What is Gross Domestic Product (GDP)?

Gross Domestic Product or GDP, is a term often heard in the media and used by politicians, academics, economists and others to refer to how well a country has performed. But what is GDP?

GDP represents the overall value of all the final goods and services produced in a country in a specific period. The rate at which this total value changes is referred to as the GDP growth rate.

A positive growth in GDP implies that the economy is growing in terms of an increase in output which should help create more employment, increase income and improve people's livelihoods. The economy can also register a negative GDP growth rate which means a decline in the country's total output and income. Factors that affect a country's output include both supply and demand-side factors such as the impact of natural disasters, movements in domestic prices and the actual demand for goods and services both domestically and internationally.

A persistent decline in national output warrants immediate action by policy makers to implement appropriate strategies to help the economy recover and return to positive economic growth.

How is GDP Measured?

There are three methods of calculating GDP, namely the **production method** (or value addition), **income method** and **expenditure method**.

Fiji's GDP data is produced by the Fiji Bureau of Statistics (FBOS), which has the mandate to collect and compile Fiji's national statistics. GDP on value addition basis is released regularly on an annual basis, the latest being for 2014 while GDP by both the income and expenditure methods have been generated on a less regular basis with the latest data released in 2015 for the years 2006-14. *This article only focusses on GDP computed through the production method.*

The **production** method is based on the value of "final" goods and services produced in an economy minus the value of intermediate goods used in the production process. For example, flour is the intermediate good used for making bread, a final product.

Nevertheless, care must be taken in the calculation to avoid double-counting which can lead to an overestimation of GDP. In this example of adding the contribution of bread production to a country's GDP, one has to be careful not to add the contribution of the flour manufacturer in the bread making process.

To avoid this common double counting mistake, only the *value-added* at each stage of production is included in the GDP calculation.

Value added is the amount by which the value of a product is increased at each stage of production.

Difference between Nominal and Real GDP

GDP can be referred to in both nominal and real terms. **Nominal GDP,** also referred to as **GDP at current market prices** refers to the current market value of all final goods and services produced in a country. However, due to differences in the prices of goods and services in different periods, it can be misleading to compare GDP for different years, for example, GDP of $8.0 billion in 2012 with a GDP of $1.9 billion in 1990. Due to inflation or the general changes in price levels, the prices in 1990 would have been quite different from prices in 2012. As prices of goods and services increase over time due to inflation, the value of goods and services produced in a country will also increase. Therefore, undertaking price adjustments allows GDP comparison between two periods by determining, for instance, whether the value of output has increased because more has been produced or simply because prices have risen. The value of nominal GDP adjusted for inflation is referred to as the **Real GDP**

Performance of Fiji's GDP in the last 15 years

In 2001, Fiji's nominal GDP was valued at \$3,777.2 million while real GDP stood at \$2,675.9 million. In 2014, nominal GDP has reached a significant \$8,552.9 million whereas real GDP climbed up to \$6,417.8 million.

Looking at Fiji's real GDP growth performance, the economy grew at an average rate of 2.0 percent per annum in the 2001-2005 period (Figure 1). Growth in this period was impacted by political instability in the year 2000 and Cyclone Ami in 2003. Between 2006 and 2010, the economy grew on average by 0.7 percent. The slowdown in the economic growth in these years was primarily due to political events in 2006, adverse climatic conditions (flooding and cyclones in 2007, 2008 and 2009) and the weakening of the global economy as a result of the global financial crisis. For the period 2010-2014, the economy grew at an average rate of 3.4 percent. The resilient performance of the major sectors has seen Fiji achieve its fifth consecutive year of economic growth in 2014 and is estimated to have grown by another 4.0 percent in 2015. The continuous positive growth in the last five years has been largely driven by the transport & storage, financial & insurance activities, accommodation & food services (includes tourism activities), wholesale & retail trade and the construction sectors.

Fiji's low tax environment, competitive interest rates and sound economic policies have seen a boost in consumer and business confidence. The Government has maintained an expansionary fiscal stance and increased Government spending to provide further stimulus to growth. At the same time, the Reserve Bank has maintained an accommodative monetary policy to complement Government's expansionary stance.

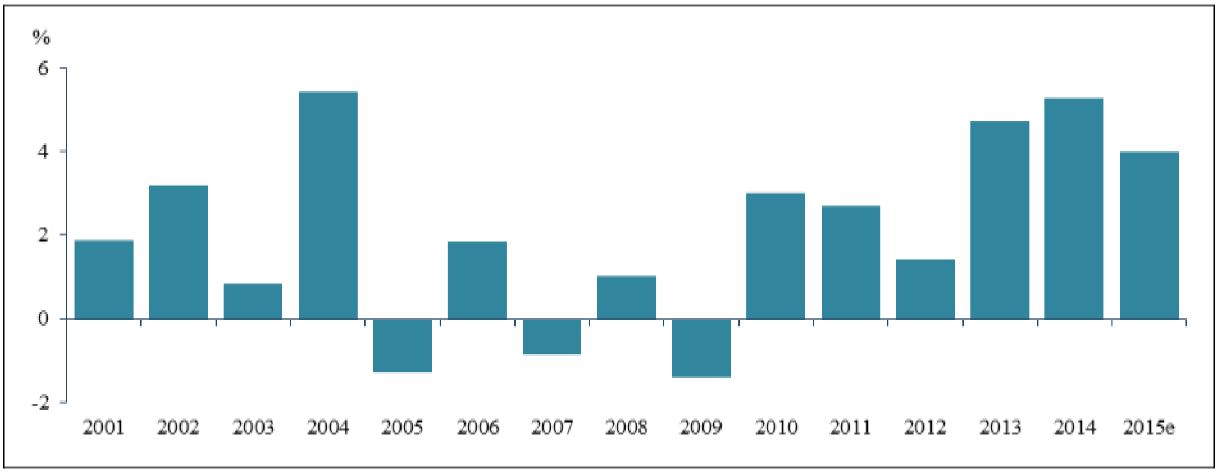
Looking ahead, the economy is expected to continue to register positive economic growth in the medium term, notwithstanding any major internal and external shocks that may impact the economy negatively.

Conclusion

While GDP is one of the most commonly used economic indicators to assess the performance of an economy, one has to be mindful of its limitations.

For instance, GDP does not measure the complete welfare of a nation as it does not account for non-market transactions, wealth distribution and the effects of negative externalities. As such, the use of other social and economic indicators such as the Human Development Index should be considered to determine a holistic picture of the economy.

Figure 1: Fiji's Real GDP Growth Rates (2001-2015)



Source: Fiji Bureau of Statistics and Macroeconomic Committee

<u>Note</u>: 2015e - the growth forecast of 4.0 percent for 2015 is an estimate by the Macroeconomic Committee. The Macroeconomic Committee is responsible for the forecast of Fiji's GDP, Trade and Balance of Payments. Forecasts are provided to assist policymakers in the formulation of monetary and fiscal policy. Membership of the Macroeconomic Committee includes the Ministry of Finance, Ministry of Industry, Trade & Tourism, Prime Minister's Office, Investment Fiji, Fiji Bureau of Statistics, Fiji Revenue & Customs Authority, Strategic Planning Office, and the Reserve Bank of Fiji.