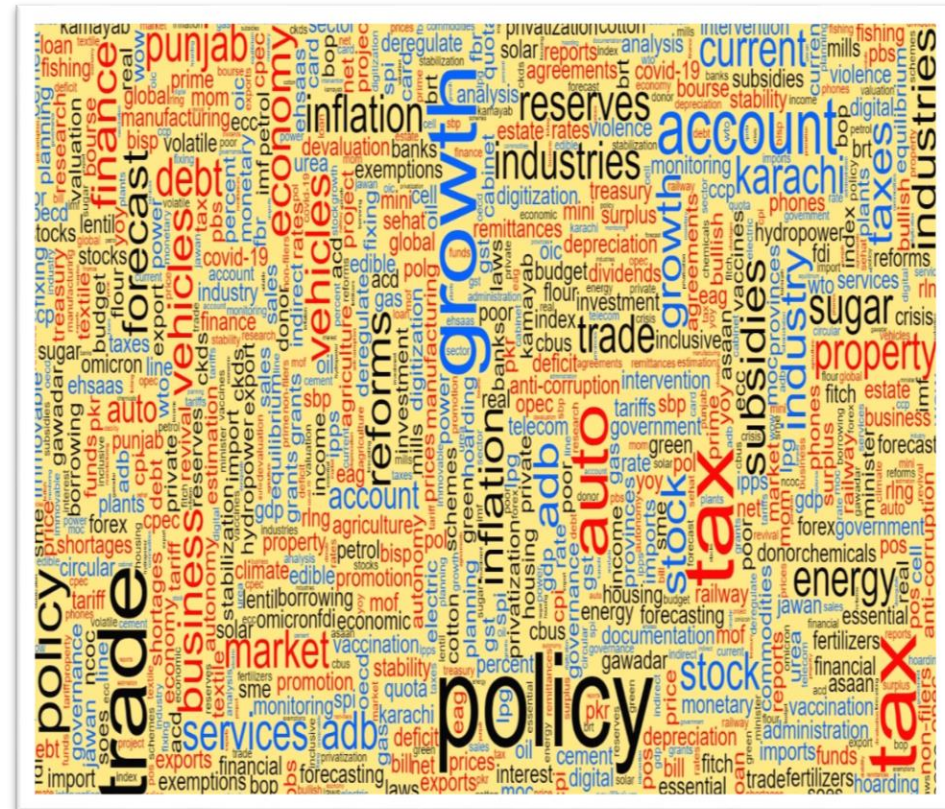


PAKISTAN PROSPERITY INDEX

January 2022



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 six periodic data sets- industrial production, trade openness, price levels, private sector borrowing, exchange rate, and foreign investment. On a 12-month rolling basis, this issue of the report covers the period December 2020 to November 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 November 2021.

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Variables & Data Sources

Variable	Index	Source	Time period covered
1. Consumer Price Index (CPI)	Purchasing Power Index (PPI)	Pakistan Bureau of Statistics	December 2020 – November 2021 <i>Base month: June 2019</i>
2. Quantum Index of Large-scale Manufacturing (QIM)	Large Scale Manufacturing Index (LSMI)		
3. Trade volume	Trade Openness Index (TOI)		
4. Exchange rate	Sound Money Index (SMI)	State Bank of Pakistan	
5. Foreign Direct Investment	Foreign Investment Index(FII)		
6. Long-term Financing Facility (LTFF)	Private Sector Lending Index (PSLI)		

Methodology

Pakistan Prosperity Index (PPI) is a monthly review of Pakistan's macro-economy based on the analysis of six periodic data sets- industrial production, trade openness, price levels, private sector borrowing, exchange rate, and foreign investment. On a 12-month rolling basis, this issue of the report covers the period December 2020 to November 2021, with June 2019 as the base period.

