PAKISTAN PROSPERITY INDEX

April 2022

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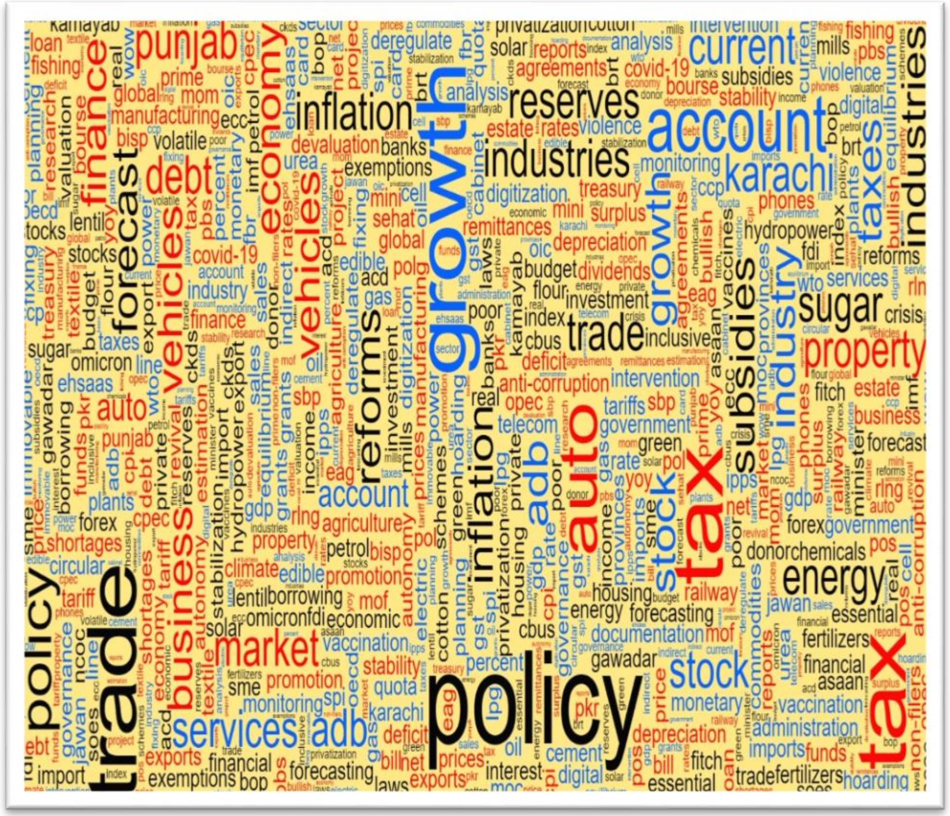

Policy Research Institute of Market Economy (PRIME) is a public policy think tank striving for an open, free and prosperous Pakistan by creating and expanding a constituency for protective function of the state and freedom of the market.

Pakistan Prosperity Index (PPI) is a quarterly 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 March 2021 to February 2022, 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.

Author
Tuaha Adil
Email: tuaha@primeinstitute.org

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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	March 2021 – February 2022 *Base month: June 2019*
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 March 2021 to February 2022, 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

