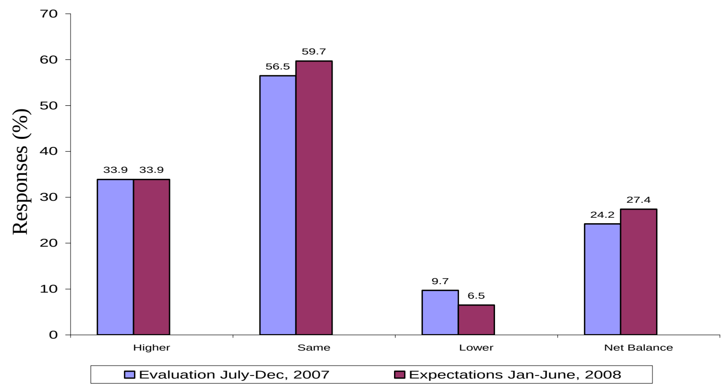
Fig. 11. Investment



Stable Current and Expected Employment

The increase in production, sales in the domestic and international markets, increase in product prices, and inflation positively affect employment, which is putting pressure for an increase in wages. Most of the firms (56.5 percent) reported that their employment situation did not change in the second half of 2007 from the first half of 2007 (Figure 12); 33.9 percent reported an increase in employment, while a decline was reported by 9.7 percent of the respondents. The positive net balance indicates that, overall, there was some increase in employment during the second half of 2007.

Fig. 12. Employment



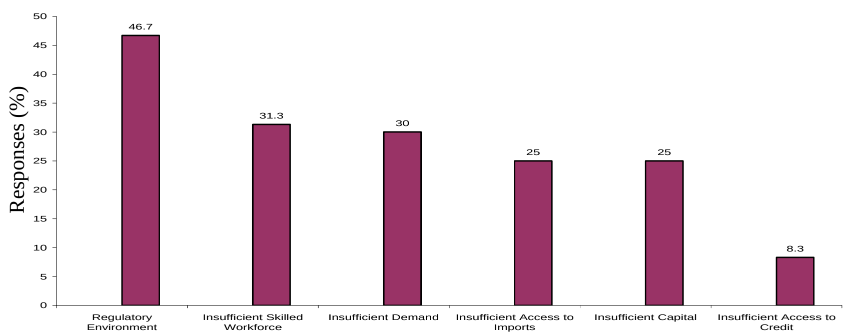
The increase in net balance reveals that unemployment would decrease in future as the majority of the firms (59.7 percent) are expecting no change in employment in the first half of 2008, 33.9 percent are anticipating that workforce would increase, while 6.5 percent are expecting a fall in their employment level for the next six months.

CONSTRAINTS ON FIRMS' PRODUCTION

Regulatory Environment—A Major Constraint

We also enquired about the constraints faced by the non-financial sector of the economy. As can be seen from Figure 13, 56 percent of the firms reported that their production was constrained by a variety of factors. Out of the constrained firms, 46.7 percent of the firms think that improper regulatory environment is the hardest constraint, followed by insufficient skilled workforce (i.e., 31.3 percent) and insufficient demand (i.e., 30 percent). While 25 percent of the firms think that insufficient capital and insufficient access to imports create hurdles for business growth, insufficient access to credit is felt by only 8.3 percent of the business firms.

Fig. 13. Production Constraints



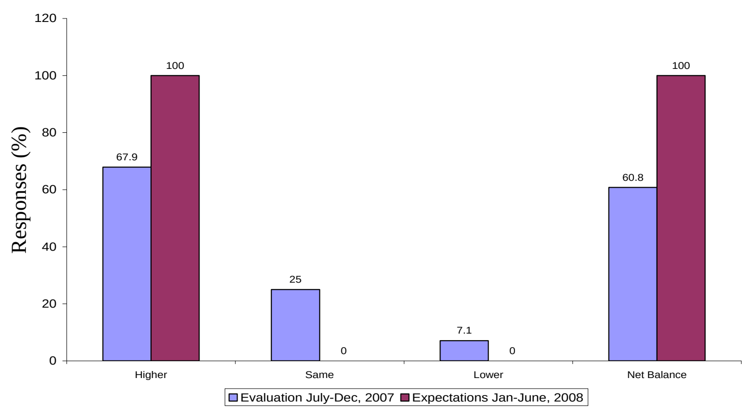
THE FINANCIAL SECTOR ACTIVITIES

THE STATE OF FINANCIAL SECTOR ACTIVITIES

High Actual and Expected Volume of Deposits and Advances

The financial sector is optimistic about its production. The responses (Figure 14) indicate that during July–December, 2007, 67.9 percent of the financial institutions had a higher level of deposits and advances as compared to that of the first half of 2007. While 25 percent indicated that there was no change in the volume of advances and deposits, a small number of financial institutions (7.1 percent) indicated that their production was lower. In terms of the plans for the next six months, 100 percent expected that their volume of deposits and advances would rise. The analysis demonstrates that the financial sector is optimistic about its future growth.