Variable Transformation

All six variables have been transformed by:

- **Calculating their growth rates**
 - CPI and QIM are already available in growth forms.
 - Trade openness is found by dividing total trade volume by GDP of 2019 to get the Trade to GDP Ratio, then growth rate is found.
 - For sound money Index, monthly average exchange rate values of dollar are used to find the growth rate.
 - Foreign direct investment and borrowing of private sector values are converted in to growth rates.
- **Rescaling**
 - Values in growth form are rearranged to be converted into indices.
- **Converting into Indices**
 - Following formulas are used to generate indices by taking value of June 2019=100 as a base month.
Index value= base month value as 100(1+ current month's value in growth form/ 100) for TOI, LSMI, FII & PSLI
Index value= base month value as 100(1- current month's value in growth form/100) for PPI & SMI

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:

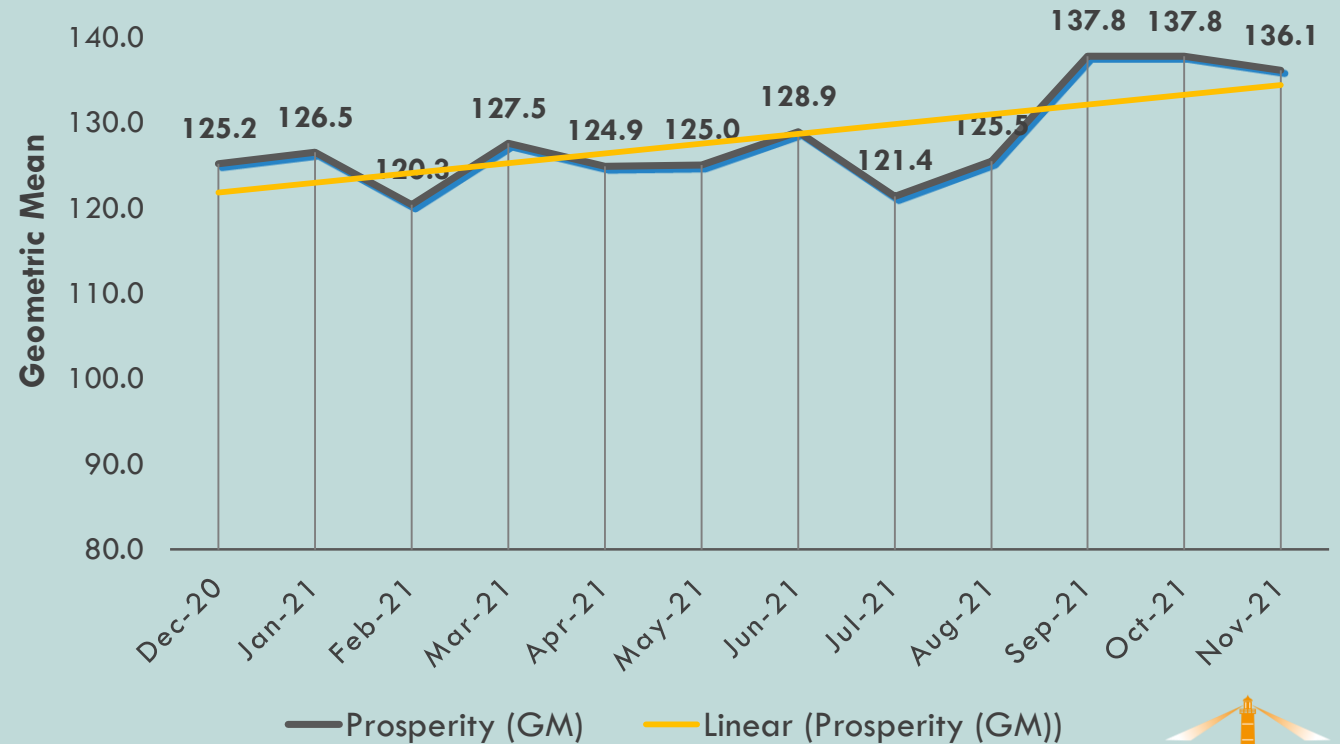
$$Prosperity\ Index = \sqrt[6]{\frac{1}{CPI} * TOI * LTFF * LSMI * SMI * FII}$$

To view detailed methodology, please [click here](#).

PAKISTAN PROSPERITY INDEX (PPI)

- Pakistan Prosperity Index experienced a decline of 1.7 points and reached 136 in November 2021 after a brief stabilization in September and October 2021.
- This figure signals fall in economic prosperity at the back of continuous fall in purchasing power, decline in exchange rate, and significant drop in foreign direct investment in the country in November 2021.