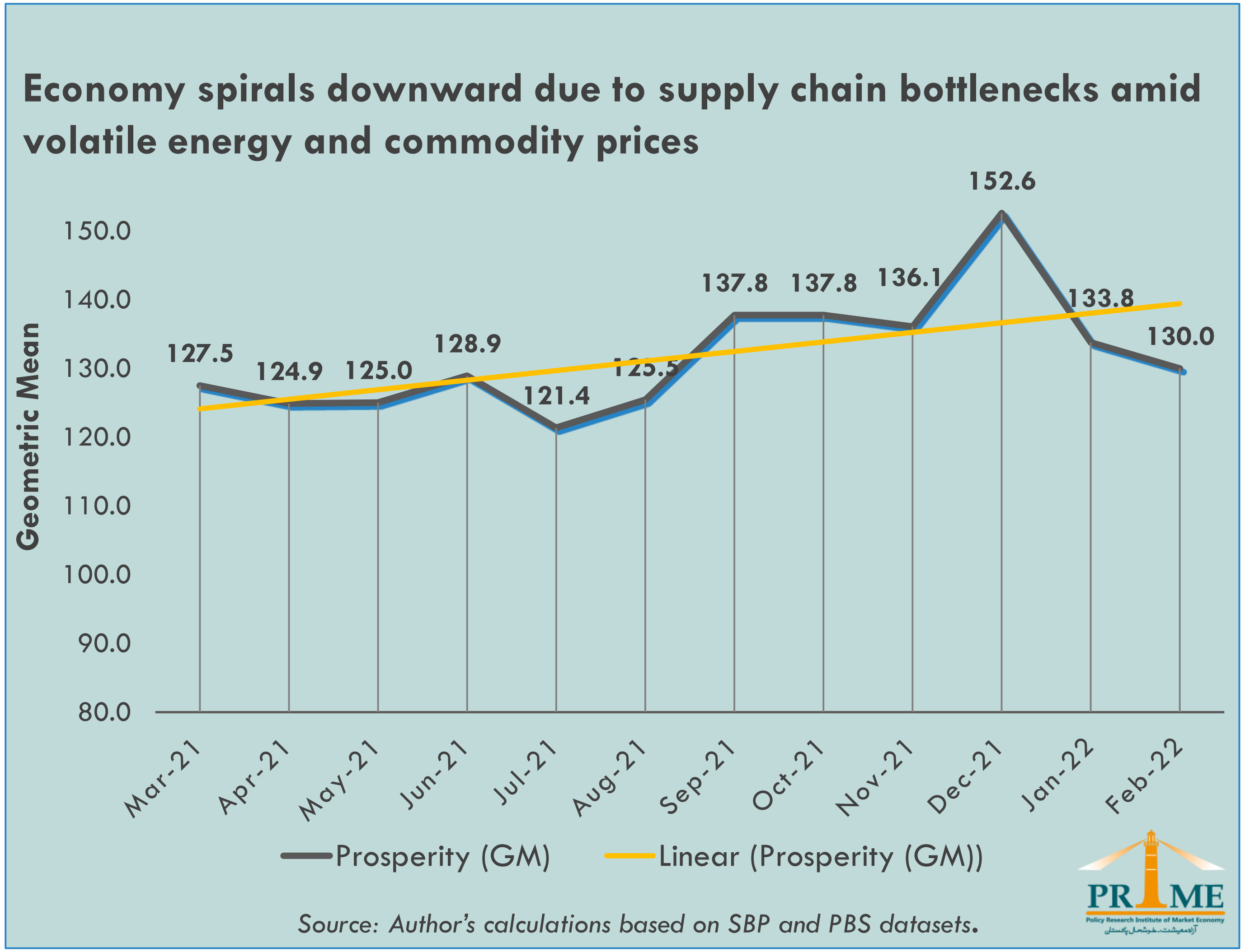
The Prosperity Index is calculated by using the geometric mean as employed by UNDP in calculating the Human Development Index. It is computed as follows:

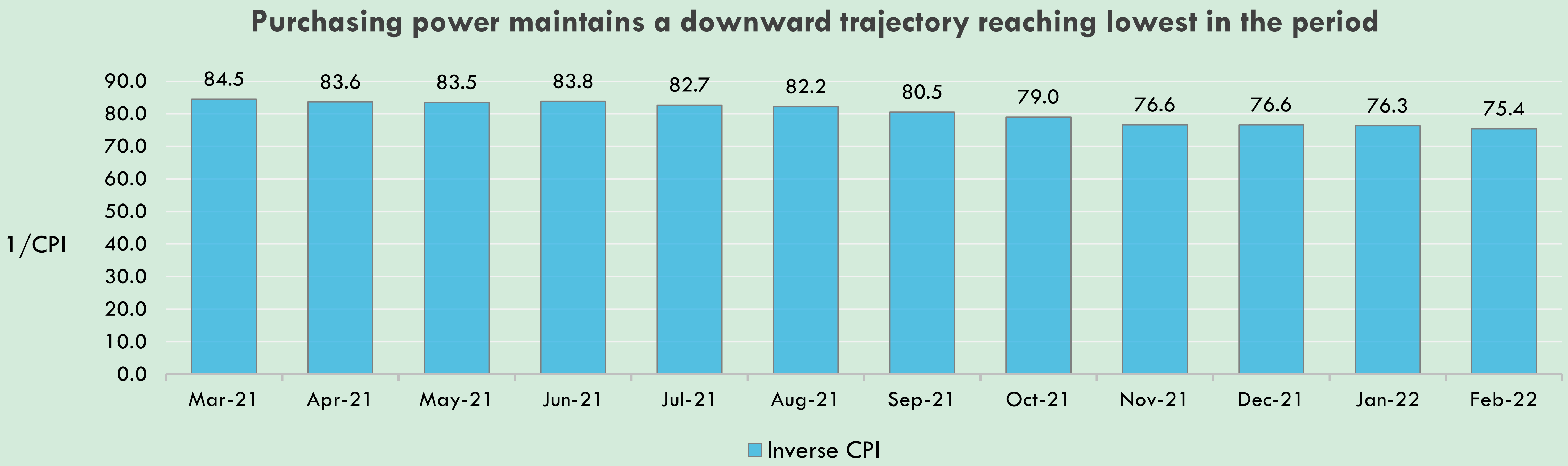
$$Prosperity\ Index = \sqrt[6]{\frac{1}{CPI} * TOI * LTFF * LSMI * SMI * FII}$$