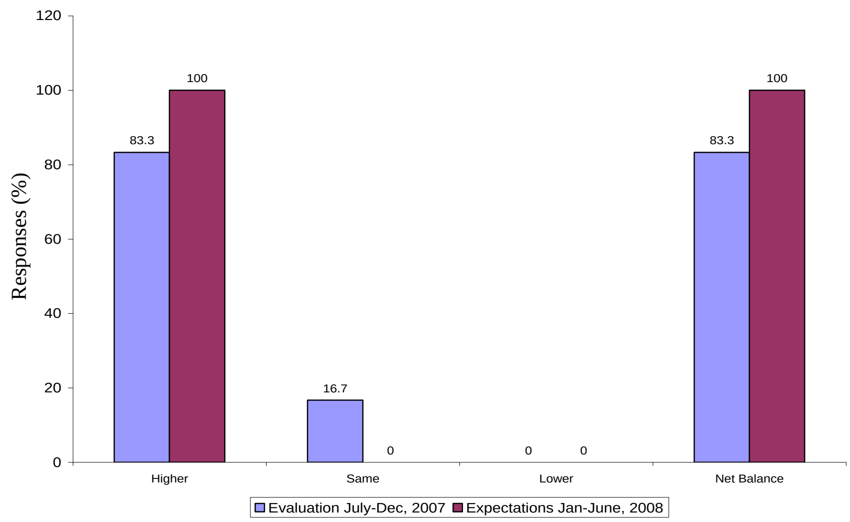
Fig. 14. Production—Deposits and Advances



Credit Increased with High Expectations

Most of the financial institutions expanded their activities during the second half of 2007. Figure 15 shows that 83.3 percent of the institutions indicated that their activities in the domestic market

Fig. 15. Size of Activity in the Domestic Market

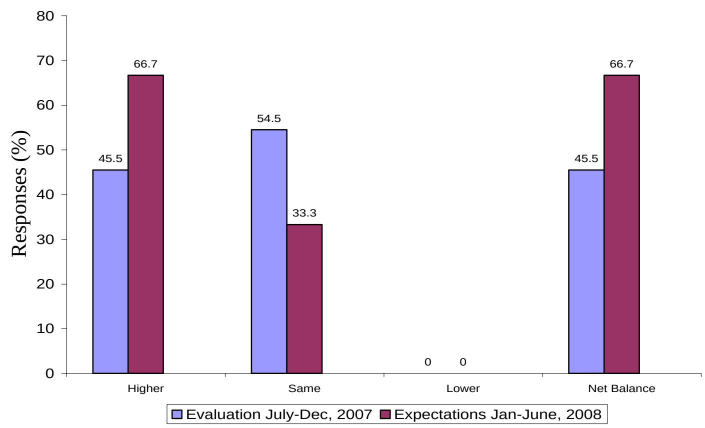


during the last six months of 2007 were higher. Interestingly, none of the institutions recorded a decrease in its activities, while 16.7 percent reported the size of activity in the domestic market to stay at the same level during second half of the Year 2007. Furthermore, all institutions expect that their activities in the domestic market would increase in the first half of 2008.

Increasing Activities in the International Market

Interestingly, 45.5 percent of the respondents reported an increase in their activities in the international market during July-December 2007, as compared to the first half of 2007 (Figure 16); 54.5 percent reported no significant change. Regarding the future activities, the evidence shows that financial institutions are confident about the international market as 66.7 percent of the institutions hope that their activity would increase and 33.3 percent expect that there will be no change in the size of their international market activity. None of institutions expects a decline in its activity.