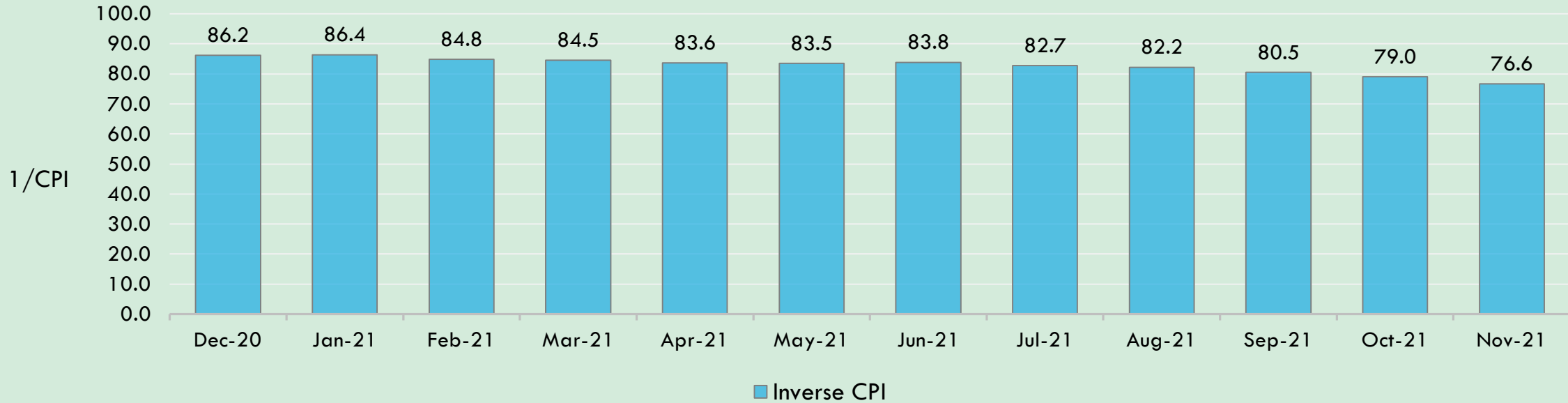
Economy slowdowns amid soaring energy and commodity prices



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



Purchasing power continues on a downward trajectory reaching lowest in the



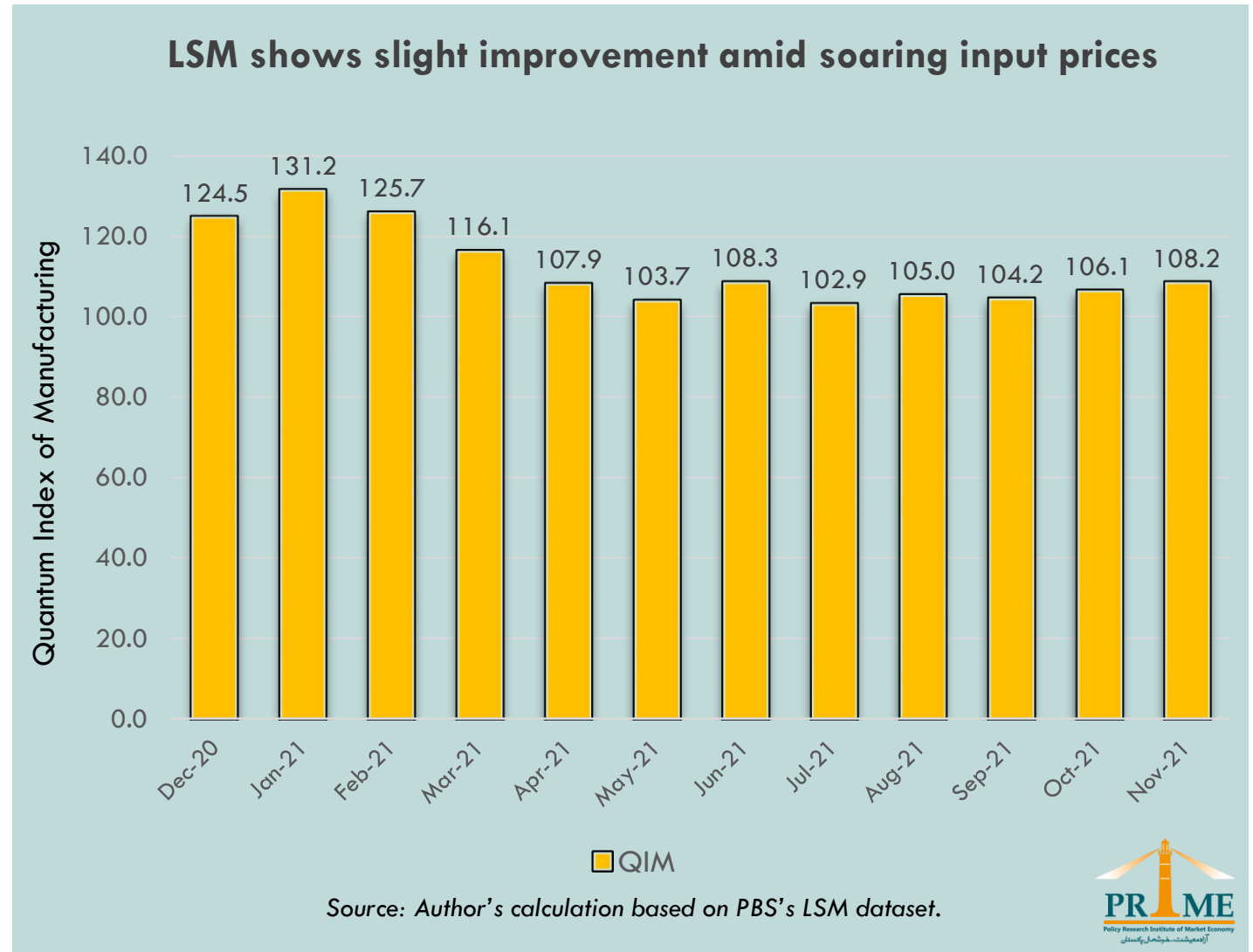
Source: Author's calculation based on PBS's monthly price statistics.

