Economic Issue of the Day

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The GNP and GDP: understanding their scope and measurement

The gross national product (GNP) and the gross domestic product (GDP) are two of the most frequently used economic indicators when assessing the status of the Philippine economy. Recently, the National Economic and Development Authority reported that the growth rates of the GNP and GDP for the year 2005 are among the best in the last three years, with each averaging at over 5 percent (Figure 1). Whether they grow at a high or low rate, the numbers are used to gauge the competency of the administration in steering the economic wheels of the country.

GNP vs. GDP

The gross national product (GNP) is defined as the total value of income earned by residents of a country regardless of where the income came from. GDP, on the other hand, is the total value of production realized by resident producers in an economic territory. In its simplest terms, GDP is the value of goods and services **made in** the Philippines while GNP is the value of goods and services **made by** Filipinos.

Vital to understanding these economic concepts is to look at the scope by which economic territory and residency are defined. For instance, the GDP measures output of economic activities within the economic territory of a country. There are areas inside the geographic jurisdiction of the country that are not part of the economic territory such as foreign embassies and offices like the Asian Development Bank (ADB) and the United Nations. At the same time, there are areas outside the country's geographic territory that are part of its economic territory like the Philippine embassies located abroad.

The GNP, on the other hand, measures the total income of Filipino residents from all locations. The concept of residency is not equated to nationality. Filipinos who have migrated abroad and became residents of foreign countries are not accounted for in the measurement. At the same time, foreigners living in the country who have acquired residency are included in accounting the Philippine GNP. One common mistake committed is attributing the high GDP growth to the large increase in overseas Filipino workers (OFW) remittances. These remittances are not part of the GDP but are accounted for in the GNP. The National Statistical Coordination Board (NSCB) is the agency responsible for compiling and monitoring the economic statistics packaged under the National Income Accounts publication using international standards.

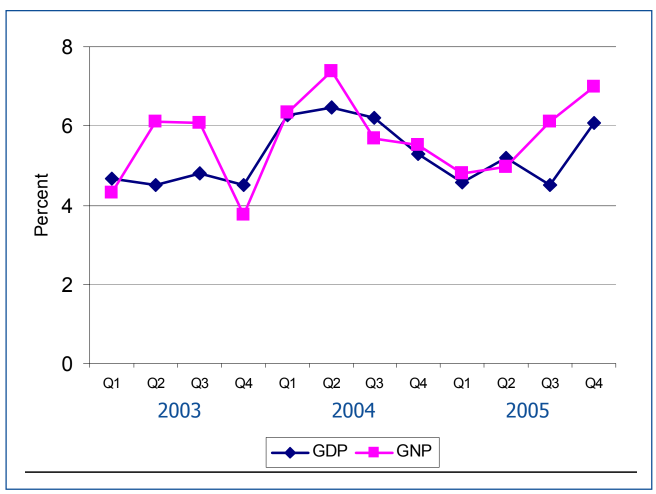
Measuring GNP and GDP

How are these two concepts measured?

The measurement of the GDP, GNP, and other national income accounts has always been an object of curiosity. This is due to the fact that the economy is so large and encompassing that it becomes difficult to even put a number to summarize its activities and transactions.

There are, however, at least two ways of calculating the national income accounts. One is through the production approach and another, through the expenditure approach.

Figure 1. GDP and GNP growth rates



The *production* approach calculates the GDP based on industrial origin wherein the domestic economy is divided into three productive sectors: a) agriculture, fishery, and forestry; b) industry; and c) services. This approach sums up the value added contribution of each sector to obtain the total contribution to the economy. Data on the value added of these sectors may be obtained from producer surveys like agricultural surveys, crop and livestock statistics, manufacturing surveys, surveys of the trade sector, and others.

The *expenditure* approach, meanwhile, sums up personal consumption expenditures of households, government consumption, investment or capital formation, and exports less imports. This approach yields GDP by type of expenditure. Common sources of these data are household expenditures surveys, retail and wholesale trade surveys, producer surveys, customs records, government accounts, and special surveys done by the statistical centers.

Note that both the production and expenditure approaches must yield the same results of GDP (Table 1). This is because output from the production of goods and services is, by economic definition, equal to the total expenditures on goods and services. In other words, output (production approach) is either consumed and/or saved (expenditure approach). Estimation adjustments due to different data sources are reflected under the item *statistical discrepancy*.

Net factor income from the rest of the world (NFI) is added to the GDP to determine the GNP. Technically, the NFI is defined as compensation and property income of Philippine residents earned abroad *less* compensation and property income earned in our country by nonresidents of the Philippines. This is popularly referred to, however (in a narrow sense), as the OFW remittances.

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Table 1. Gross domestic product in 2005 (In PhP million at constant 1985 prices)

By Industrial Origin		By Type of Expenditure	
Agriculture, fishery, and forestry	229,151	Personal Consumption Expenditure	947,799
Industry	400,940	Government Consumption	76,465
Service	574,442	Capital Formation	225,601
		Exports	541,982
		Imports	630,181
		Statistical Discrepancy	42,866
GDP	**1,204,533**	**GDP**	**1,204,533**
Net factor Income from the rest of the world	101,002	Net factor Income from the rest of the world	101,002
GNP	**1,305,535**	**GNP**	**1,305,535**

The *Economic Issue of the Day* is one of a series of PIDS efforts to help in enlightening the public and other interested parties on the concepts behind certain economic issues. This dissemination outlet aims to define and explain, in simple and easy-to-understand terms, basic concepts as they relate to current and everyday economics-related matters.

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