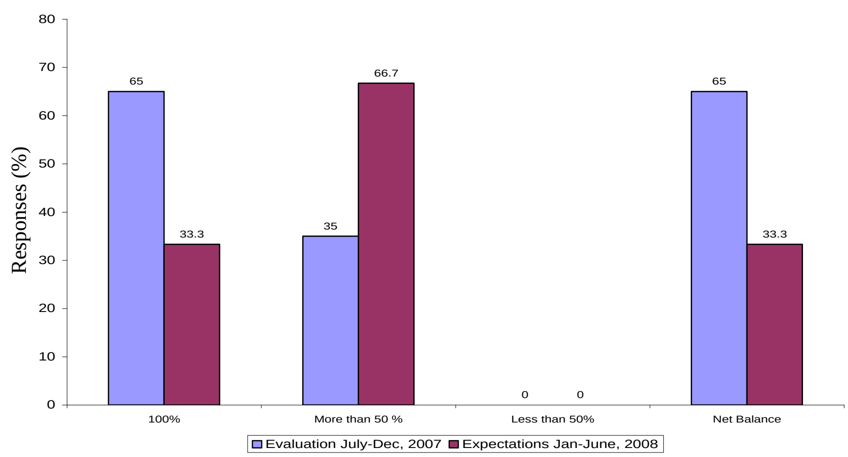
Fig. 16. Size of Activity in the International Market



Maximum Capacity Utilisation with Low Expected Utilisation

The evidence shows that the majority (65 percent) of financial institutions are working at their full capacity, while 35 percent could not utilise their full capacity in the second half of 2007 (Figure 17). As for the future, only 33.3 percent institutions are expecting to utilise capacity at one hundred percent, while 66.7 expect to work at less than full capacity during the first half of 2008.

Fig. 17. Capacity Utilisation

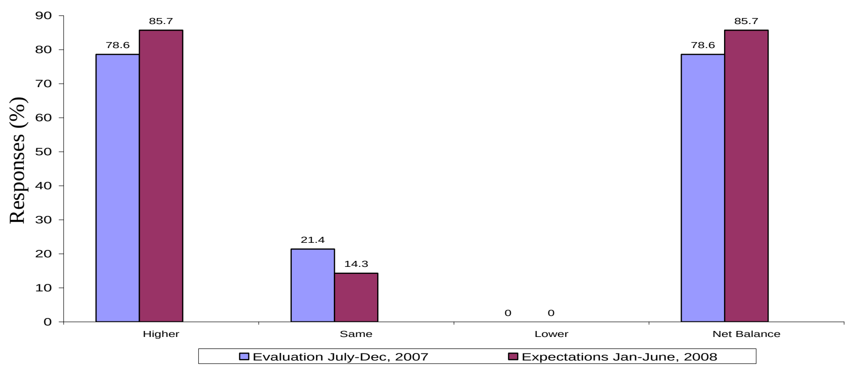


PRICES AND WAGES

Mounting Wage Pressure

As mentioned earlier, wage pressure is also building up along with the inflationary expectations (Figure 18). None of the respondents reported a wage decline in the second half of 2007. The majority of the respondents (78.6 percent) reported a rise in wages in the second half of 2007, while 21.4 percent reported that the wage level remained the same during this period. For the coming six months, 85.7 percent financial institutions expect a rise in wages, while only 14.3 percent predict a stable wage level in the first half of 2008.

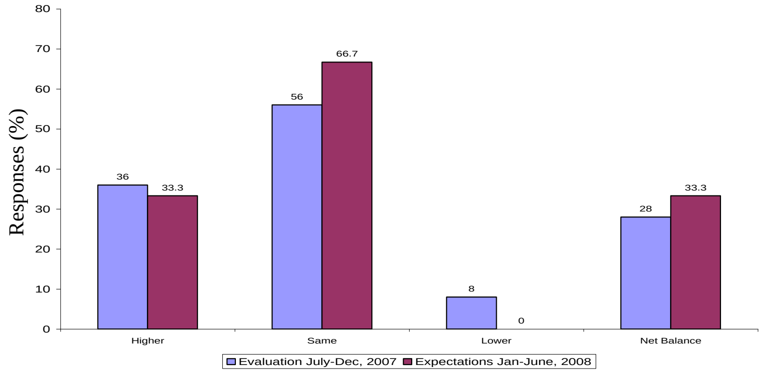
Fig. 18. Wage Level



High Expected Rate of Interest on Deposits

Looking at the interest rate, 36 percent of the respondents experienced an increase in interest on deposits during the last six months of 2007 (Figure 19). As many as 56 percent respondents report that interest on deposits remained the same, while only 8 percent report that the interest was lower in the first half of 2007. For the next six months, 66.7 percent reported that the interest rate on deposits would stay the same, 33.3 percent expected that the interest rate would increase, while none expected a fall in the rate of interest.

