

# PAKISTAN PROSPERITY INDEX

September 2021



**Policy Research Institute of Market Economy (PRIME)** is a public policy think tank striving for an open, free and prosperous Pakistan by creating and expanding a constituency for protective function of the state and freedom of the market.

**Pakistan Prosperity Index (PPI)** is a monthly review of Pakistan's macro-economy based on the analysis of four periodic data sets- industrial production, trade volume, price levels, and private sector lending. On a 12-month rolling basis, this issue of the report covers the period August 2020 to July 2021, with June 2019 as the base period.

### **Credits**

The idea of PPR was developed by Ali Salman. Special thanks to Ali Kemal for technical support in developing the indices and Sohaib Jamali for his valuable feedback. The title page is based on a word cloud generated from the Business Recorder for April 2021.

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**Published by:** Policy Research Institute of Market Economy (PRIME)

September 2021

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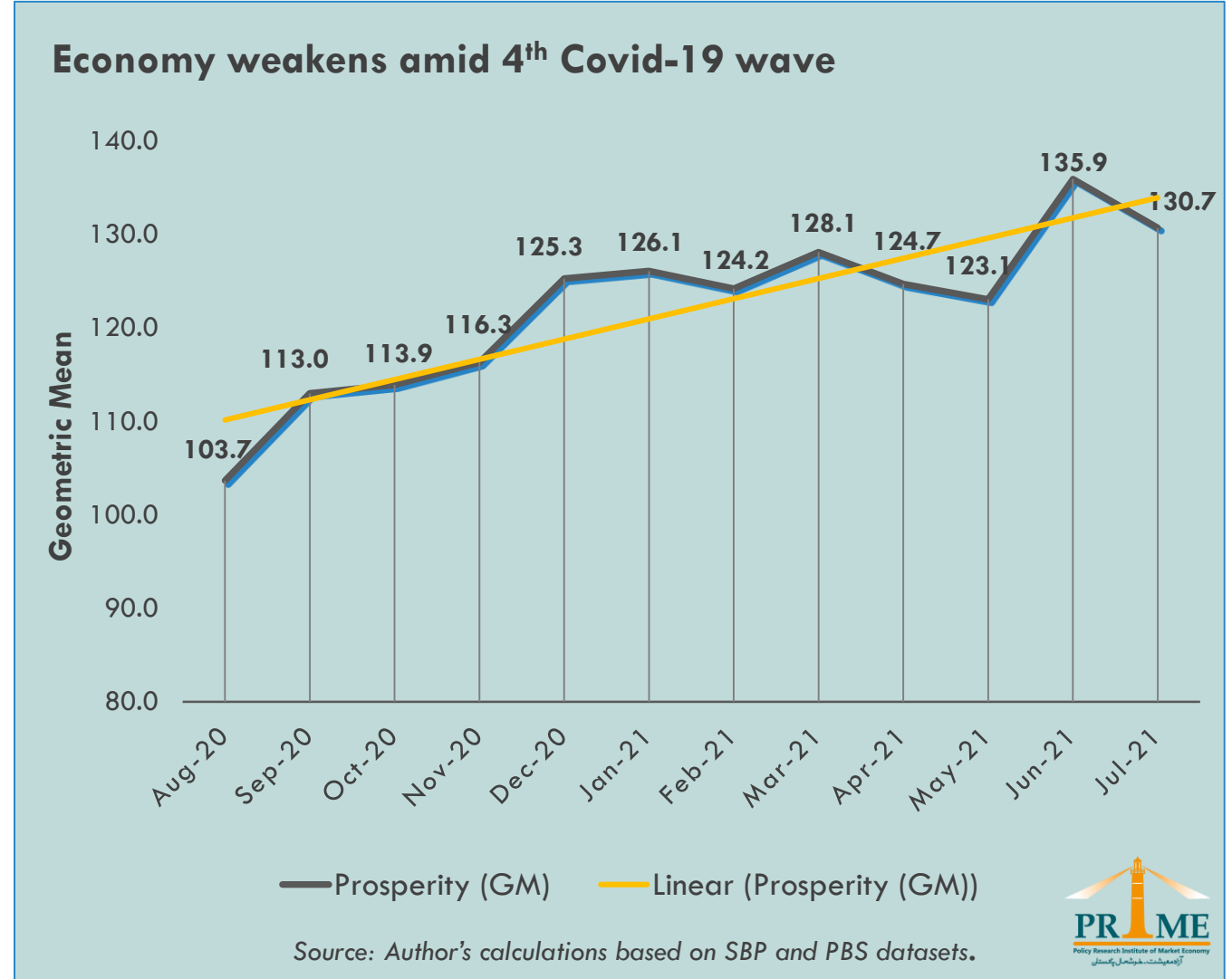
# Variables & Data Source

