**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 October 2020 to September 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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# Variables & Data Source

| Variable | Source | Time period covered |
|---|---|---|
| 1. Consumer Price Index (CPI) | State Bank of Pakistan | October 2020 – September 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 140 in September 2021after a decline in July 2021.

○ This figure signals improvement in economic prosperity at the back of higher access to credit for private sector and country's trade emanating from increase in the domestic demand after significant decline in pandemic disruptions and return to normalcy.

**Economy strengthens reaching highest in the period**
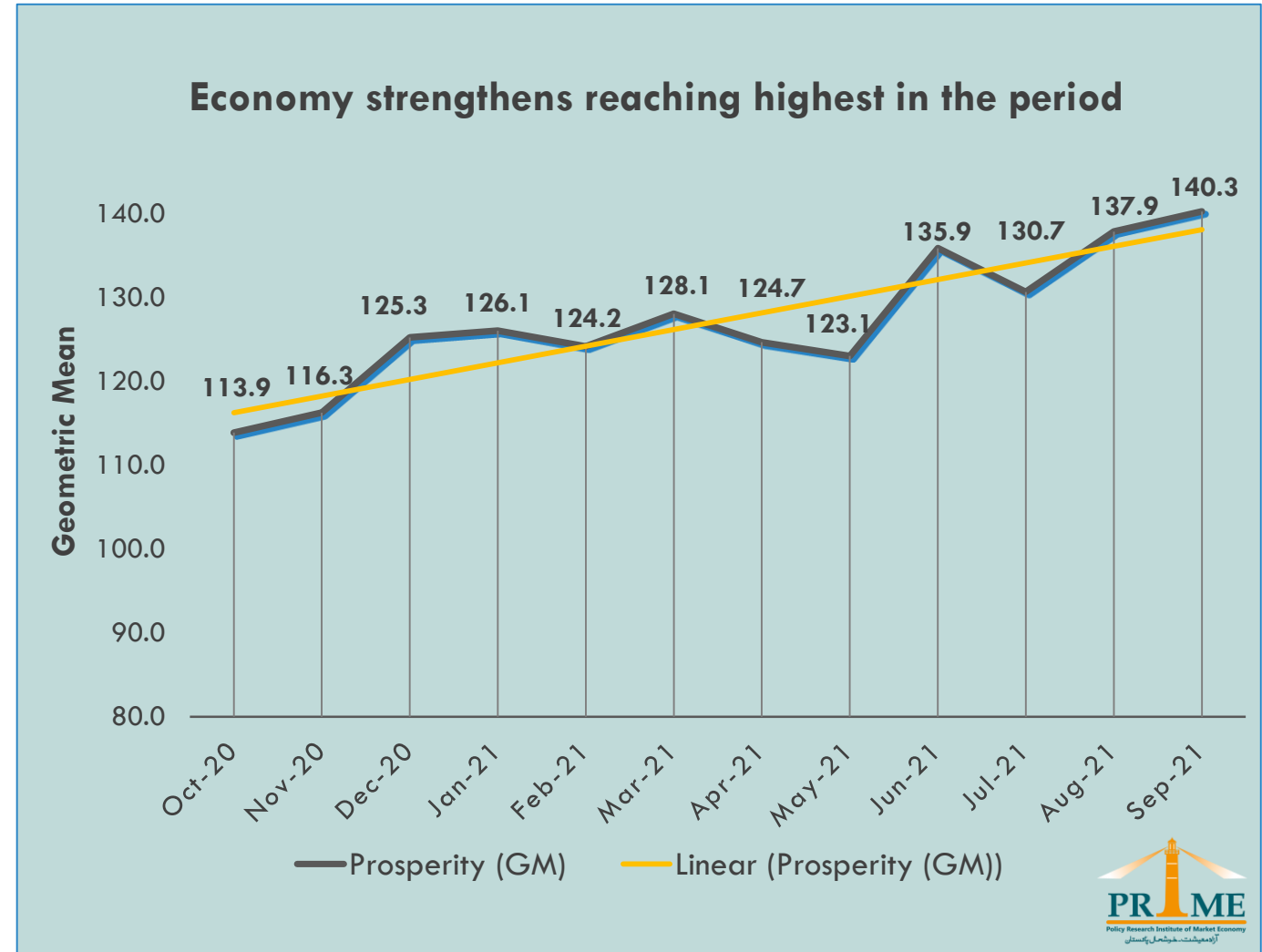