PURCHASING POWER INDEX (PPI)

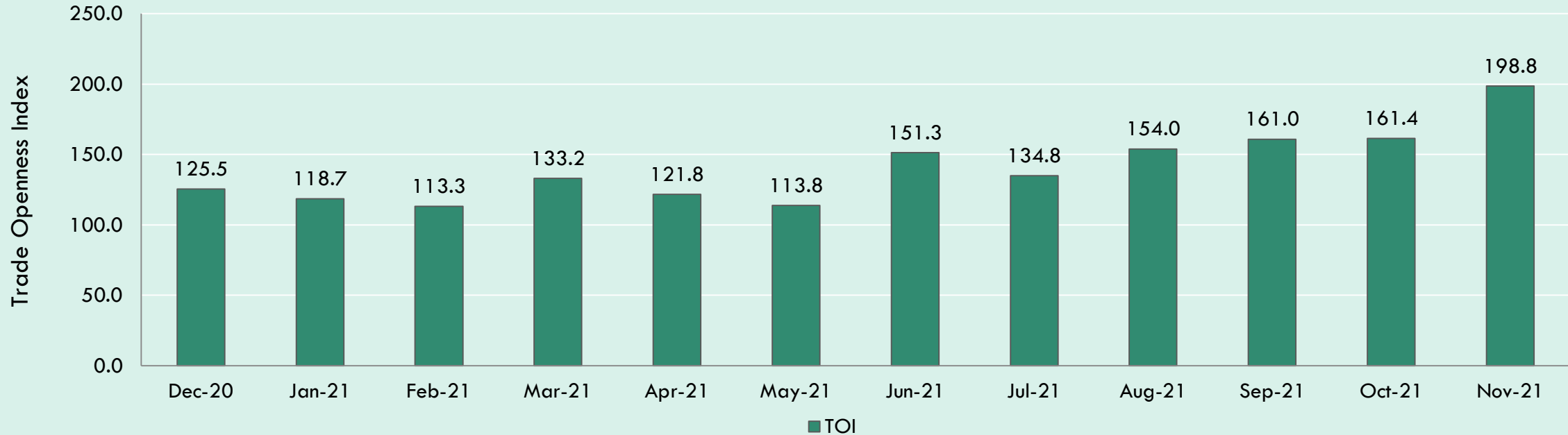
- Y-o-Y inflation clocked at 11.5% in November 2021 while M-o-M inflation stood at 3%, representing a significant increase in prices and purchasing power fell to lowest in the period.
- Purchasing power maintains a downward trajectory from 86.2 to 76.6, a fall of 9.6 points in the period.
- This inflationary pressure is due to significant supply-demand gap and rising international petroleum and commodity prices.

