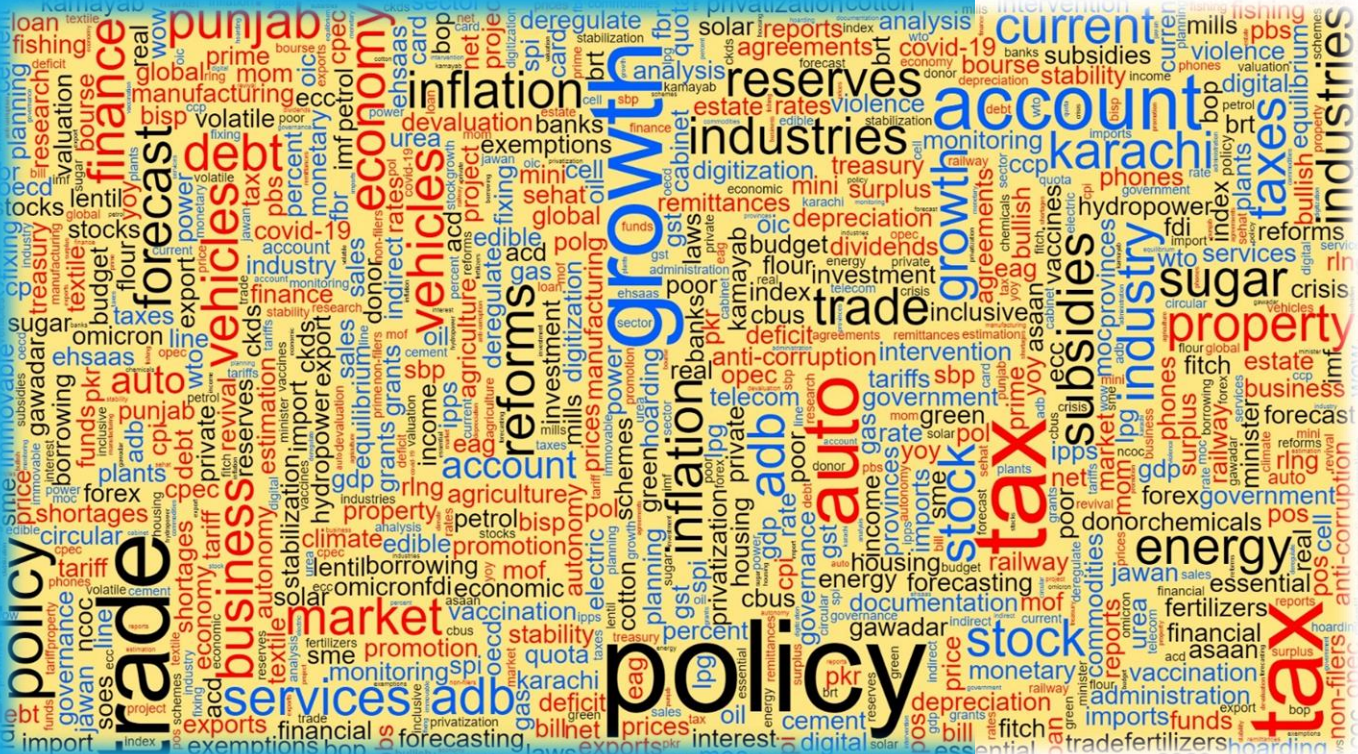


PAKISTAN PROSPERITY INDEX

December 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 November 2020 to October 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.

