

PAKISTAN PROSPERITY REPORT

APRIL 2020

Lockdown
Wheat Crisis
COVID-19
Sugar Crisis
FDI declines
Inflation
Remittances
Currency Appreciation

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. PRIME was established in Islamabad in 2013, and since then, it has published on a wide range of issues including trade, tax policy, business regulations, housing, public debt and energy crisis.

Pakistan Prosperity Report (PPR) 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. The concept behind this report is intuitive- higher level of industrial output, increases in trade volumes, more lending to the private sector and an improvement in purchasing power of individuals are indicators of a strong economy, signaling prosperity of both firms and households.

Credits

The idea of PPR was developed by Ali Salman, Founder of PRIME. Special thanks to Dr. Ali Kemal for technical support in developing the indices and Mr. Sohaib Jamali for his valuable feedback on the methodology. The title page is based on a word cloud generated from the news published in the Business Recorder during 1st and 27th April 2020.

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Pakistan Prosperity Report

Pakistan Prosperity Report (PPR) 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. The concept behind this report is intuitive- higher level of industrial output, increases in trade volumes, more lending to the private sector and an improvement in purchasing power of individuals are indicators of a strong economy, signaling prosperity of both firms and households.

Indicators of prosperity improved, face headwinds in the short term. Trade volume, purchasing power and private sector investment improved while output of large-scale manufacturing dipped.

The analysis in Pakistan Prosperity Report (April 2020) is based on the data for January and February 2020. For a long- term view, data for the period of June 2019-February 2020 is separately covered.

The report first provides a general overview of macro-economy and then provides a snapshot of its second month-to-month growth in the prosperity.¹ The report finds that over the second half of the FY 2019, Pakistan witnessed an overall improvement in the prosperity based on an increase in trade volume, purchasing power and investment in the private sector, though decreasing output of large-scale manufacturing resulted in headwinds. For the second month-to-month comparison, between January and February 2020, the report finds that Pakistan continued to exhibit improvement in prosperity indicators.

It is expected that amid the coronavirus pandemic, Pakistan's trade volume will shrink as a result of the slowdown in global demand. The production of large-scale manufacturing industries is likely to contract due to partial lockdown which will adversely affect the trade volume. Meanwhile, inflation might increase due to decrease in domestic production and shortage of essential commodities. On the other hand, commercial banks' lending to private sector for long-term fixed investment might further increase with the hopes to stimulate construction and export-oriented sectors. With the recent amnesty scheme announced for the construction sector which is awarded the status of an industry now, it is expected that the banking credit will flow more into this sector at the expense of other sectors. Although the incentive package is provided to save people from hunger and poverty in the wake of the coronavirus outbreak, it is more than likely to benefit the well-established builders and developers than the daily-wage workers. These incentives are expected to increase the demand and subsequently, the price of land. Moreover, at a time when demand across other industries particularly manufacturing is depressed, there will be a lot of productive businesses which would find it more lucrative to invest in construction than other sectors.

All in all, low purchasing power, fear of losing jobs and low returns on investments upholds the bearish sentiments among the stakeholders of the economy in the coming months.

¹ Since this month-to-month differences are captured for two consecutive months, therefore this index does not capture seasonality.

Economic Outlook: June 2019-February 2020

Figure 1: Trade volume witnessed sharp decline but then picked up pace towards the end

