PAKISTAN PROSPERITY INDEX

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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 September 2020 to August 2021, with June 2019 as the base period.

Author

Tuaha Adil
Email: tuaha@primeinstitute.org

Variables & Data Source

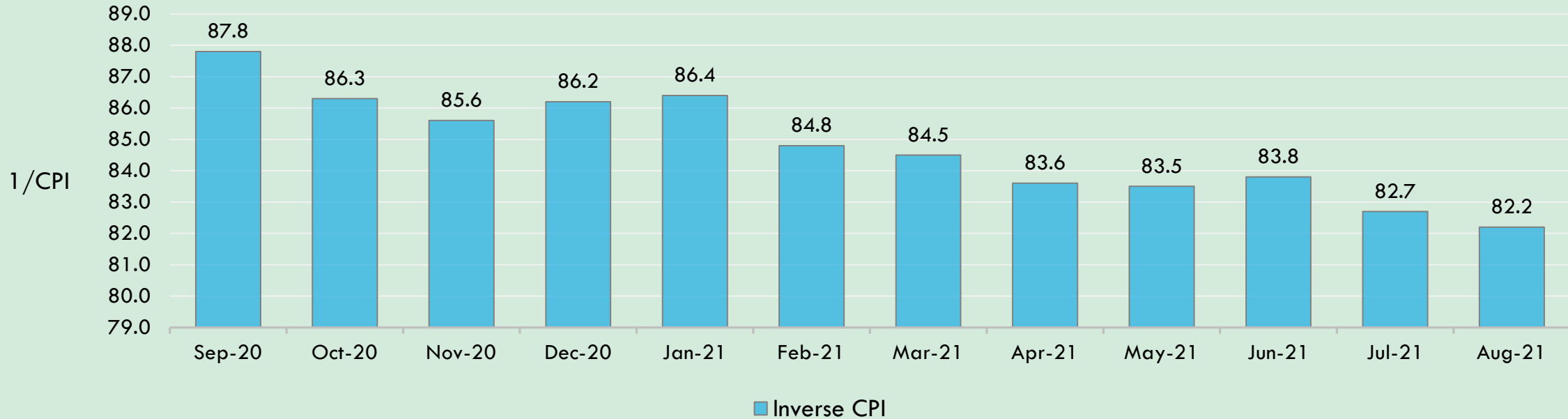| Variable	Source	Time period covered
1. Consumer Price Index (CPI)	State Bank of Pakistan	September 2020 – August 2021 *Base month: June 2019*
2. Long-term Financing Facility (LTFF)		
3. Quantum Index of Large-scale Manufacturing (QIM)	Pakistan Bureau of Statistics	
4. Trade Volume		

*Refer to end slide for methodology.

PAKISTAN PROSPERITY INDEX (PPI)

○ Pakistan Prosperity Index reached all time high of 138 in August 2021after a decline in July 2021.

○ This figure signals improvement in economic prosperity at the back of soaring manufacturing activity, private sector lending and country's trade due to decline in the disruptions caused by pandemic and return to normalcy.