Author

Tuaha Adil

Email: tuaha@primeinstitute.org

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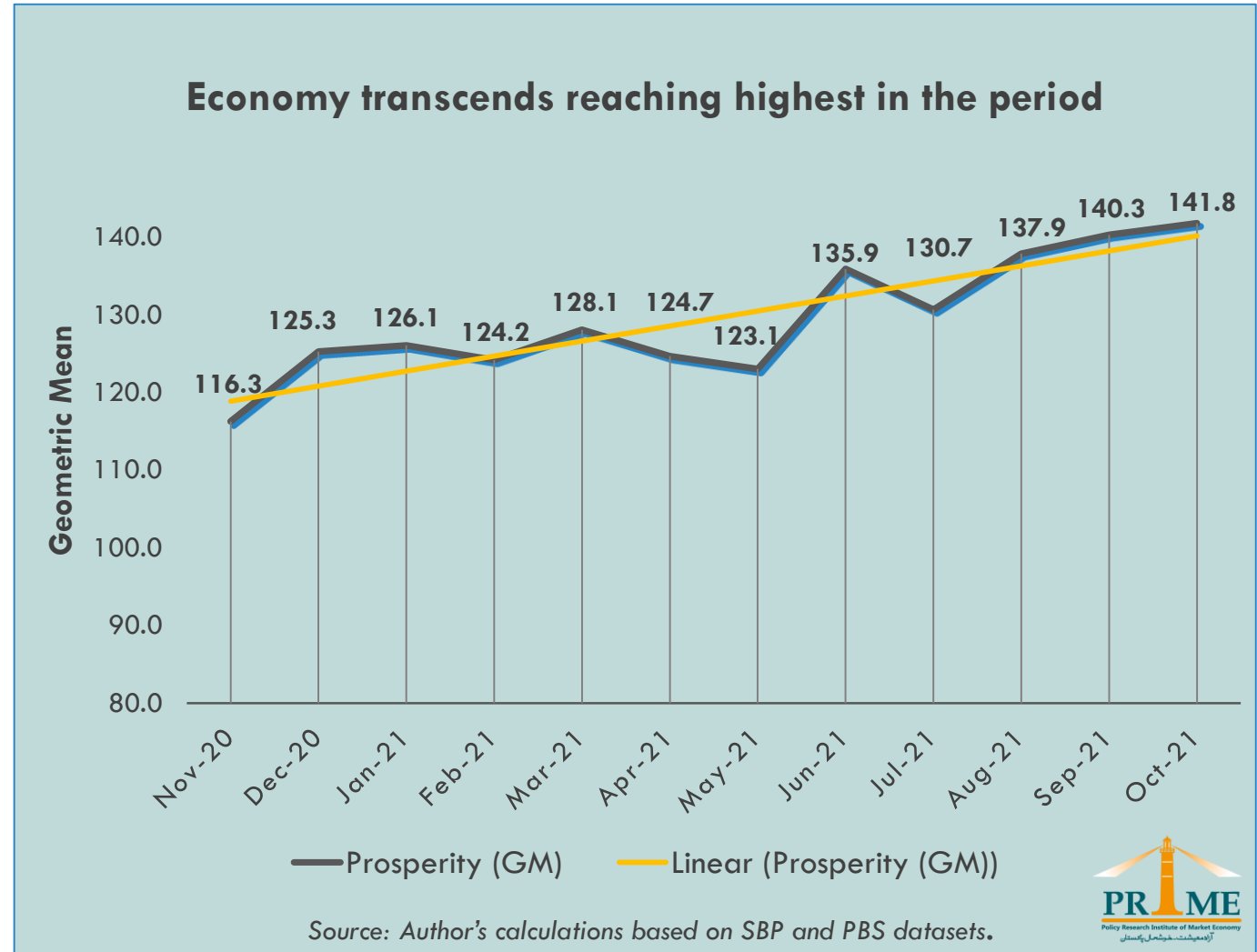
Variables & Data Source

Variable	Source	Time period covered
1. Consumer Price Index (CPI)	State Bank of Pakistan	November 2020 – October 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		