Variable	Source	Time period covered
1. Consumer Price Index (CPI)	State Bank of Pakistan	August 2020 – July 2021 <i>Base month: June 2019</i>
2. Long-term Financing Facility (LTFF)		
3. Quantum Index of Large-scale Manufacturing (QIM)	Pakistan Bureau of Statistics	
4. Trade Volume		

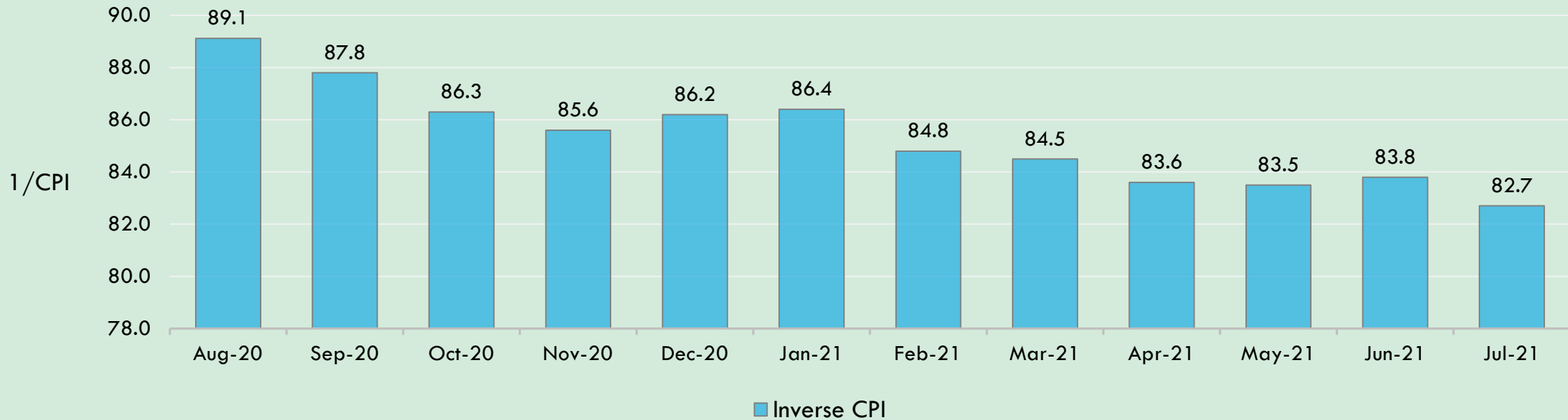
*\*Refer to end slide for methodology.*

# PAKISTAN PROSPERITY INDEX (PPI)

- Pakistan Prosperity Index declined to 130.7 in July 2021 after reaching all time high of 135.9 in June 2021.
- This figure signals fall in economic prosperity at the back of soaring imports, currency devaluation and subsequent pressure on the forex, and disruption in economic activity prompted by COVID-19 4<sup>th</sup> wave.