*Source: Author's calculations based on SBP and PBS datasets.*

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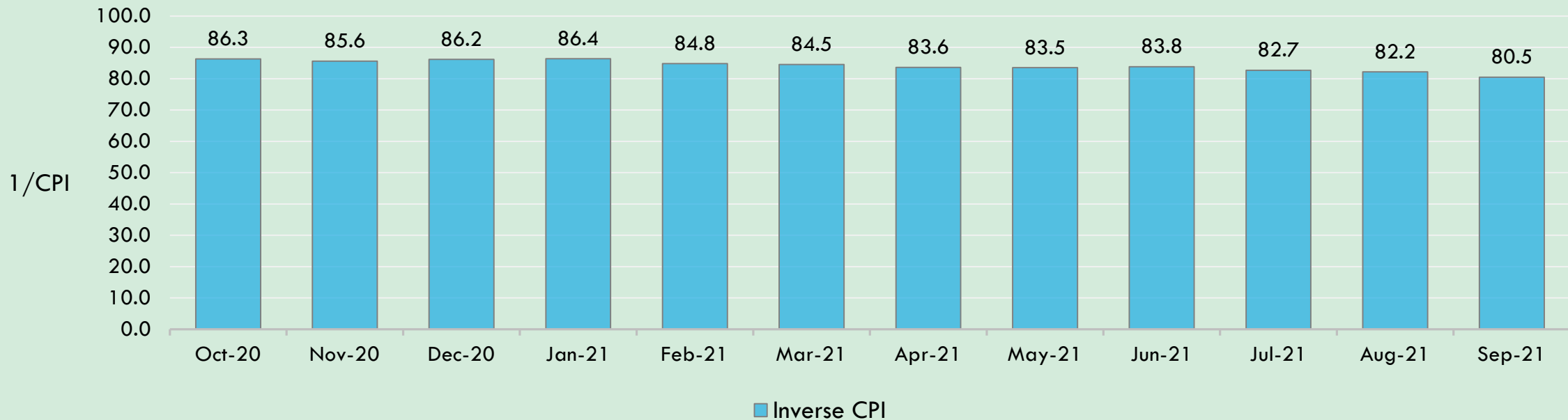
Source: Author's calculation based on SBP's inflation monitor.
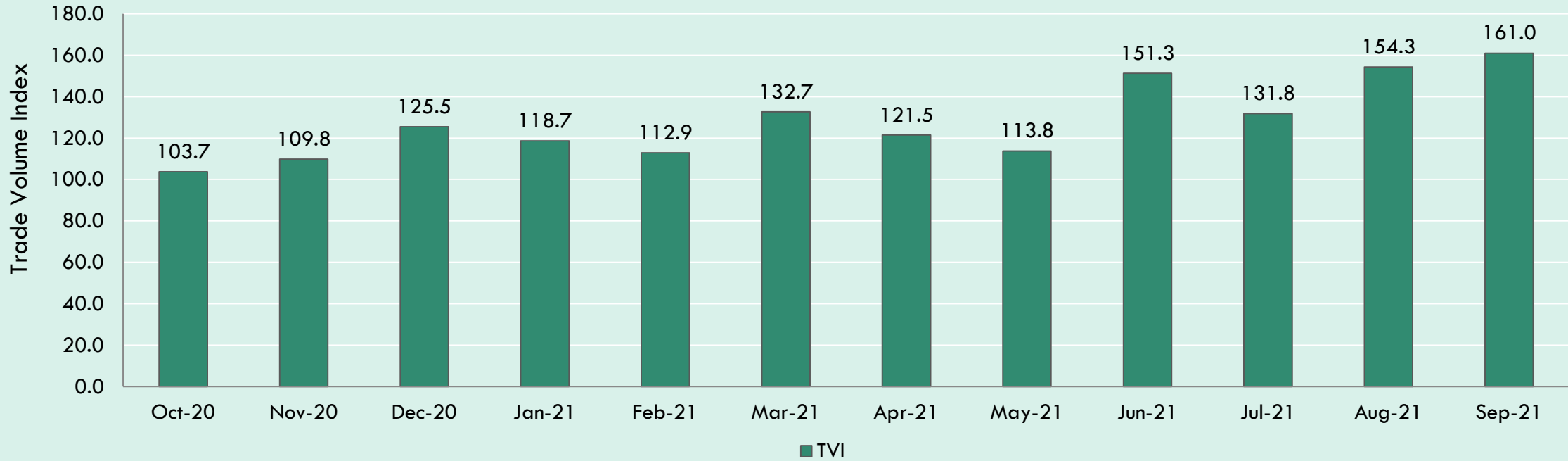
# PURCHASING POWER INDEX (PPI)

○ Y-o-Y inflation clocked at 9% in September 2021 while M-o-M inflation stood at 2.1%, representing a significant increase in prices and decline in purchasing power.

○ This inflationary pressure is due to significant supply-demand gap and rising energy prices prompted by soaring international petroleum prices.

# LARGE-SCALE MANUFACTURING INDEX (LSMI)

○ Output of large-scale manufacturing decreased by 0.72% M-o-M in September 2021 while showed an increase of 0.1% Y-o-Y.