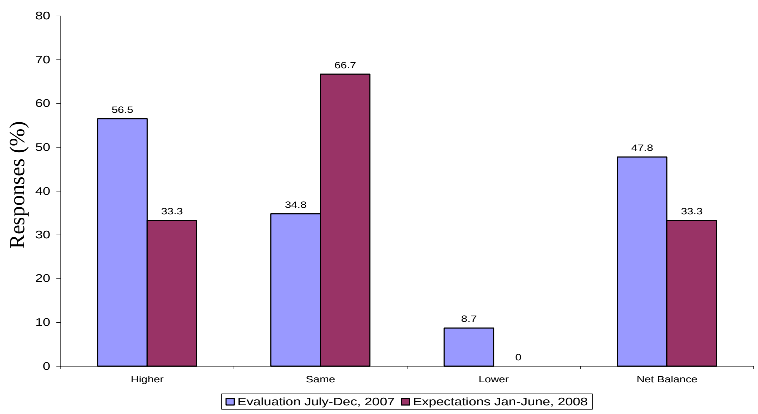
Fig. 19. Interest on Deposit



High Advances Rate with Stable Expectations

The financial sector is feeling pressure on the interest rate on advances due to an increase in the deposit rate, wages, and other expenditure, which is forcing it to raise the prices of their advances. Only 8.7 percent of the respondents reported a decrease in the interest rate on advances (Figure 20), whereas 56.5 percent indicated that interest on advances increased during the second half of 2007 as compared to the first half of 2007. The minority of the institutions (i.e., 33.3 percent) were expecting a rise in the interest rate, while 66.7 percent expect the interest on advances will be the same. None of the institutions anticipates a fall in interest rate.

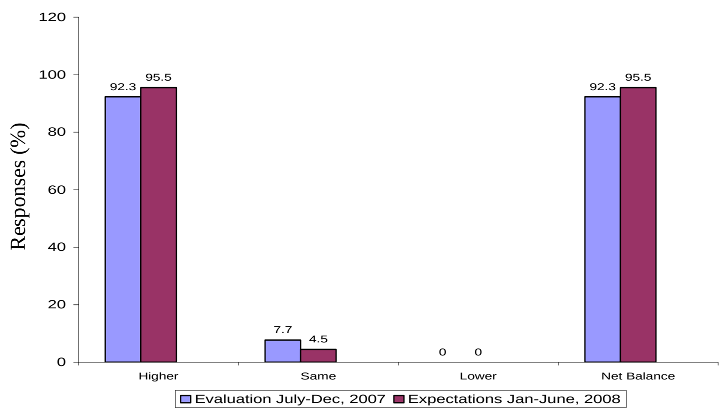
Fig. 20. Interest Rate on Advances



High Actual and Expected Reserves

The analysis shows that financial institutions are optimistic about their assets, as the majority of the institutions expect to maintain high reserves (Figure 21). As many as 92.3 percent of the institutions indicate that their reserves are higher than in the first half of 2007; 7.7 percent report that there is no change in reserves. None of the institution recorded a decrease in reserves in the evaluation and expectation period. The majority of institutions (95.5 percent) expect that their reserves would increase in the first half of 2008; 4.5 percent expect that the reserves would stay at the same level.

Fig. 21. Reserves



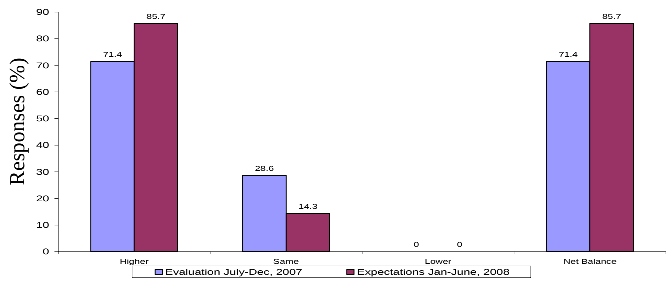
EMPLOYMENT AND INVESTMENT

High Current and Expected Employment

Most of the financial institutions (71.4 percent) reported an increase in the employment level during the second half of 2007 as compared to the first half of the Year 2007. Only 28.6 percent reported that it stayed at the same level. Figure 22 shows positive net balance, which indicates that there is some increase in employment during the second half of 2007. Only 14.3 percent banks are expecting stability in employment in the first half of

2008. Analysis reveals that there will be employment creation in the financial sector. Overall, there would be some increase in financial sector employment; this is in line with the general higher expectation of activities in the financial sector.