## Purchasing power posted a decrease to all time low



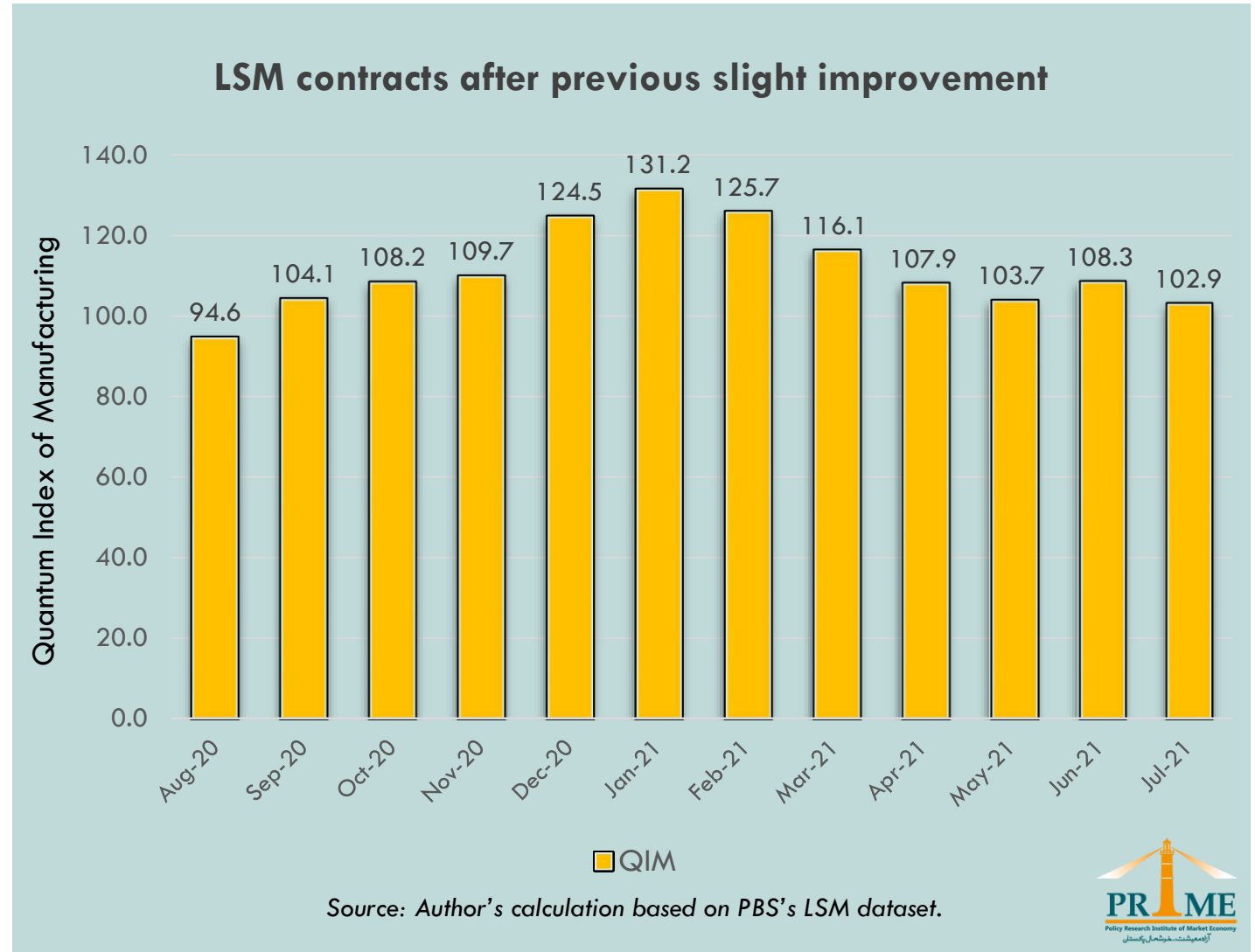
Source: Author's calculation based on SBP's inflation monitor.