Economy strengthens from higher business activity

Source: Author's calculations based on SBP and PBS datasets.
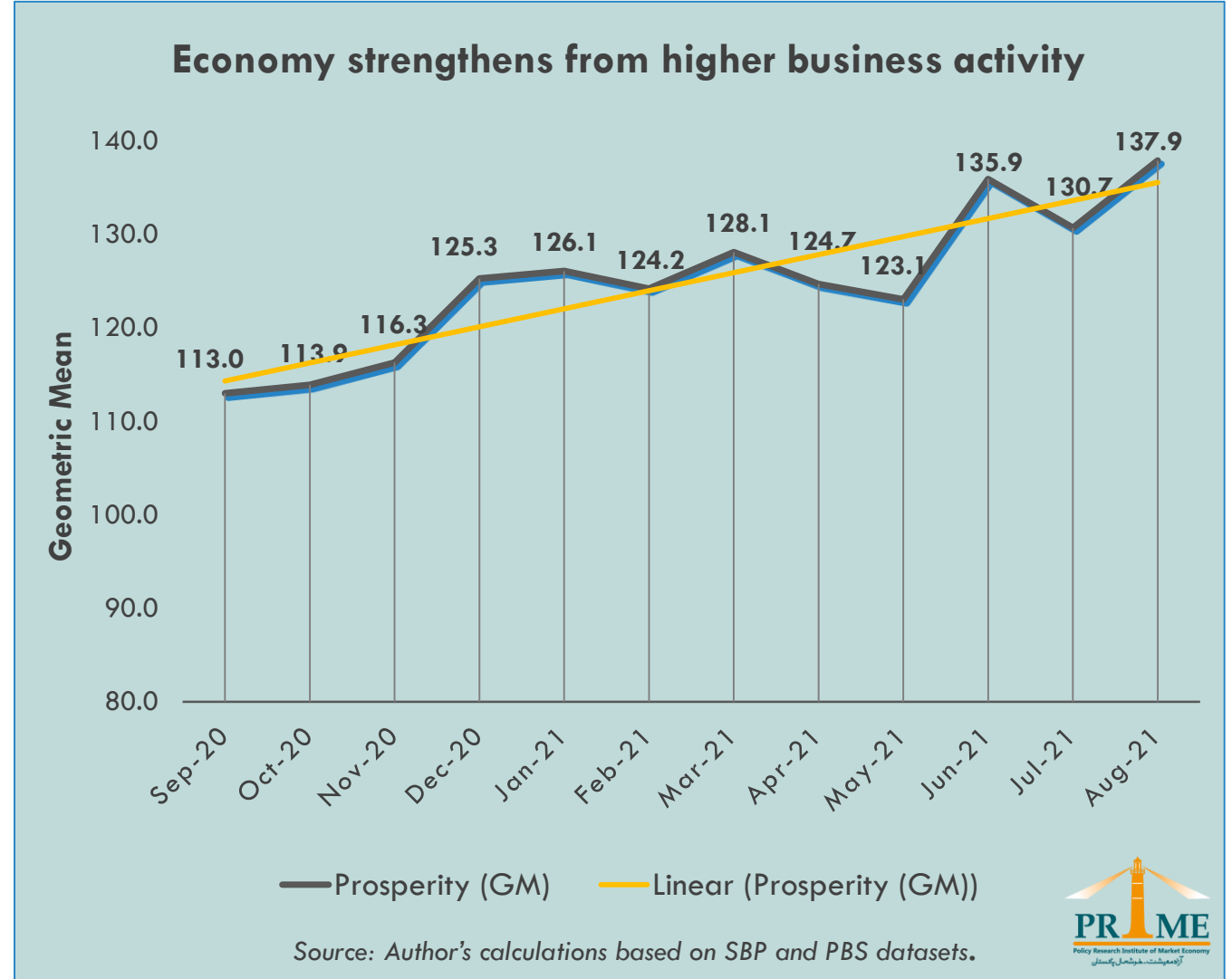
Purchasing power showed decline reaching lowest in the period
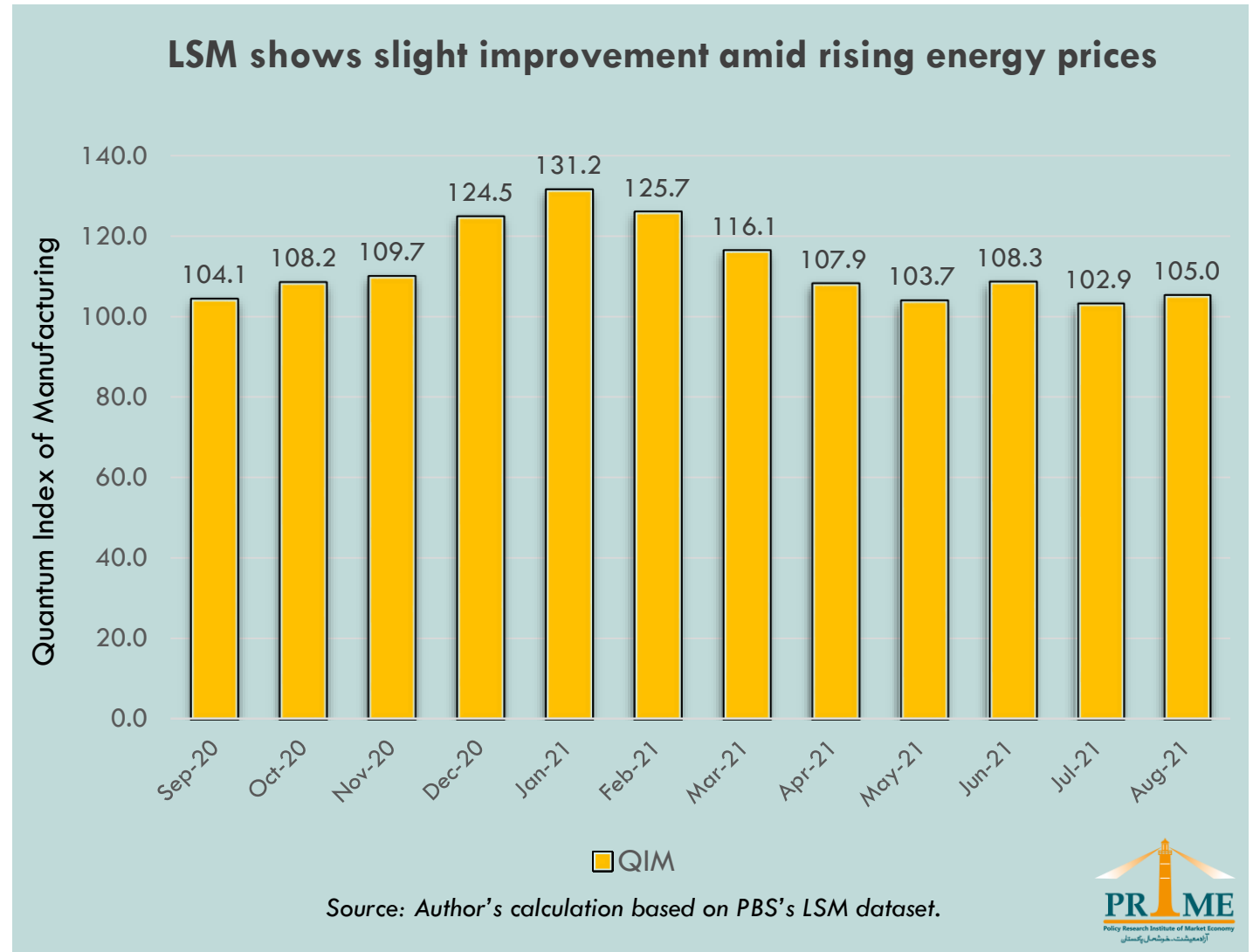