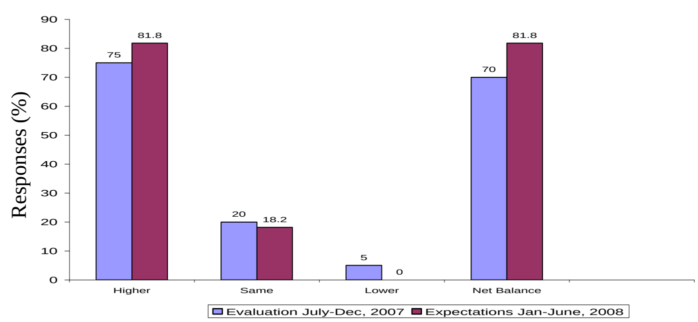
Fig. 22. Employment



Higher Actual and Expected Level of Investment

Stable growth and increasing investment in the economy are sustained by the investment behaviour of the banks. Figure 23 reveals that the majority of the institutions (75 percent) reported an increase in their investment in the second half of 2007; 20 percent institutions reported that it stayed the same; only 5 percent reported a decline in investment. For the first half of 2008, 81.8 percent anticipate an increase in investment, 18.2 percent plan to maintain it at the same level, but none of the institutions reports a possible decrease in its investment.

Fig. 23. Investment in Banks



FOR OFFICIAL USE ONLY

Case ID #:____________________________

PIDE BUSINESS BAROMETER

Biannual Survey

Respondent Information

Enterprise Name: _______________ Respondent Name: ____________

Position: ______________________

Enterprise's Specialisation: ______________________ Date: _________

Sector: ☐ public ☐ private

Year of Foundation: ________________ Number of Employees: _________

Contact Information [Postal (optional)]: ______________________________

(City) ______________________________(Province) ____________________

Telephone: Office: ______________________ Residence: ____________

Mobile:______________________ E-mail: _______________

Please return the filled questionnaire to:

PIDE Business Barometer

Pakistan Institute of Development Economics

Quaid-i-Azam University Campus

P.O. Box 1091, Islamabad 44000

PAKISTAN

Appendix

Non-financial Sector Questionnaire

1. During the last six months relative to the preceding six months

a) Was your production/volume of activity

☐ higher ☐ normal ☐ lower ☐ % ?

b) Was your sales volume/size of activity in the domestic market

☐ higher ☐ normal ☐ lower ☐ % ?

c) Was your sales volume/size of activity in the international market

☐ higher ☐ normal ☐ lower ☐ % ?

d) Did prices for your products

☐ rise ☐ stay the same ☐ fall ☐ % ?

e) Did prices for your inputs

☐ rise ☐ stay the same ☐ fall ☐ % ?

f) Did the wage level

☐ rise ☐ stay the same ☐ fall ☐ % ?

g) Did your inventories

☐ rise ☐ stay the same ☐ fall ☐ % ?

h) Was your capacity utilisation

☐ % ☐ more than 50% ☐ less than 50 % ?

i) Did your employment

☐ rise ☐ stay the same ☐ fall ☐ % ?

j) Did your investment

☐ rise ☐ stay the same ☐ fall ☐ % ?

2. Is your production currently constrained?

☐ Yes ☐ No

a. If yes, please rank on a scale from 1 to 6 the following constraints to your production process, where 1 indicates a minor constraint and 6 refers to severe constraints.