## PURCHASING POWER INDEX (PPI)

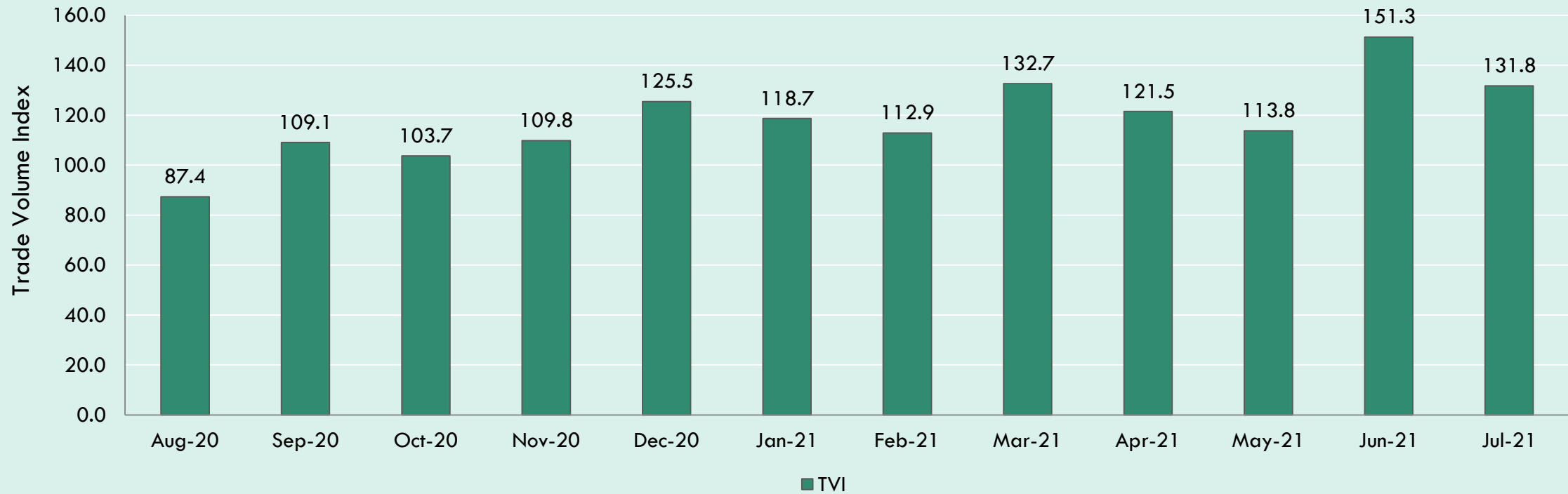
- Y-o-Y inflation clocked at 8.4% in July 2021 while M-o-M inflation stood at 1.3%, representing a decline in purchasing power.
- This inflationary pressure is due to increase in prices of basic food items, clothing, footwear & energy augmented by soaring international petroleum prices.

# LARGE-SCALE MANUFACTURING INDEX (LSMI)

- Output of large-scale manufacturing declined by 4.91% M-o-M in July 2021 while increased by 2.25% Y-o-Y.
- LSM slowdown resulted from insignificant growth in 10 industries, only automobile industry posted growth greater than 2%, while 4 industries showed negative growth due to intermittent disruptions presented by pandemic.