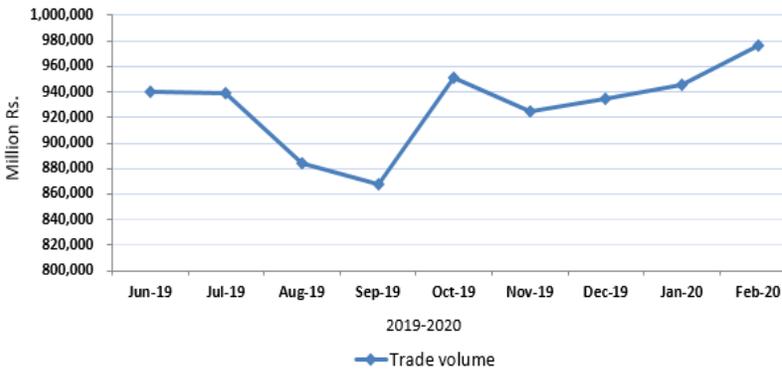


Figure 2: Inflation continued to rise but fell towards the end

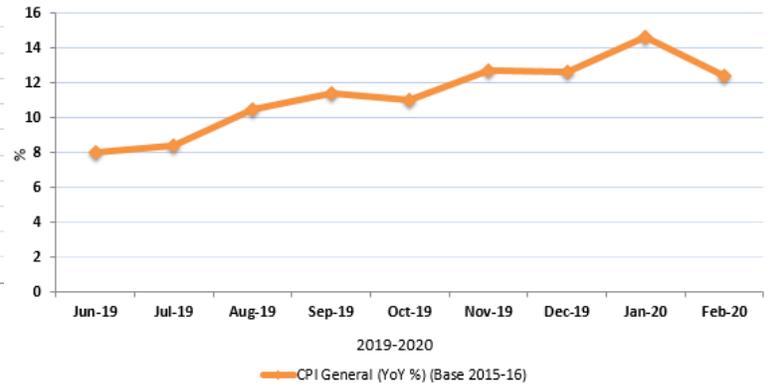


Figure 3: Large-scale manufacturing remained stable but slightly fell towards the end

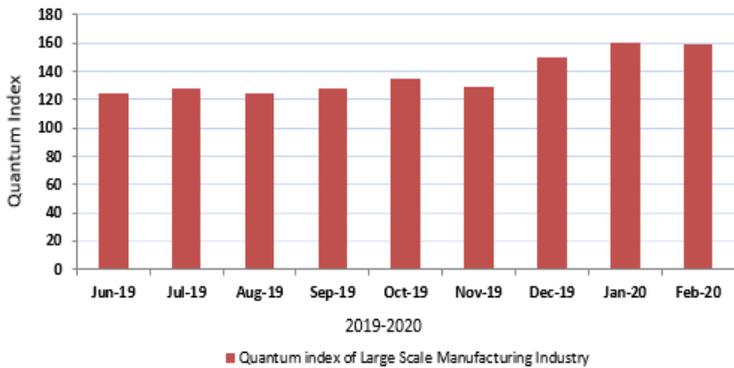
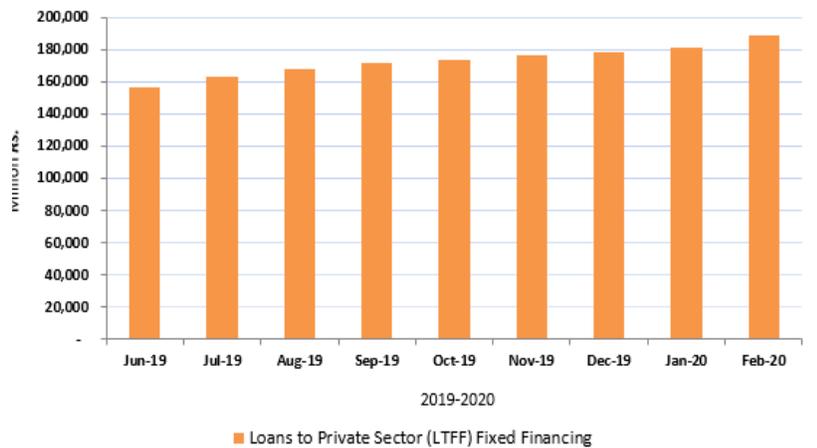


Figure 4: Fixed private sector investment experienced steady increase



Source: Pakistan Bureau of Statistics (Figure 1 and 3) and State Bank of Pakistan (Figure 2 and 4).

Prosperity Index

PPR estimates its own Prosperity Index based on these indices: 1/CPI denotes inverse of Consumer Price Index (CPI), QIM represents Quantum Index of Large- Scale Manufacturing Industries (QIM), TVI represents Trade Volume Index and LTFF represents Growth in Commercial Loans for Long-Term Financing Facility. Please refer to Annexure-A for details on methodology and calculations.

Monthly prosperity index has been calculated for June 2019 to February 2020. The results reveal an overall increase in prosperity between June 2019 and February 2020.



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

For February 2020, the month-on-month inflation rate and quantum index of LSMI decreased by 1% and 0.91% respectively. In contrast, the trade volume index and LTFF increased by 3.20% and 3.63%.

The prosperity index estimated by using the February 2020 data on four indicators is 105.5. In order to determine if economic prosperity has increased or decreased, a base period is required. For the purpose, prosperity index of January 2020 has been used as a baseline (as calculated in our previous report of March 2020) which is 104.5.

The analysis reveals economy's prosperity has increased by 0.96% in February 2020 relative to January 2020. This increase in economic prosperity is largely attributable to a rise in purchasing power, a surge in long-term financing facility and an increase in trade volume between the two months (see Figures 5, 6 and 8 on next page). However, the output of large-scale manufacturing industries slightly declined between January and February 2020.