To view detailed methodology, please click here.

PAKISTAN PROSPERITY INDEX (PPI)

- Pakistan Prosperity Index experienced a decline of 22.6 points and reached 130 in February 2022 from its peak value of 152.6 in December 2021.
- This figure signals fall in economic prosperity at the back of continuous fall in purchasing power , decline in trade openness, and significant drop in foreign direct investment in the country in February 2022 compared to December 2021.





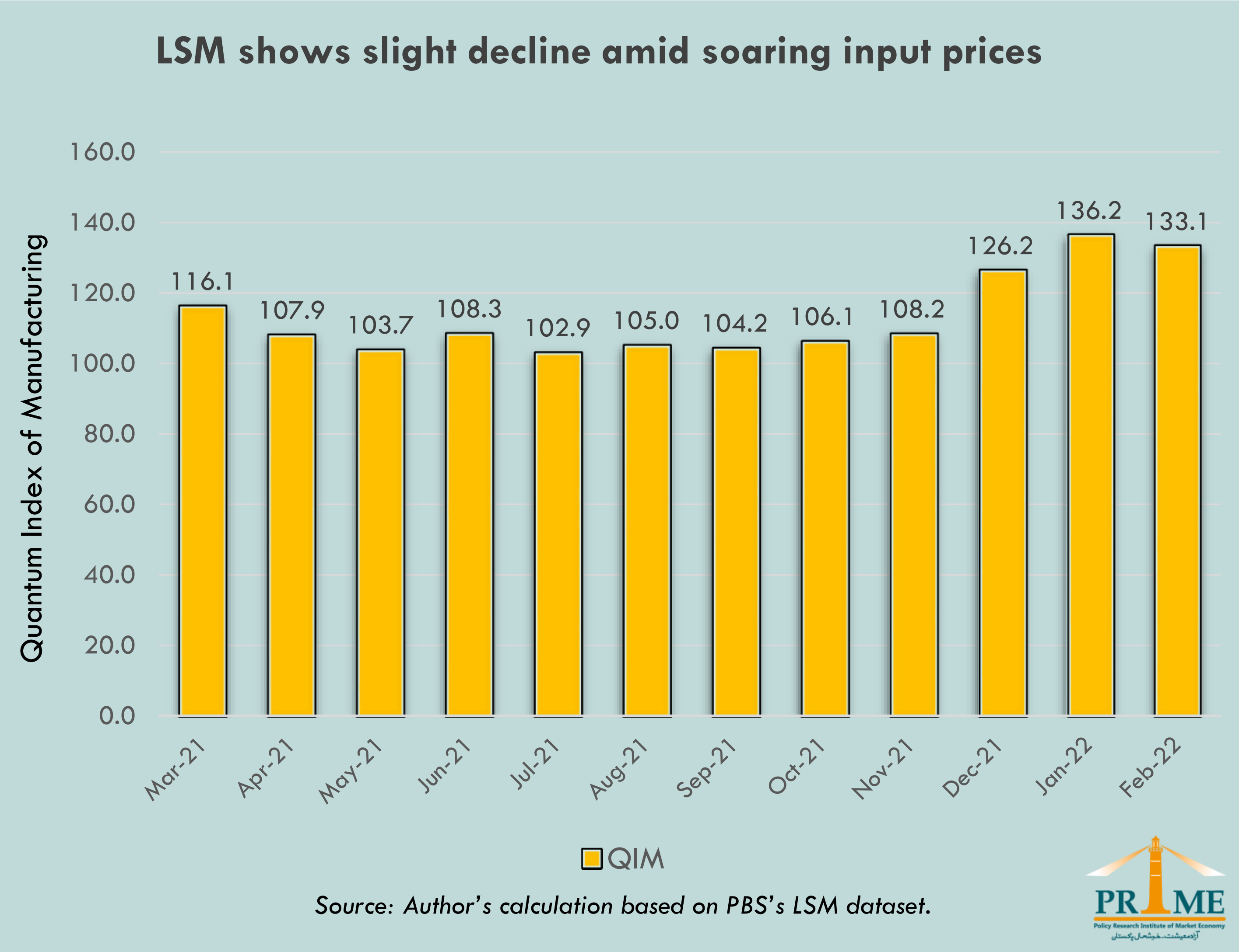
Source: Author's calculation based on PBS's monthly price statistics.