○ LSM decline resulted from negative growth in textile and food related industries having share of 33 percent in QIM while experienced positive growth of 1.4 percent in automobile industry.



**LSM shows decline amid rising energy prices**

Source: Author's calculation based on PBS's LSM dataset.
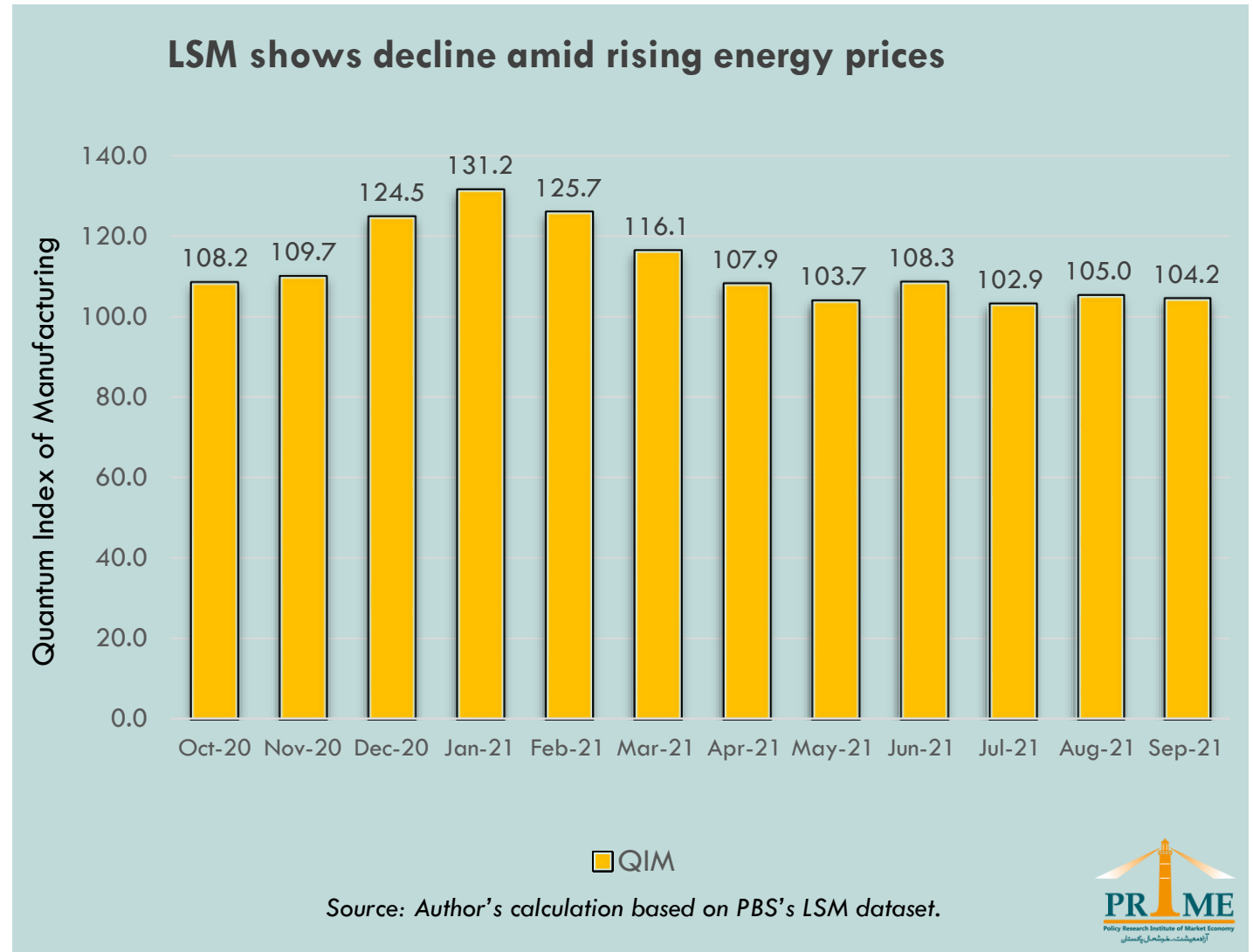
Trade volume reaches all time high despite rising international prices

Source: Author's calculation based on PBS dataset.

# TRADE VOLUME INDEX (TVI)

- Trade volume increased by 4.5% M-o-M measuring Rs.1.51 trillion in September 2021 from Rs.1.45 trillion in August 2021 thus making TVI reach all time high of 161.
- Exports experienced an increase of Rs. 36 billion while imports posted increase of Rs. 26 billion compared to August 2021.