LARGE-SCALE MANUFACTURING INDEX (LSMI)

- Output of large-scale manufacturing increased by 1.9% M-o-M in November 2021 and an increase of 0.3% Y-o-Y.
- LSMI declined by 16 points in the 12 months period.
- LSM growth on monthly basis resulted from growth greater than 1% in automobile industry, iron and steel industry, and mineral products industry while 7 industries posted negative growth.



Trade openness increases on the back of higher trade despite rising international prices



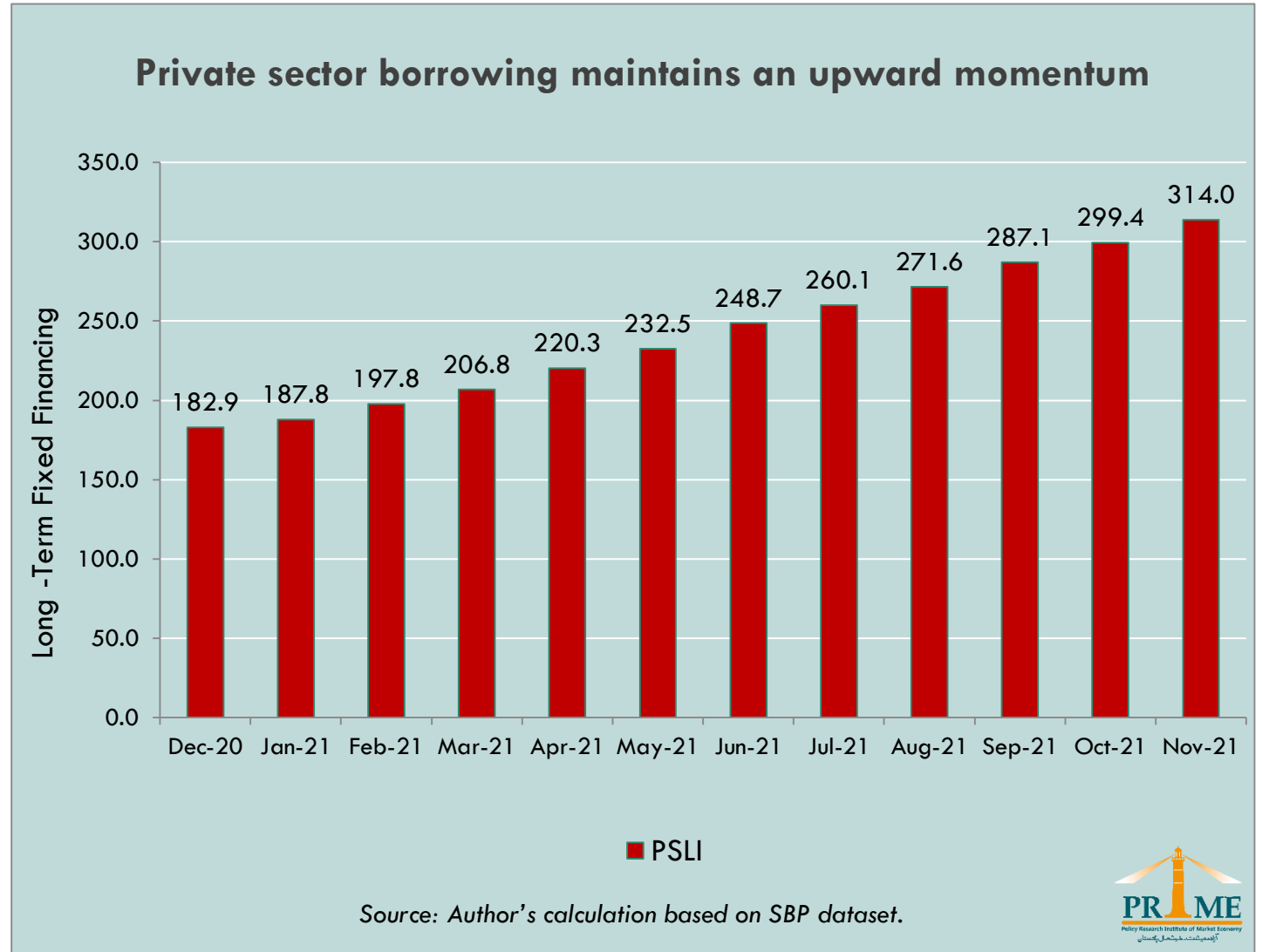
Source: Author's calculation based on PBS dataset.