Pakistan Prosperity Report (April 2020)

Figure 5: Trade volume index took two major dips before improving towards the end

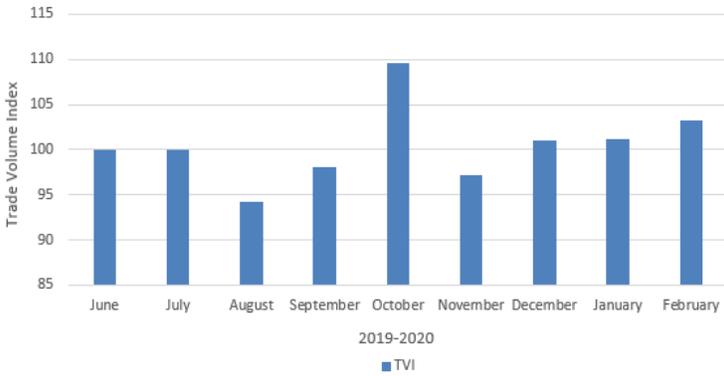


Figure 6: Purchasing power continued to deteriorate but improved towards the end

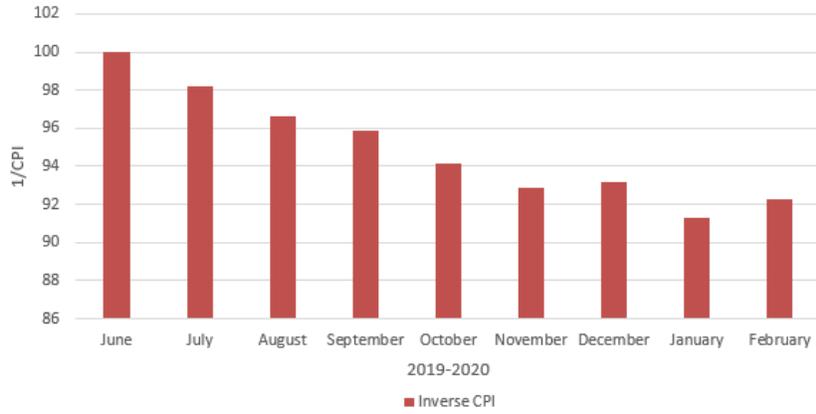
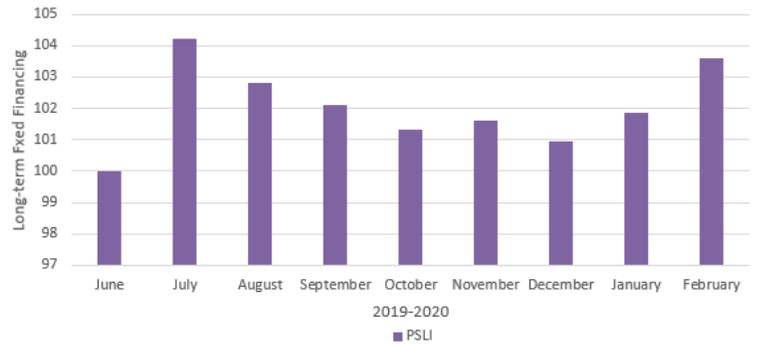


Figure 7: Output of large-scale manufacturing increased gradually but slightly fell towards the end



Figure 8: Private sector lending index witnessed sharp decline before improving towards the end



Source: Pakistan Bureau of Statistics (Figure 5 and 7) and State Bank of Pakistan (Figure 6 and 8).

Annexure-A

PPR Methodology and Indices Calculations

Pakistan Prosperity Report (PPR) 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. The concept behind this report is intuitive- higher level of industrial output, increases in trade volumes, more lending to the private sector and an improvement in purchasing power of individuals are indicators of a strong economy, signaling prosperity of both firms and households.

Variables-Prosperity Nexus

It is pertinent to mention that we consider increase in trade volume more important than a change in trade balance. Increase in trade volume contributes to prosperity by enhancing the production and variety of goods available for consumption and industrial activities thereby increasing the income and employment opportunities. On the other hand, higher rates of inflation reduce prosperity by eroding purchasing power and incomes of individuals. Increase in industrial output enhances prosperity by increasing employment prospects and income. In contrast, provision of finance for long-term investment increases prosperity by boosting industrial capacity resulting in an increased output, employment and income opportunities.