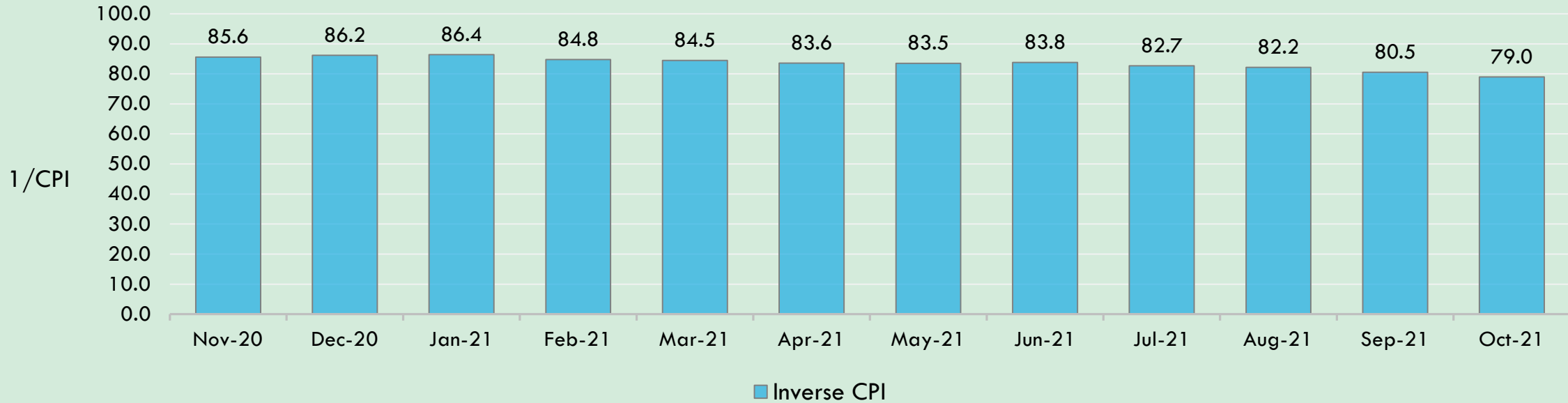
**Refer to end slide for methodology.*

PAKISTAN PROSPERITY INDEX (PPI)

- Pakistan Prosperity Index maintained upward trajectory and reached all time high of 142 in October 2021 after a decline in July 2021.
- This figure signals improvement in economic prosperity at the back of slight uptick in the output of manufacturing sector, higher access to credit for private sector and country's trade emanating from increase in the domestic demand.



Purchasing power continues on a downward trajectory reaching lowest in the



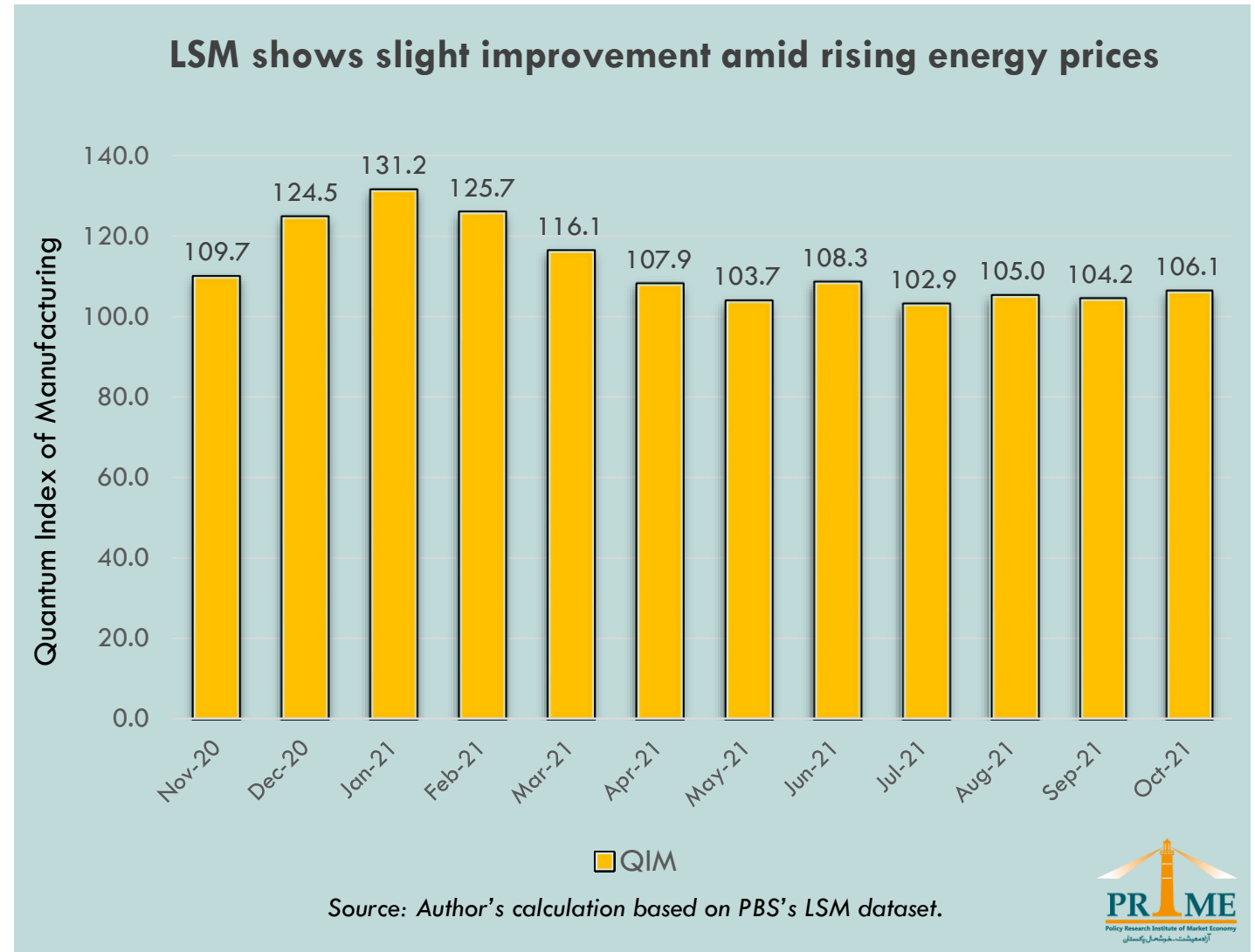
Source: Author's calculation based on SBP's inflation monitor.