Source: Author's calculation based on SBP's inflation monitor.
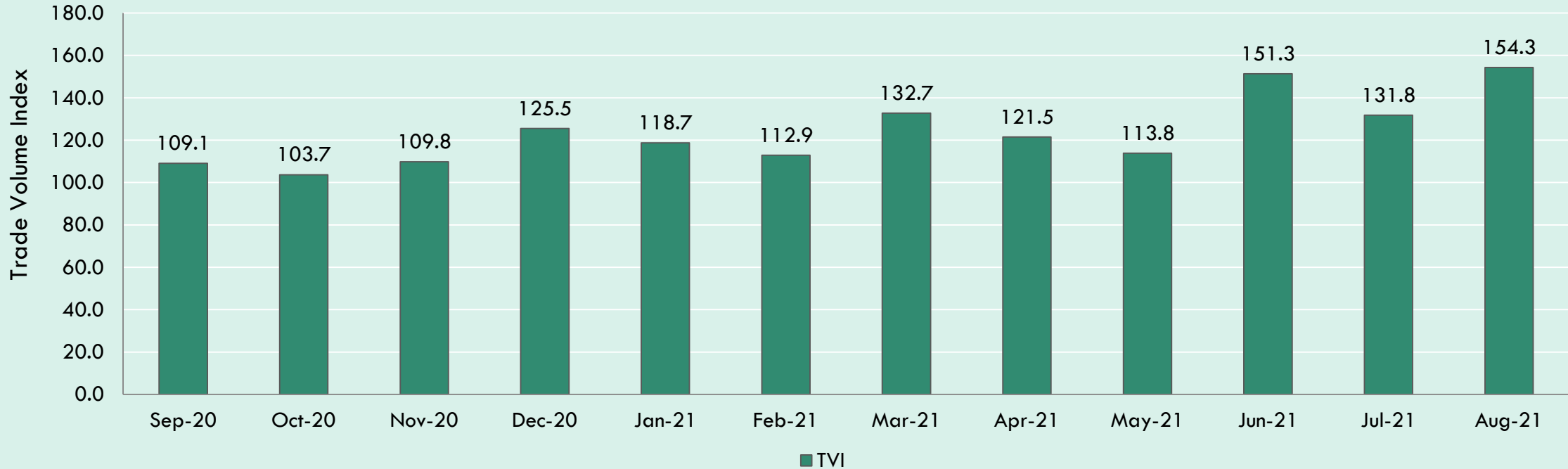
PURCHASING POWER INDEX (PPI)