TRADE OPENNESS INDEX (TOI)

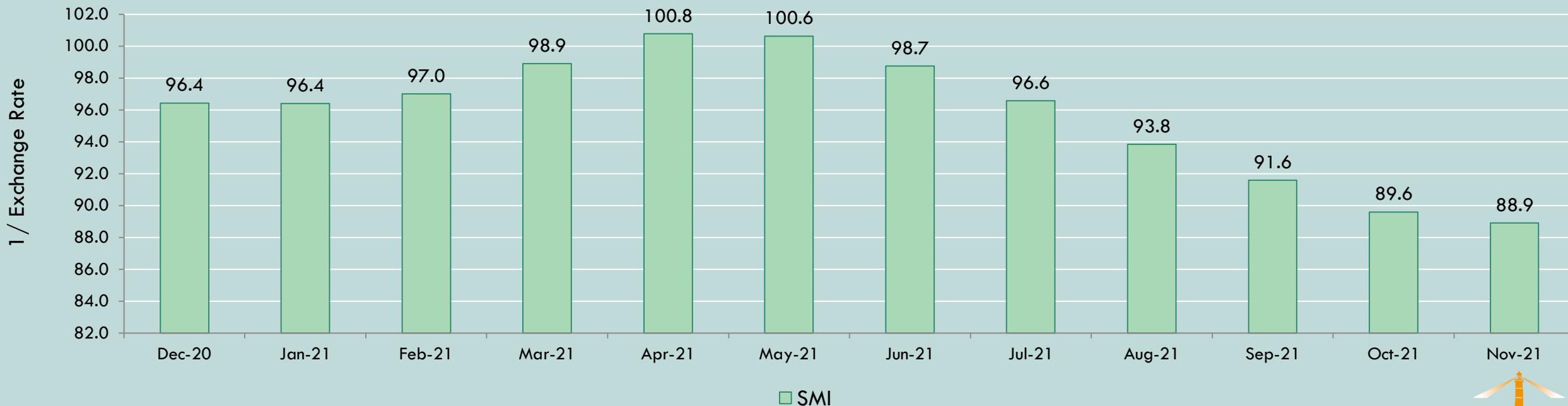
- Trade volume increased by 23% M-o-M measuring Rs.1.86 trillion in November 2021 from Rs.1.51 trillion in October 2021 thus making TOI reach all time high of 199 points.
- Exports experienced an increase of Rs.79 billion while imports increased by Rs.273 billion compared to October 2021.

PRIVATE SECTOR LENDING INDEX (PSLI)

- Private sector borrowing from banks maintained an upward trajectory despite the hike of 150 basis points in policy rate to 8.75% in November 2021.
- PSLI increased from 182 to 314, an increase of 131 points in 12 months.
- Long-term financing facility stood at an all-time high of Rs.493 billion in November 2021 compared to Rs.4701 billion in October 2021.