PURCHASING POWER INDEX (PPI)

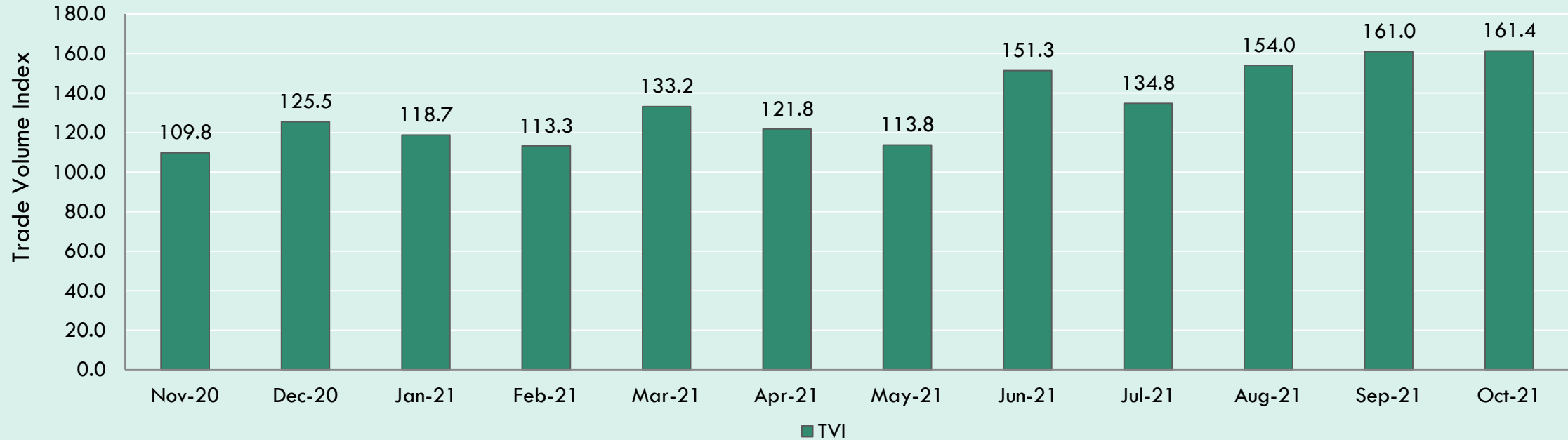
- Y-o-Y inflation clocked at 9.2% in October 2021 while M-o-M inflation stood at 1.9%, representing a significant increase in prices and purchasing power fell to lowest in the period.
- This inflationary pressure is due to significant supply-demand gap and rising energy prices prompted by soaring international petroleum prices.

LARGE-SCALE MANUFACTURING INDEX (LSMI)

- Output of large-scale manufacturing increased by 1.9% M-o-M in October 2021 while showed a decline of 1.2% Y-o-Y.
- LSM growth on monthly basis resulted from positive growth in 8 industries; the automobile industry maintains leading position with growth of 1.2% while textile and food industries having weightage of 21% and 12% showed growth of 0.1% and 0.4%.