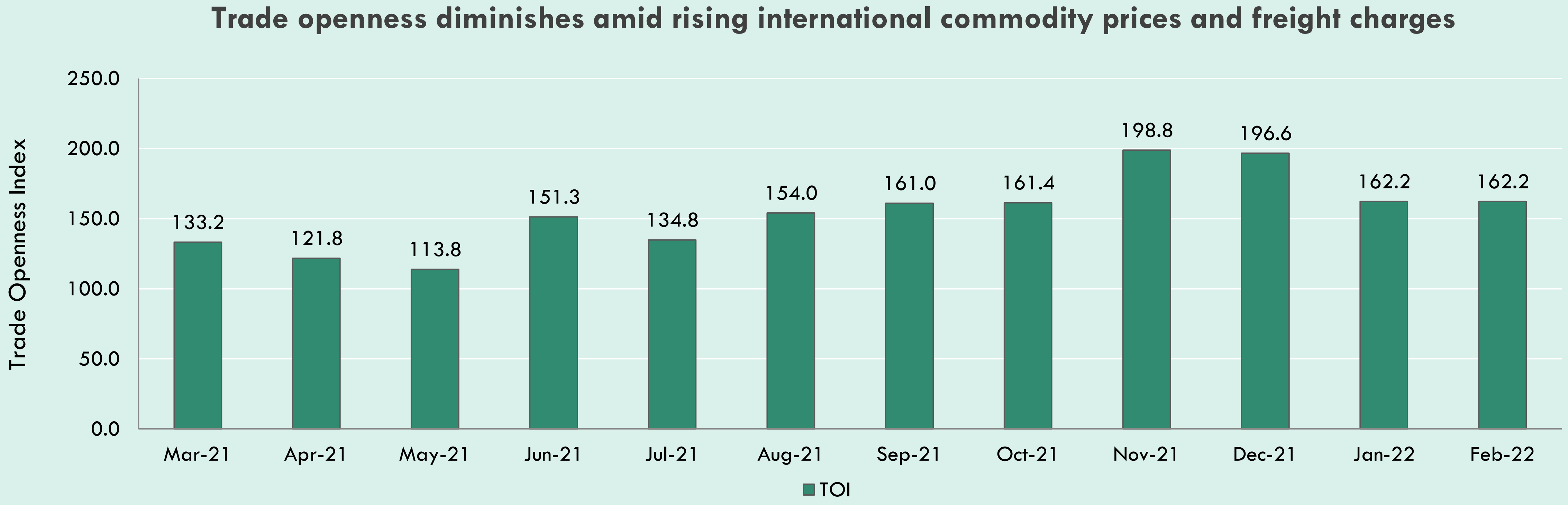
PURCHASING POWER INDEX (PPI)

- Y-o-Y inflation clocked at 13% in January and 12.2% in February 2022 while M-o-M inflation stood at 0.4% and 1.2%, representing a continuous increase in prices and drop in the purchasing power.
- Purchasing power maintains a downward trajectory from 76.6 in December to 75.4 in February, a fall of 1.2 points in two months.
- This inflationary pressure is due to mounting supply demand gap prompted by robust demand, supply chain disruptions and rising international petroleum and commodity prices.