Variable Transformation

The Pakistan Prosperity Report utilizes data from Pakistan Bureau of Statistics (PBS) and State Bank of Pakistan (SBP) on monthly basis. The analysis is contingent upon the growth rates of four macroeconomic indicators of prosperity i.e. Trade Volume, Consumer Price Index (CPI), Quantum Index of Large-Scale Manufacturing Industries (QIM) & Long-Term Financing Facility (LTFF).

Finding Growth

Data for Month-on-Month growth of Consumer Price Index (CPI) and Loans to Private Sector (LTFF) is extracted from SBP, while the data for Trade volume and Quantum Index of Large-scale Manufacturing is retrieved from PBS. The growth of Trade Volume and Long-Term Financing Facility (LTFF) is calculated by applying the conventional growth formula i.e.

$$\text{Trade Volume/ LTFF Growth} = \frac{\text{Current} - \text{Previous}}{\text{Previous}} * 100$$

Months	Inflation	LSMI	Trade		Loans to Private Sector (LTFF) Fixed Investment	
	CPI National MoM (%)	QIM (MoM Growth) (%)	Trade Volume	Trade Volume MoM Growth (%)	Amount (Million Rupees)	LTFF MOM Growth (%)
Jul 2019	1.8	2.11	939,213	-0.09	163,700	4.2
Aug 2019	1.6	-2.37	884,289	-5.85	168,313	2.82
Sept 2019	0.8	1.92	867,387	-1.91	171,885	2.12
Oct 2019	1.8	4.01	950,980	9.64	174,138	1.31
Nov 2019	1.3	-3.78	924,643	-2.77	176,969	1.63
Dec 2019	-0.3	16.4	934,160	1.03	178,667	0.96
Jan 2020	2	7.09	945,558	1.22	181,996	1.86
Feb 2020	-1	-0.91	975,836	3.20	188,596	3.63

Rescaling

As the report is based on secondary data, it is obvious that growth rate for each of the variable is measured on different scales. Moreover, if a month shows zero growth, it will invalidate the whole formula of prosperity index, which is based on Geometric Mean.

Since the Trade Volume and Long-Term fixed Financing were not available in the form of index, the variables are first converted into indices, and then all the four variables were rescaled to measure their impact on economic prosperity in same units. To avoid this discrepancy, the variables are rescaled and converted into indices, by considering the value of June = 100 as a base month.

Creating Indices

Month	Purchasing Power	LSMI Statistics	Trade Statistics	Fixed Investment
	Inverse CPI	LSMI Index	Trade Volume Index	LTFF Index
Jun 2019	100	100	100	100
Jul 2019	98.20	102.11	99.90	104.20
Aug 2019	96.62	99.68	94.15	102.81
Sep 2019	95.85	101.60	98.08	102.12
Oct 2019	94.13	105.67	109.63	101.31
Nov 2019	92.90	101.68	97.23	101.62
Dec 2019	93.18	118.35	101.02	100.95
Jan 2020	91.32	126.75	101.22	101.86
Feb 2020	92.23	125.59	103.20	103.63

Calculations for 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:

$$\text{Prosperity Index} = \sqrt[4]{a * b * c * d} \quad (1)$$

Where; “a” denotes Consumer Price Index (CPI), “b” represents Quantum Index of Large Scale Manufacturing Industries (QIM), “c” represents Trade Volume Index (TVI) and “d” represents the Index of Bank’s lending to Private sector i.e. Long-Term Financing Facility (LTFF Index).

Since the relationship between inflation and purchasing power is negative, inverse of CPI ($\frac{1}{CPI}$) is taken to depict that higher rate of inflation lowers purchasing power and hence prosperity. Trade volume is the sum of imports and exports, while LTFF offers business borrowings for long term projects particularly in Large Scale Manufacturing Industry (LSMI).

$$\text{Prosperity Index} = \sqrt[4]{\frac{1}{CPI} * QIM * TVI * LTFF} \quad (2)$$

Month	Inverse CPI	QIM	TVI	PSLI	Prosperity Index (Geometric Mean)
Jun 2019	100	100	100	100	100
Jul 2019	98.20	102.11	99.90	104.20	101.08
Aug 2019	96.62	99.69	94.15	102.81	98.27
Sep 2019	95.85	101.60	98.08	102.12	99.38
Oct 2019	94.13	105.67	109.63	101.31	102.53
Nov 2019	92.90	101.68	97.23	101.62	98.29
Dec 2019	93.18	118.36	101.02	100.95	102.99
Jan 2020	91.32	126.75	101.22	101.86	104.52
Feb 2020	92.23	125.59	103.20	103.63	105.50



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