- Insufficient demand ☐
- Insufficient capital ☐
- Insufficient access to imports ☐
- Insufficient skilled workforce ☐
- Insufficient access to credit ☐
- Regulatory environment ☐

3. In the next sixth months, do you expect

a) your production/size of activity to

☐ rise ☐ stay the same ☐ fall ☐ % ?

b) your sale/size of activity in the domestic market to

☐ rise ☐ stay the same ☐ fall ☐ % ?

c) your sale/size of activity in the international markets to

☐ rise ☐ stay the same ☐ fall ☐ % ?

d) prices for your products to

☐ rise ☐ stay the same ☐ fall ☐ % ?

e) prices for your inputs to

☐ rise ☐ stay the same ☐ fall ☐ % ?

f) the wage level to

☐ rise ☐ stay the same ☐ fall ☐ % ?

k) the inventories to

☐ rise ☐ stay the same ☐ fall ☐ % ?

l) capacity utilisation to

☐ 100 % ☐ more than 50 % ☐ less than 50 % ?

m) employment to

☐ rise ☐ stay the same ☐ fall ☐ % ?

n) investment to

☐ rise ☐ stay the same ☐ fall ☐ % ?

4. Did the economy during July – Dec, 2007 (as compared to Jan – June, 2007) grow

☐ faster ☐ at the same rate ☐ slower ?

5. In the July – Dec 2008 (as compared to Jan – June 2008), do you expect the economy to grow

☐ **f**aster ☐ at the same rate ☐ slower ?

6. In the last six months, did the general price level

☐ increase ☐ stay at the same level ☐ decrease ☐ % ?

7. In the next six months, do you expect general price level to

☐ increase ☐ stay at the same level ☐ decrease ☐ % ?

Thank you very much.

Financial Sector Questionnaire

1. During the last six months relative to the preceding six months

o) Was your volume of activity (deposits, advances, investment)

☐ higher ☐ normal ☐ lower ☐ % ?

p) Was your size of activity (loans, advances, investments) in the domestic market

☐ higher ☐ normal ☐ lower ☐ % ?

q) Was your size of activity (loans, advances, investment) in the international market

☐ higher ☐ normal ☐ lower ☐ % ?

r) Did interest rate on advances

☐ rise ☐ stay the same ☐ fall ☐ % ?

s) Did interest rate on deposits

☐ rise ☐ stay the same ☐ fall ☐ % ?

t) Did wage level:

☐ rise ☐ stay the same ☐ fall ☐ % ?

u) Did your reserves:

☐ rise ☐ stay the same ☐ fall ☐ % ?

v) Was your capacity utilisation

☐ 100 % ☐ more than 50% ☐ Less than 50 % ?

w) Did your employment

☐ rise ☐ stay the same ☐ fall ☐ % ?

x) Did investment in your bank

☐ rise ☐ stay the same ☐ fall ☐ % ?

2. Are your operations currently constrained?

☐ Yes ☐ No

a. If yes, please rank on a scale from 1 to 6 the following constraints to your operations, where 1indicates a minor constraint and 6 refers to severe constraints.

Insufficient demand ☐
Insufficient capital ☐
Insufficient skilled workforce ☐
Banking laws ☐
Cash reserve ratio requirement ☐
Default risk ☐
Intermediation cost ☐

3. In the next sixth months, do you expect

g) your size of activity (deposits, advances, investment) to

☐ rise ☐ stay the same ☐ fall ☐ % ?

h) your size of activity (deposits, advances, investment) in the domestic Market to

☐ rise ☐ stay the same ☐ fall ☐ % ?

i) your size of activity (deposits, advances, investment) in the international markets to

☐ rise ☐ stay the same ☐ fall ☐ % ?

j) interest rate on advances to

☐ rise ☐ stay the same ☐ fall ☐ % ?

k) interest rate on deposits

☐ rise ☐ stay the same ☐ fall ☐ % ?

l) wage level to

☐ rise ☐ stay the same ☐ fall ☐ % ?

y) capital reserves to

☐ rise ☐ stay the same ☐ fall ☐ % ?

z) capacity utilisation to

☐ 100 % ☐ more than 50% ☐ less than 50 % ?

aa) employment to

☐ rise ☐ stay the same ☐ fall ☐ % ?

bb) investment in your bank to

☐ rise ☐ stay the same ☐ fall ☐ % ?

4. Did the economy during July – Dec, 2007 (as compared to Jan – June, 2007) grow

☐ faster ☐ at the same rate ☐ slower ?

5. In the July – Dec 2008, (as compared to Jan – June 2008), do you expect the economy to grow

☐ faster ☐ at the same rate ☐ slower ?

6. In the last six months did the general price level

☐ increase ☐ stay at the same level ☐ decrease ☐ % ?

7. In the next six months, do you expect that general price level

☐ increase ☐ stay at the same level ☐ decrease ☐ % ?

Thank you very much.

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