LARGE-SCALE MANUFACTURING INDEX (LSMI)

- Output of the large-scale manufacturing increased by 7.9% M-o-M in January and declined by 2.3% in February 2022. Whereas, LSM posted a growth of 8.4 % Y-o-Y and 4.6% in Jul-Feb.
- LSMI increased by 7 points in last 2 months and by 17 pints in 12 months.
- LSM growth in 8 months resulted from significant growth of 170% in wood products sector, 32% in automobile sector, 22% in iron and steel sector, 6.6% in food industry and 1.5% in textile sector.





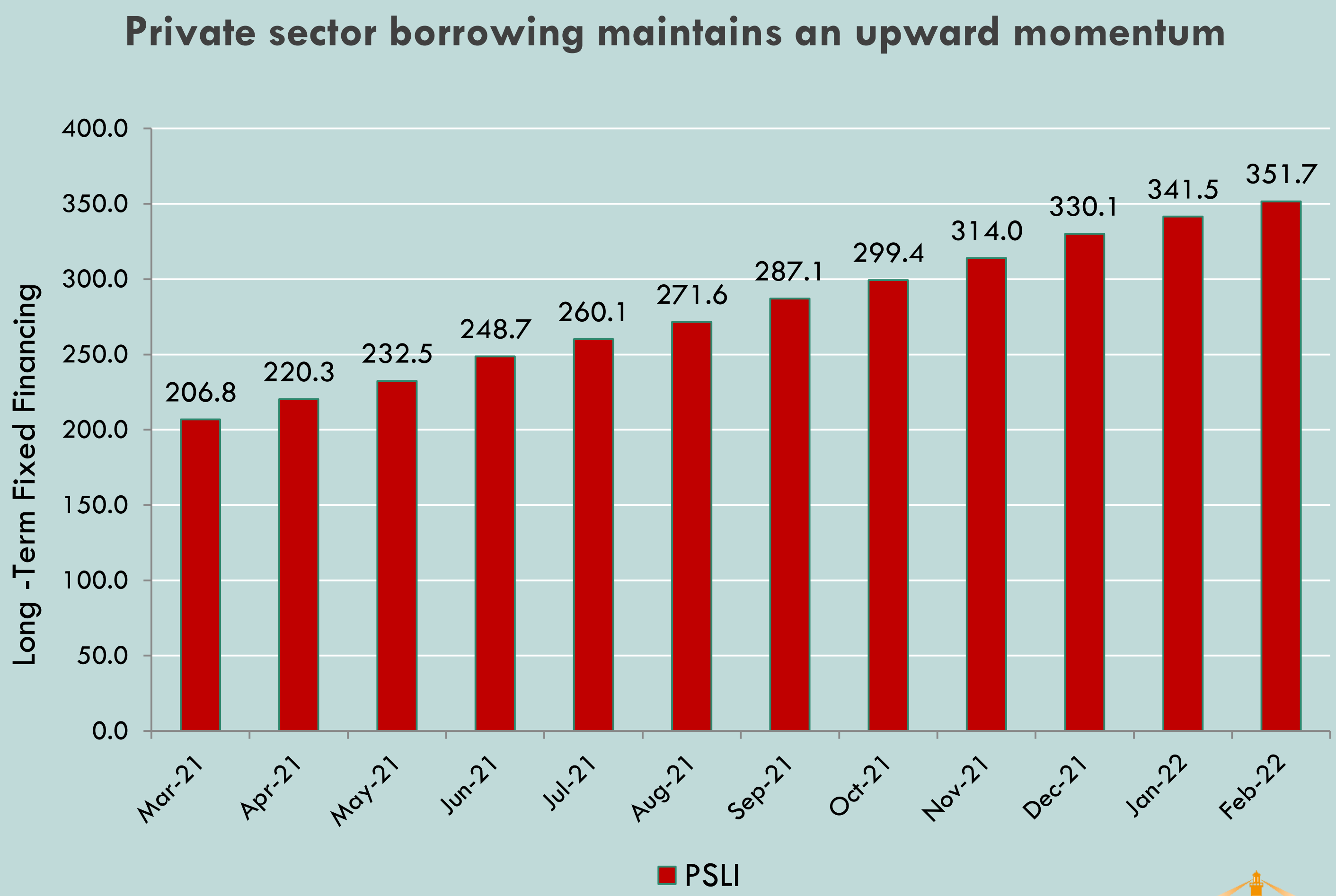
Source: Author's calculation based on PBS dataset.

