

GNDI: a new approach to measuring economic performance in the Pacific



2025 Pacific Islands Forum session
Photo Credit: Pacific Security College

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When economists want to analyse economic performance, they typically examine Gross Domestic Product (GDP) growth. But a better measure of economic performance is Gross National Disposable Income (GNDI). Economists agree this is the better measure but in most countries the difference between GDP and GNDI is minuscule. Even though GNDI is theoretically a better measure, the hassle of moving away from GDP to GNDI is usually too big to be worthwhile. But not for the Pacific.

There are many ways to explain the difference between GDP and GNDI, but the simplest is expressed by this equation: $GNDI = GDP + NFI$, where NFI is net foreign income — net income earned from overseas other than by trade (net trade income is already included in GDP). GNDI is thus a more comprehensive measure of national income than GDP. It includes all income. Specifically, it includes remittances, foreign aid and fishing license revenue — all of which are important to the Pacific, and none of which is included in GDP.

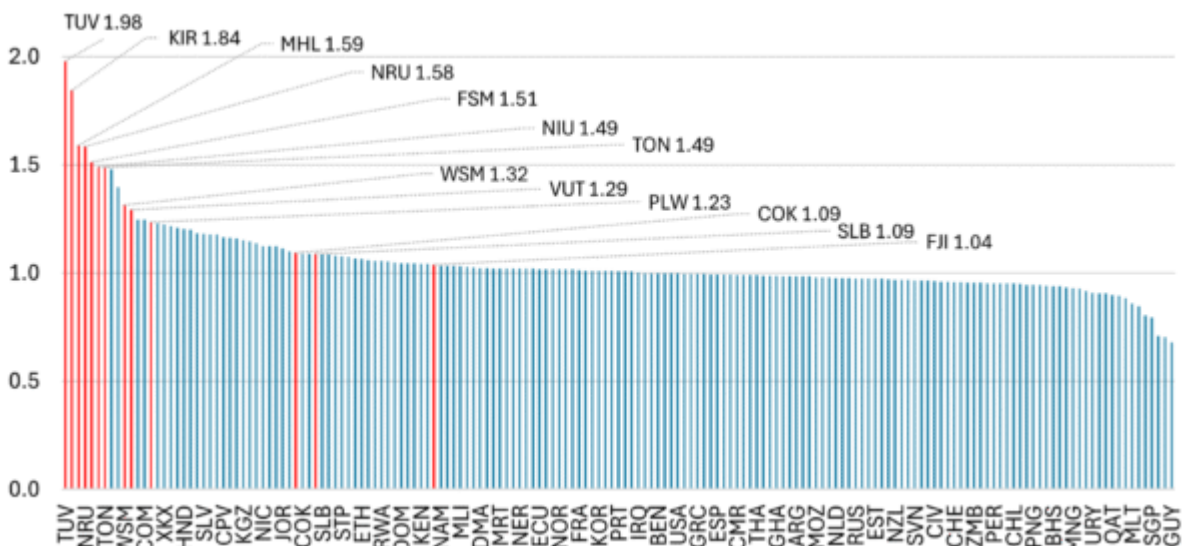
If you need to be further convinced of the superiority of GNDI over GDP, read [the classic 2009 report](#) by Nobel prize-winning authors Joseph Stiglitz and Amartya Sen (with Jean-Paul Fitoussi as third author), *The Measurement of Economic Performance and Social Progress Revisited*. You can also read [our discussion paper](#) on the subject, where we set out the four reasons why GNDI is a better measure than GDP. (Both sources also discuss Gross National Income, GNDI's better-known cousin which is a half-way house between GDP and GNDI. As GNI includes some but not all NFI, it is better than GDP but not as good as GNDI.)

Using GNDI rather than GDP changes the way we think of economic performance in the Pacific. Our focus here is the 13 independent Pacific Island countries or PICs: those full members of the Pacific Islands Forum that are independent and which

have a population below 1.5 million. We thus exclude French Polynesia and New Caledonia (which are not independent) as well as Australia, PNG and New Zealand, all of which have a population well in excess of 1.5 million. Included are: the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, the Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

The graph below arranges all countries in the world for which we have 2022 data (169) by their ratio of GNDI to GDP, from highest to lowest. Since this ratio is just one plus NFI/GDP, this graph shows how NFI varies in importance around the world. For most countries, the ratio is around one: NFI is unimportant. But for a few, it is much bigger than one. The top seven countries in the graph are all from the Pacific. So are ten of the top 15. The other three Pacific countries have lower ratios but are still in the top third of countries.

