PAKISTAN PROSPERITY INDEX

May 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 April 2020 to March 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 March 2021.

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## Variables & Data Source

<table>
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<tr>
<th>Variable</th>
<th>Source</th>
<th>Time period covered</th>
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<tr>
<td>1. Consumer Price Index (CPI)</td>
<td>State Bank of Pakistan</td>
<td>April 2020 – March 2021</td>
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<td>2. Long-term Financing Facility (LTFF)</td>
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<td>3. Quantum Index of Large-scale Manufacturing (QIM)</td>
<td>Pakistan Bureau of Statistics</td>
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<td>4. Trade Volume</td>
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*Refer to end slide for methodology.*
PAKISTAN PROSPERITY INDEX (PPI)

- After dipping in February 2021, Pakistan Prosperity Index increases in March 2021 reaching an all-time high of 128.1.
- This figure is indicative of increased economic prosperity largely driven by improved business confidence amid the 3rd peak of Covid-19.

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

Economic recovery picks up amid 3rd Covid-19 wave
Y-o-Y inflation edged up in March 2021 to 9.1% while M-o-M inflation clocked at 0.4% resulting in reduced purchasing power.

This inflationary pressure has been on account of increase in prices of basic food items & energy.
LARGE-SCALE MANUFACTURING INDEX (LSMI)

- Output of large-scale manufacturing decreased by 7.66% M-o-M in March 2021.
- The industry posted negative growth on the back of supply-side disruptions caused by the pandemic.

Source: Author’s calculation based on PBS’s LSM dataset.
After two months of successive decline, trade volume increases in March 2021 reaching an all-time high of Rs. 1.25 trillion.

This rebound is backed by opening up of international markets and business-friendly measures introduced by the government.

**Trade Volume Index (TVI)**

Source: Author’s calculation based on PBS dataset.
PRIVATE SECTOR LENDING INDEX (PSLI)

- Over the period of 12 months, private sector borrowing for fixed investment from banks has been on the rise owing to a subsidized borrowing rate.
- Long-term financing facility stood at an all-time high of Rs. 324.9 billion in March 2021.

Source: Author’s calculation based on SBP dataset.
Despite the decrease in purchasing power and fall in the output of large-scale manufacturing, Pakistan Prosperity Index registered an increase in March 2021 at the back of improvements in trade volume and private sector lending. The increased economic prosperity as measured by PPI supports the provisional GDP growth estimate of 3.94 percent for the 2020-21 financial year.

Photo Courtesy: blog.siasat.pk
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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:

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

To view detailed methodology, please click here.
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