Soundness of domestic currency, the rupee, maintains a downward momentum



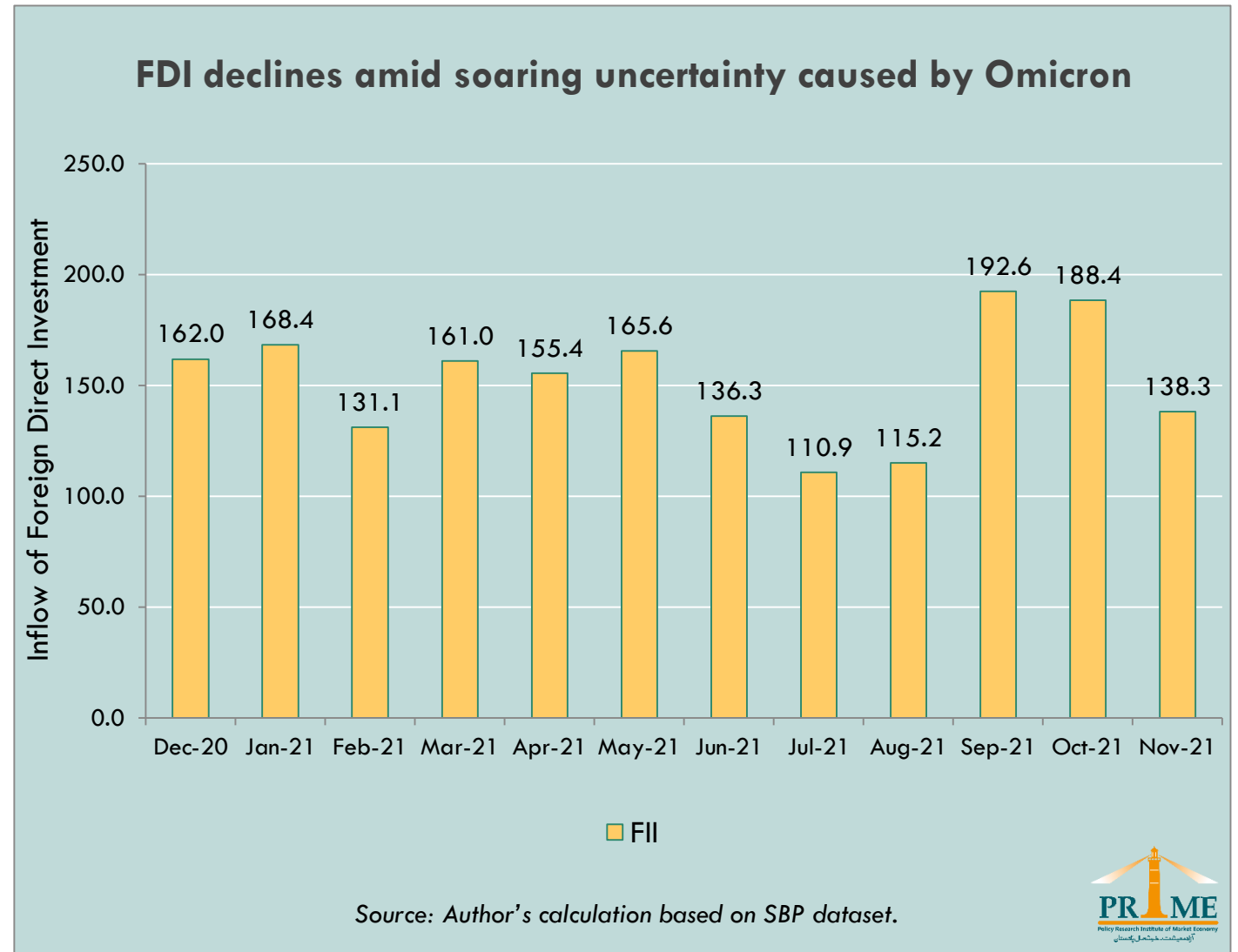
Source: Author's calculation based on SBP dataset.

SOUND MONEY INDEX (SMI)

- The domestic currency has remained volatile with frequent fluctuations thereby decreasing the soundness of money. Average monthly exchange rate stood at Rs. 173 against dollar in November 2021 compared to Rs.171.7 in October 2021 and Rs.160 in December 2020.
- SMI fell from 96.4 to 88.9, a fall of 7.5 points in the value of rupee in 12 months.

FOREIGN INVESTMENT INDEX (FII)

- Inflow of FDI to the country maintains a declining trend and reached \$220 million in November 2021 from \$300 million in October 2021.
- FII fell from 162 to 138, a decline of 23.7 points since the start of period under review.
- Pandemic enforced disruptions and global rising energy and commodity prices remained the causes for growing uncertainty and a subsequent fall in investment.





Economic prosperity as measured by Pakistan Prosperity Index declined by 1.7 points in November 2021 on account of continuous increase inflation and fall in purchasing power, depreciation of local currency against dollar and fall in soundness of money, and sharp decline in the foreign direct investment in the country. In contrast, the overall decline in prosperity was moderated by increase in the private sector borrowing, trade volume and output of manufacturing sector.

Inflation remains a serious challenge severely impacting the economic activities in the country and posts serious threat to the economic prosperity. The currency devaluation and soaring international commodity and petroleum prices will contribute to inflation and economic slowdown; however, addressing the supply side bottlenecks such as lower productivity, lack of innovation and research could help to mitigate challenges at home. Moreover, businesses conducive ambience is required by promoting ease of doing business in the country.



Striving for an open, free and prosperous Pakistan