# PRIVATE SECTOR LENDING INDEX (PSLI)

- Private sector borrowing from banks has been on a upward trajectory owing to moderate borrowing rate and PSLI stood at all time high of 287 in September 2021.

- Long-term financing facility stood at an all-time high of Rs.451 billion in September 2021 compared to Rs. 426 billion in August 2021.



**Private sector lending maintains an upward momentum**

Source: Author's calculation based on SBP dataset.
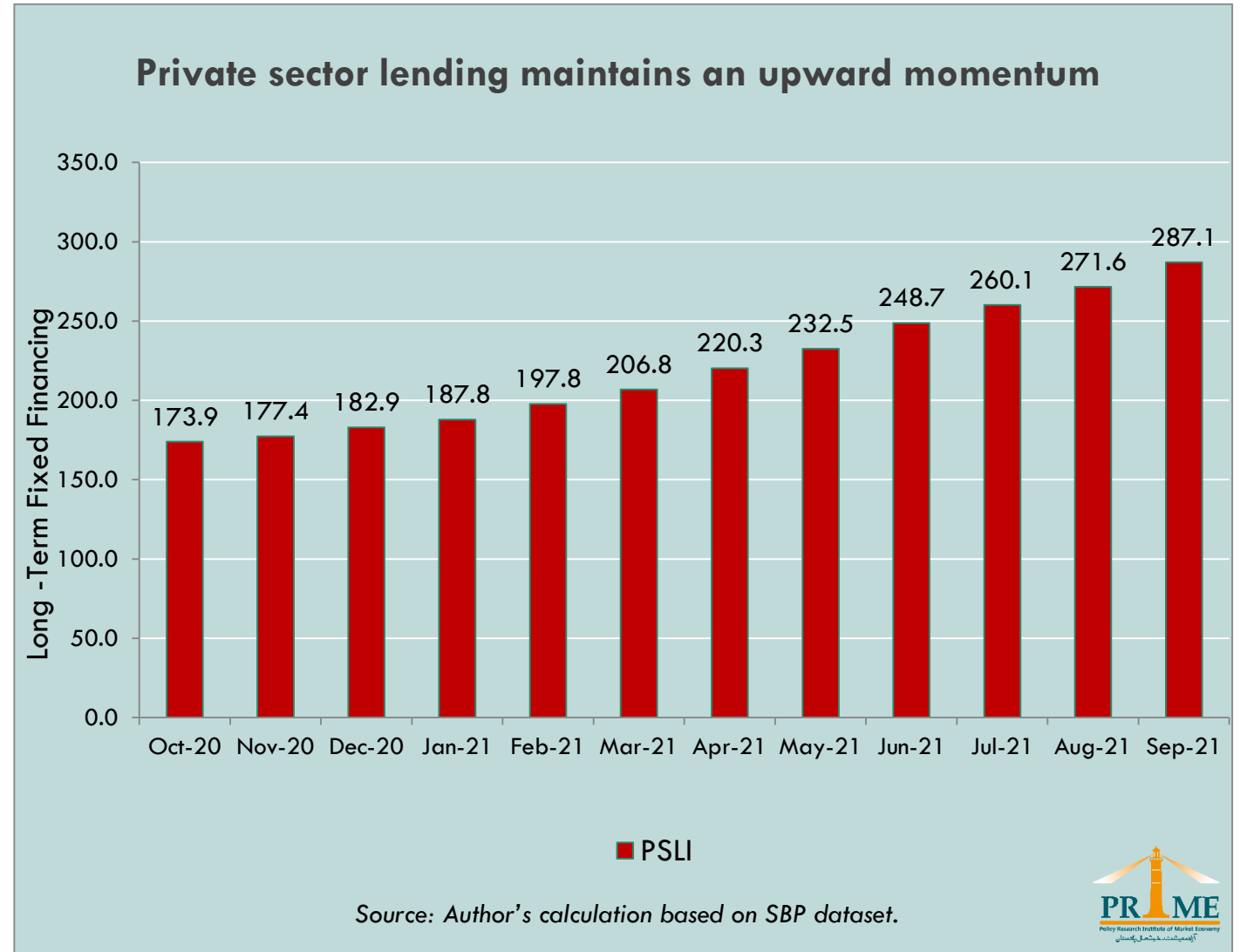
Economic prosperity as measured by Pakistan Prosperity Index improved in September 2021 on account of significant increase in trade volume and private sector borrowing. The LSM posted a decline and purchasing power reached lowest in the period under review. The fall in manufacturing sector output can be attributed to higher costs of inputs and rising energy prices in the country. Inflation remains unabated and posts serious threats to the economic prosperity. The supply side issues pertaining to lower productivity and excessive regulations should be addressed to enable innovation and efficiency to mitigate inflationary pressures. The currency devaluation and rising international petroleum prices may contribute to economic slowdown in 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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