TRADE OPENNESS INDEX (TOI)

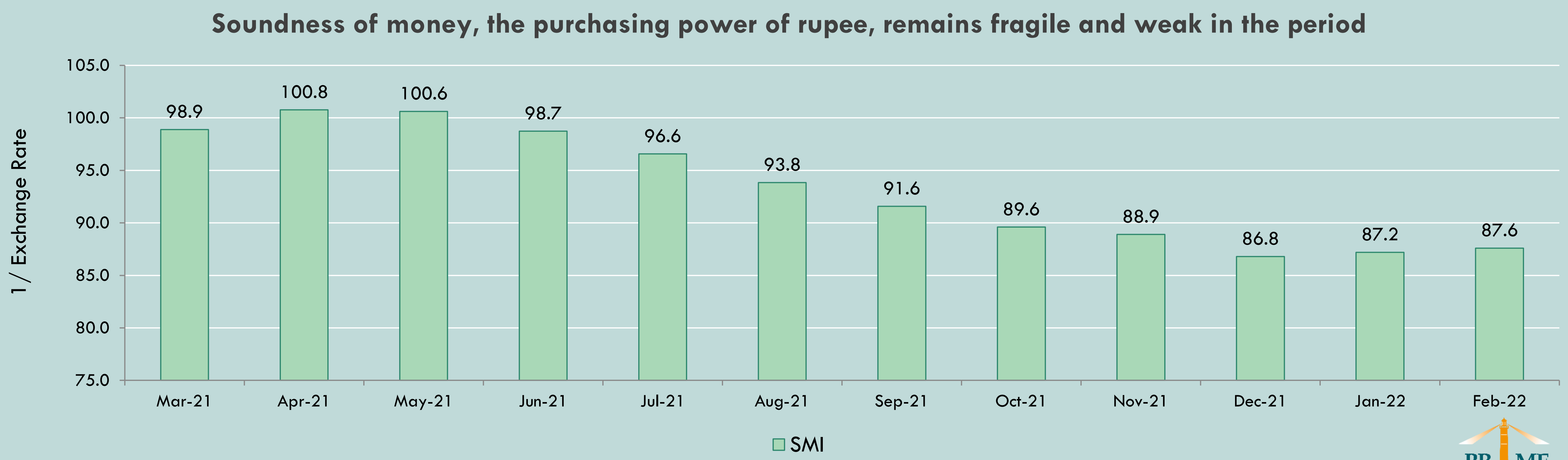
- Trade volume decreased by 17.5% in last two months measuring Rs.1.52 trillion in February 2022 from Rs.1.84 trillion in December 2021, thus making TOI declined by 34 points to 162.2.
- Exports experienced a growth of 1.5% while imports experienced a negative growth of 24% in February 2022 compared to December 2021.

PRIVATE SECTOR LENDING INDEX (PSI)

- Private sector borrowing from banks maintained an upward trajectory despite the hike of 100 basis points in policy rate to 9.75% in December 2021.
- PSLI increased from 330 to 351, an increase of 21 points in 2 months and 145 points in 12 months.
- Long-term financing facility stood at an all-time high of Rs.552 billion in February 2022 compared to Rs.518 billion in December 2021, an increase of Rs. 34 billion.



Source: Author's calculation based on SBP dataset.



Source: Author's calculation based on SBP dataset.