## Trade volume declines amid volatility in international market



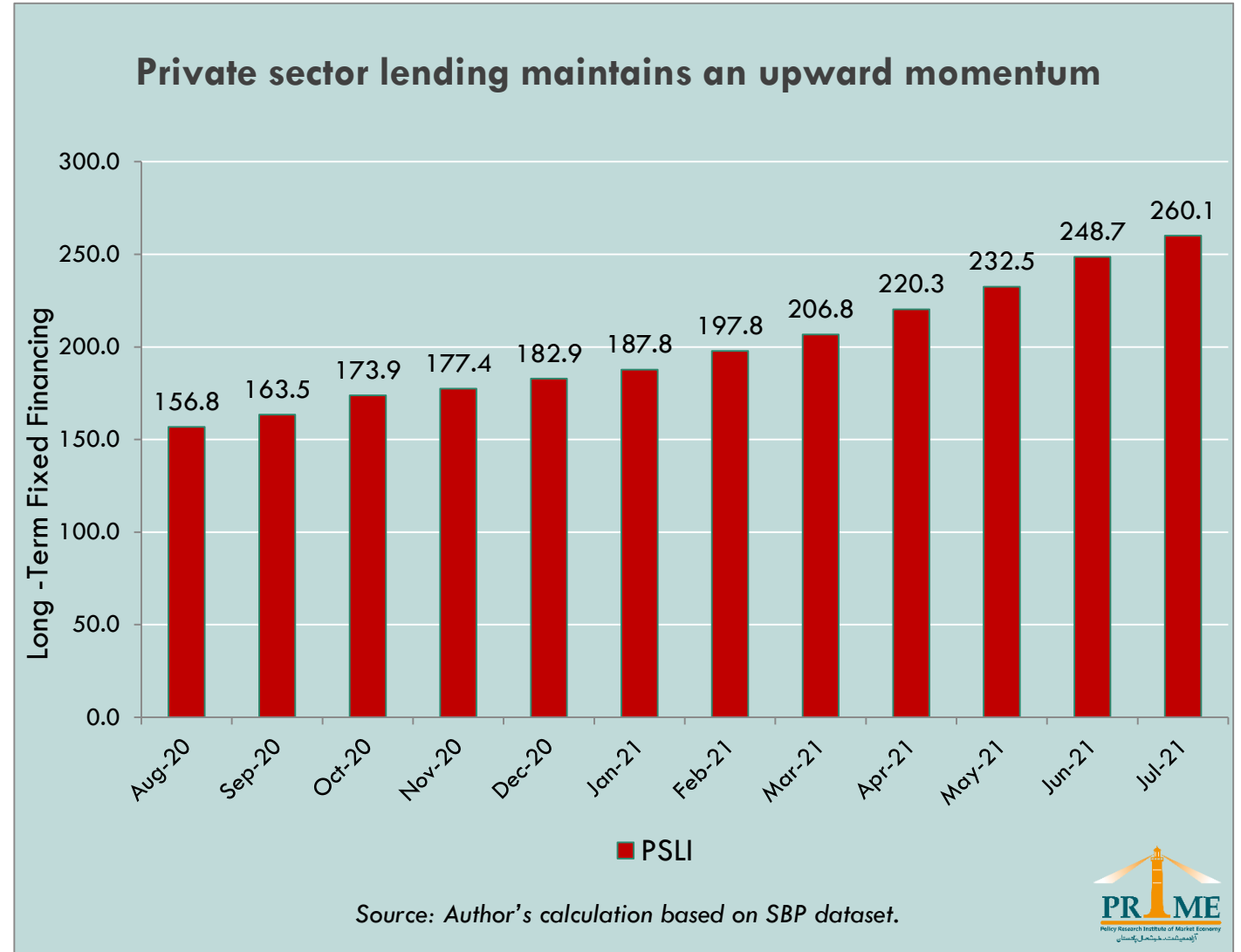
Source: Author's calculation based on PBS dataset.

## TRADE VOLUME INDEX (TVI)

- Trade volume decreased by 13% M-o-M measuring Rs.1.23 trillion in July 2021 from Rs.1.42 trillion in June 2021 with decline in both exports and the imports.

# PRIVATE SECTOR LENDING INDEX (PSLI)

- Private sector borrowing from banks has been on an upward trajectory owing to subsidized borrowing rate and PSLI stood at all time high of 260.
- Long-term financing facility stood at an all-time high of Rs.408.6 billion in July 2021.







Economic prosperity as measured by Pakistan Prosperity Index deteriorated in July 2021 on account of decline in trade volume and purchasing power, and slowdown in LSM's output. However, private sector borrowing has shown improvement in the period under review. The growing pressure on forex due to currency devaluation and galloping current account deficit from previous high trade deficits, growing international petroleum prices and subsequent gas shortages, and declining purchasing power are attributed to economic slowdown.

# Methodology

**Pakistan Prosperity Index (PPI)** is a monthly review of Pakistan's macro-economy based on the analysis of four periodic data sets- industrial production, trade volume, price levels, and private sector lending. On a 12-month rolling basis, this issue of the report covers the period August 2020 to July 2021, with June 2019 as the base period.

## Variable Transformation

All four variables have been transformed by:

- Calculating their growth rates,
- Rescaling and,
- Converting into Indices (Since CPI and QIM are already an index, trade volume and LTFF have been converted into indices also by considering the value of June 2019 = 100 as a base month)

## Calculation of Prosperity Index

The Prosperity Index is calculated by using the geometric mean as employed by UNDP in calculating the Human Development Index. It is computed as follows:

$$\text{Prosperity Index} = \sqrt[4]{\frac{1}{CPI} * QIM * TVI * LTFF}$$

To view detailed methodology, please [click here](#).



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