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 March 2020 to February 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 February 2021.

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# Variables & Data Source

<table>
<thead>
<tr>
<th>Variable</th>
<th>Source</th>
<th>Time period covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Long-term Financing Facility (LTFF)</td>
<td>State Bank of Pakistan</td>
<td>Base month: June 2019</td>
</tr>
<tr>
<td>3. Quantum Index of Large-scale Manufacturing (QIM)</td>
<td>Pakistan Bureau of Statistics</td>
<td></td>
</tr>
<tr>
<td>4. Trade Volume</td>
<td>Pakistan Bureau of Statistics</td>
<td></td>
</tr>
</tbody>
</table>

*Refer to end slide for methodology.*
After a 5-month high, Pakistan Prosperity Index took a dip in February 2021 standing at 124.2.

This figure signals a decrease in economic prosperity largely driven by reduced business confidence amid the 3rd peak of Covid-19.

Source: Author’s calculations based on SBP and PBS datasets.
After increasing for two consecutive months, purchasing power witnesses a decline.

- Y-o-Y inflation increased in February 2021 hovering at 8.7%.
- This inflationary pressure has been on account of increase in prices of basic food items and electricity tariffs.

**PURCHASING POWER INDEX (PPI)**

Source: Author’s calculation based on SBP’s inflation monitor.
LARGE-SCALE MANUFACTURING INDEX (LSMI)

- Output of large-scale manufacturing decreased by 4.15% M-o-M in February 2021.
- The industry posted negative growth owing to rising cost of production and imposition of micro smart lockdown amid third wave of the pandemic.

Source: Author’s calculation based on PBS’s LSM dataset.
Trade volume falls for the second month in a row measuring at Rs. 1.06 trillion in February 2021.

Muted global demand has a ripple effect on trade volume

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

- Private sector borrowing 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. 310.7 billion in February 2021.

Source: Author’s calculation based on SBP dataset.
Despite the increase in private sector borrowing, economic prosperity as measured by Pakistan Prosperity Index fell in February 2021 on account of a fall in trade volume, LSM’s output and purchasing power. These indicators have worsened due to reduced business confidence and rising inflationary pressures amid the third wave of pandemic.

Photo Courtesy: Pakistan & Gulf Economist
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 March 2020 to February 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:

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

To view detailed methodology, please click here.
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