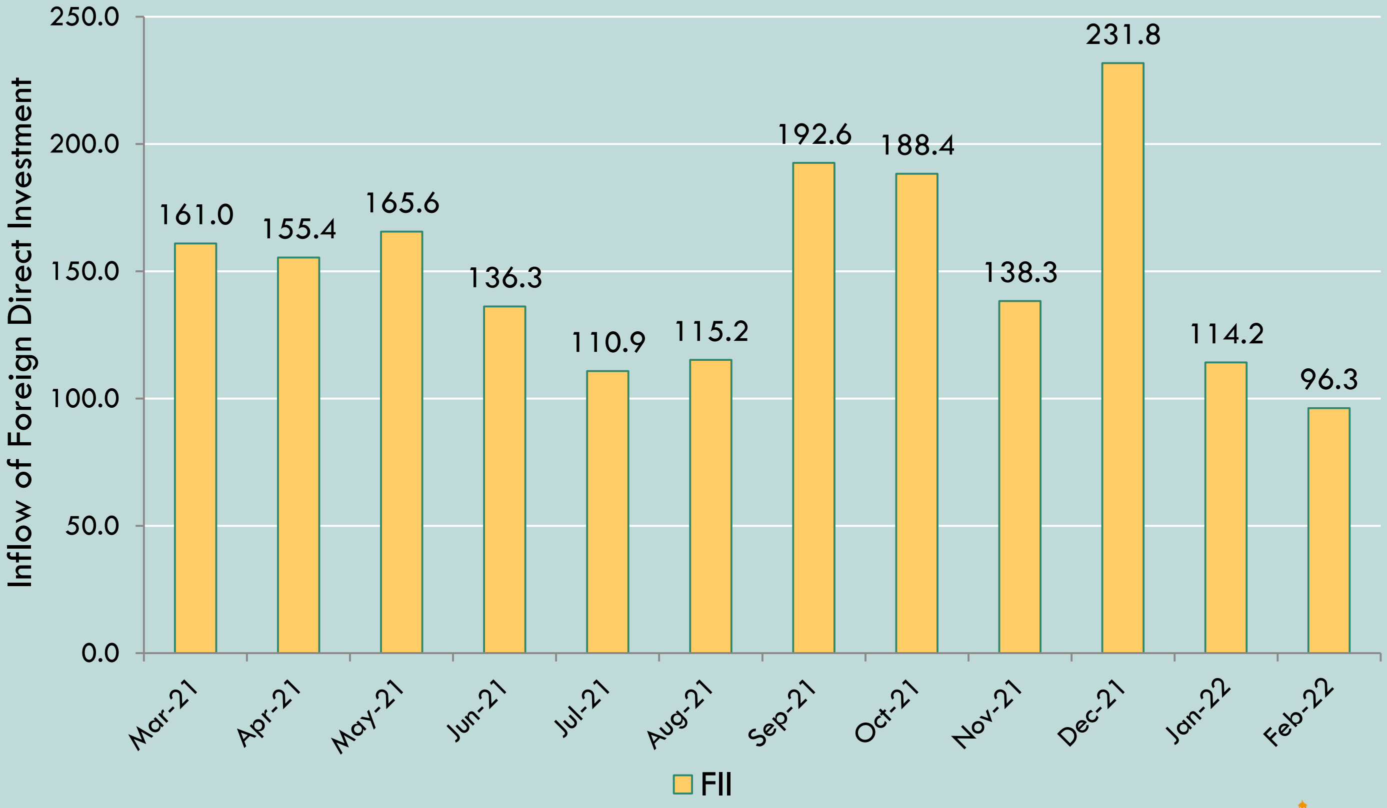
SOUND MONEY INDEX (SMI)

- The domestic currency has remained volatile with frequent fluctuations thereby affecting the soundness of money. Average monthly exchange rate stood at Rs. 175.5 in February 2022 compared to Rs.177.1 in December 2021, an appreciation of Rs. 1.6 in two months.
- Purchasing power of Rupee remains volatile due to significant demand for foreign currency for country's external obligations, imports and capital outflow.

FOREIGN INVESTMENT INDEX (FII)

- Inflow of FDI to the country observed a massive fall and reached $153 million in February 2022 lowest in the period compared to period's highest of $369 million in December 2021.
- FII fell from 231.8 to 96.3, a decline of 135.5 points in last two months and 65 points in last 12 months.
- Pandemic enforced disruptions and global rising energy and commodity prices remained the causes for growing uncertainty and a subsequent fall in investment.

FDI experiences unprecedented decline and reached to lowest in the period



Source: Author's calculation based on SBP dataset.

Economic prosperity as measured by Pakistan Prosperity Index declined by 22.6 points in the first two months of 2022 on account of continuous increase in inflation and fall in purchasing power, fragility of local currency against dollar and soundness of money, a fall in trade openness, 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, 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 country's external obligations will put further pressure on the forex at the time of soaring international commodity and petroleum prices and will contribute to the inflation and economic slowdown; however, addressing the supply side bottlenecks such as lower productivity, mobility issues and resolution of energy crisis could help to mitigate the challenges at home. Moreover, businesses conducive ambiance is required to promoting ease of doing business in the country.

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