- Y-o-Y inflation clocked at 8.4% in August 2021 while M-o-M inflation stood at 0.6%, 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 increased by 2.09% M-o-M in August 2021 while increased by 12.74% Y-o-Y.

○ LSM uptick resulted from significant growth in automobile, mineral products and food related industries while experienced slight increase in 9 industries and negative growth in 3 industries.

LSM shows slight improvement amid rising energy prices

Quantum Index of Manufacturing

Month	QIM
Sep-20	104.1
Oct-20	108.2
Nov-20	109.7
Dec-20	124.5
Jan-21	131.2
Feb-21	125.7
Mar-21	116.1
Apr-21	107.9
May-21	103.7
Jun-21	108.3
Jul-21	102.9
Aug-21	105.0

Source: Author's calculation based on PBS's LSM dataset.

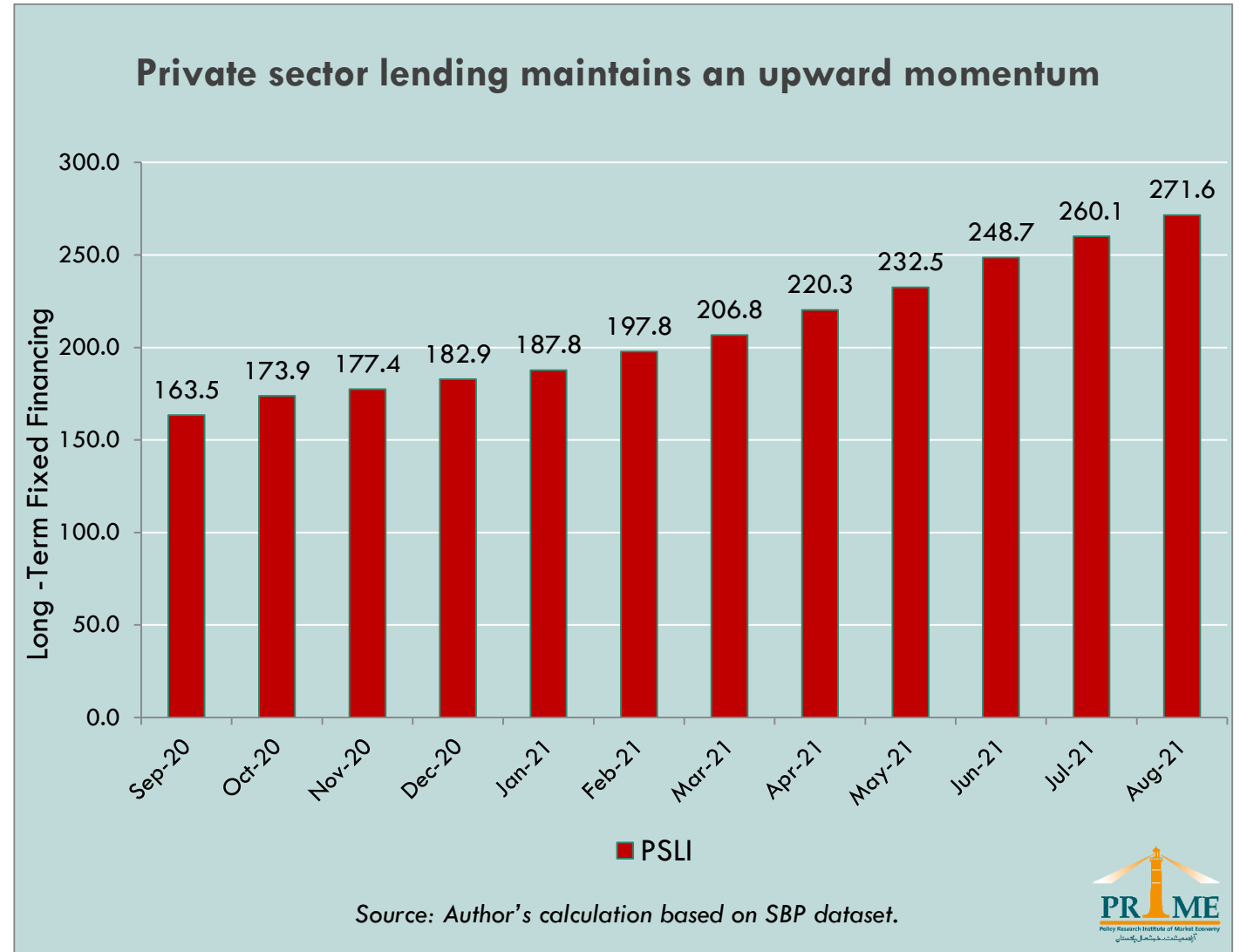**Trade volume reaches all time high despite volatility in international market**

Source: Author's calculation based on PBS dataset.

TRADE VOLUME INDEX (TVI)

○ Trade volume increased by 14% M-o-M measuring Rs.1.45 trillion in August 2021 from Rs.1.23 trillion in July 2021. Exports have declined while imports posted significant growth in August compared to July 2021.

PRIVATE SECTOR LENDING INDEX (PSLI)

o Private sector borrowing from banks has been on a upward trajectory owing to subsidized borrowing rate and PSLI stood at all time high of 272.

o Long-term financing facility stood at an all-time high of Rs.426.6 billion in August 2021.

Private sector lending maintains an upward momentum

Y-axis: Long -Term Fixed Financing

Month	PSLI
Sep-20	163.5
Oct-20	173.9
Nov-20	177.4
Dec-20	182.9
Jan-21	187.8
Feb-21	197.8
Mar-21	206.8
Apr-21	220.3
May-21	232.5
Jun-21	248.7
Jul-21	260.1
Aug-21	271.6

■ PSLI

Source: Author's calculation based on SBP dataset.

Economic prosperity as measured by Pakistan Prosperity Index improved in August 2021 on account of significant increase in trade volume and private sector borrowing; whereas, LSM posted a moderate growth. However, purchasing power has shown a decline and reached lowest in the period under review. The growing pressure on forex due to currency devaluation and high foreign currency demand, galloping current account imbalance from high trade deficit and rising global commodity prices, growing international petroleum prices and subsequent rise in domestic inflation are the challenges that may contribute to economic slowdown in the coming period.

Photo Courtesy: Pakpublishers.com

Methodology

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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:

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

To view detailed methodology, please click here.

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