Trade volume reaches all time high despite rising international prices



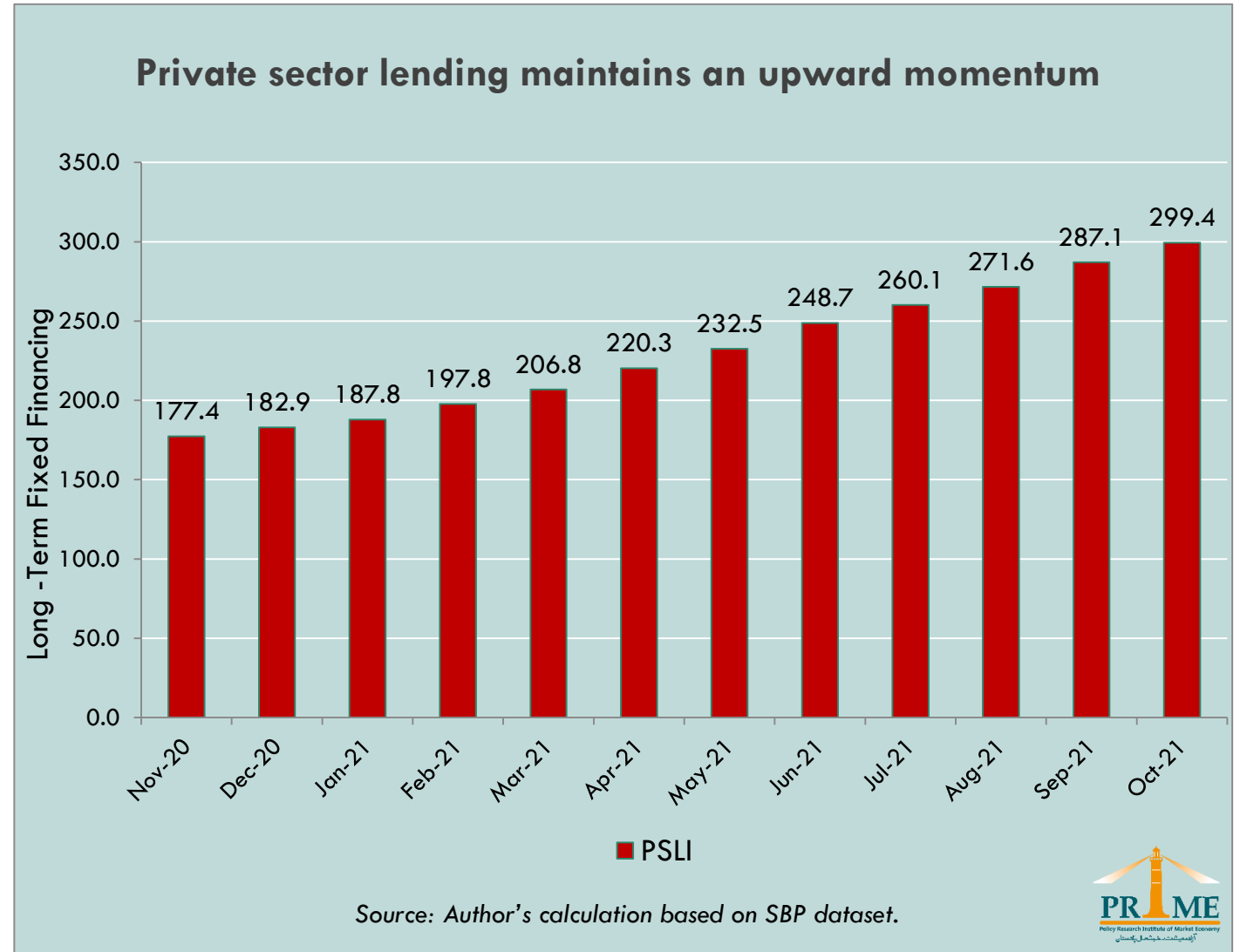
Source: Author's calculation based on PBS dataset.

TRADE VOLUME INDEX (TVI)

- Trade volume increased by 0.25% M-o-M measuring Rs.1.517 trillion in October 2021 from Rs.1.513 trillion in September 2021 thus making TVI reach all time high of 161.4.
- Exports experienced an increase of Rs.19 billion while imports declined by Rs.15 billion compared to September 2021.

PRIVATE SECTOR LENDING INDEX (PSLI)

- Private sector borrowing from banks maintained an upward trajectory despite slight hike of 25 basis points in policy rate and indication of further hike in coming months, PSLI stood at all time high of 299 in October 2021.
- Long-term financing facility stood at an all-time high of Rs.470 billion in October 2021 compared to Rs.451 billion in September 2021.





Economic prosperity as measured by Pakistan Prosperity Index improved in October 2021 on account of increase in private sector borrowing, trade volume and uptick in output of manufacturing sector. In contrast, the purchasing power continues to decline and reached lowest in the period under review. **Inflation remains unabated and posts serious threat 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 the inflationary pressures. The currency devaluation and rising international petroleum prices may contribute to economic slowdown if not moderated.**

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 November 2020 to October 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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