Figure 1: GNDI/GDP around the world, 2022

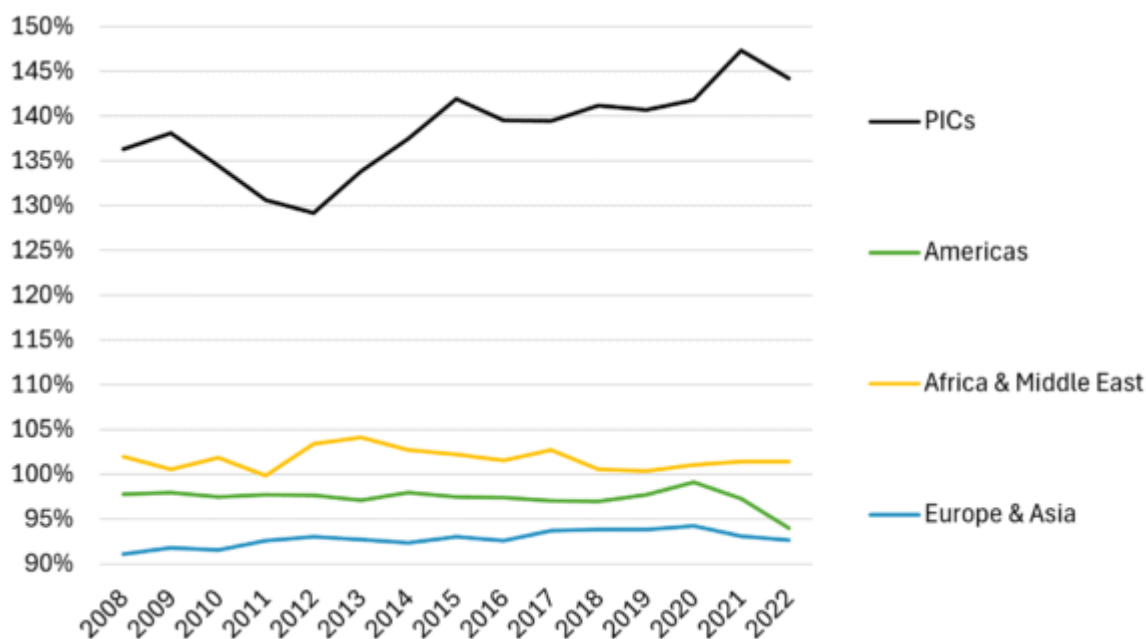


Note:

Acronyms as follows: the Cook Islands (COK), Fiji (FJI), the Federated States of Micronesia (FSM), Kiribati (KIR), RMI (MHL), Nauru (NRU), Palau (PLW), Samoa (WSM), Solomon Islands (SLB), Tonga (TON), Tuvalu (TUV), and Vanuatu (VUT). RMI data is from 2021.

There are a few other countries where this ratio is much bigger than one, but no other region, not even a region of small states, where it is. Figure 2 shows the average GNDI/GDP ratio for the small states of the world divided into geographical regions. For all regions except the Pacific (the 13 PICs), the annual average ratio is between 95% and 105%. The Pacific stands by itself with an average of 125% to 145%.

Figure 2: GNDI/GDP ratio (%) for Pacific and other regions of small states, 2008-2022



Notes: Simple averages are used. Outside of the Pacific, only countries with available data for every year are included. In the Pacific, data on the Cook Islands is available from 2011, and until 2021 for RMI. There are 10 small states in the Americas, 8 from Africa and the Middle East, and 8 from Europe and Asia.

The other thing that is interesting about Figure 2 is that the Pacific GNDI/GDP ratio is increasing. Again, it is the only region where this is happening. NFI is not only uniquely important in the Pacific; it is becoming more important.

We will explain in future blogs why the GNDI/GDP ratio is so much bigger in the Pacific than in other regions, and also why it has been increasing. For a sneak preview, read [our discussion paper](#).

For now, we want to make three points. First, since GNDI is a better measure of economic performance than GDP and since the choice clearly makes a difference in the Pacific, we should use GNDI when we analyse economic performance in the 13 PICs. Second, the Pacific is economically unique, and the GNDI/GDP ratio is the best way to show this. Third, the fact that the gap between GNDI and GDP is increasing in the Pacific makes the case for turning to GNDI stronger over time.

Measuring GNDI is not difficult. All it takes is the addition of basic balance of payments data to GDP. Some countries already calculate it. But no one analyses it, neither national agencies, nor regional bodies, nor donors. That needs to change.

This blog is based on the authors' Development Policy Centre discussion paper [GNDI and the uniqueness of the Pacific island economies](#). The paper provides details on the data sources used for the graphs.

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