Per Capita GDP

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What is Per Capita GDP

A country's Gross Domestic Product (GDP) per person is obtained by dividing its GDP for a particular period by its average population for the year.

GDP refers to the total value of final (as opposed to interim, or work-in-progress) goods and services produced within a country's borders during a specific calendar period such as quarterly or annually. While GDP is the most widely used measure of a country's economic activity, per capita GDP is a better indicator of the change or trend in a nation's living standards over time, since it adjusts for population differences between countries.

populations and disproportionately large economies. “Per capita GDP” and “GDP per capita” are synonymous.

BREAKING DOWN Per Capita GDP

The International Monetary Fund (IMF) produces per capita GDP figures for countries, regions and groups (such as advanced economies and emerging markets) in two formats – based on purchasing power parity (PPP) exchange rates; and based in US dollars.

PPP theory essentially states that over the long term, currency exchange rates should converge towards the rate that equalizes the price of an identical basket of goods and services in any two countries. The “Big Mac Index,” which is calculated by dividing the price of a Big Mac burger in one nation by its price in another nation to arrive at an “exchange rate,” is one of the most popular manifestations of PPP theory. Simply put, PPP acknowledges that purchasing power in a country can differ markedly, depending on whether it is denominated in US dollars or the local currency.

PPP GDP is calculated by dividing a country’s nominal GDP in its own domestic currency by the PPP exchange rate. For many nations, the difference between per capita GDP (PPP) and per capita GDP (in US dollars) can be huge. For example, as of October 2018, India’s per capita GDP on a PPP basis was $7,800; however, per capita GDP in USD was $2,020. As another example, as of October 2018, Qatar had the highest per capita GDP (PPP) globally of $128,490, but in US dollar terms, it ranked No.7 at $67,820.

Per Capita GDP Growth Rates

According to World Bank data, global per capita GDP grew by an average of 1.88% annually from 1961 to 2017. Over this period, the global economy expanded at an average pace of 3.52% annually, while the world's population increased by an average of 1.61% per annum.

Major developing economies such as China and India have achieved per capita GDP growth rates well above the global average, despite their populations of over a billion people apiece, thanks to the financial reforms initiated by China in the late 1970s and India in the mid-1990s.

China's economy grew at about 5% annually from 1961 to 1977; from 1978 to 2017, growth surged to an annual pace of about 9.6%, almost double the pace of the prior period. China's per capita GDP tripled over these six decades, from a 2.8% annual pace in the 1961-1977 period, to over 8.5% annually in the 1978-2017 period.

Likewise, India's economic growth accelerated from a 4.25% annual pace in the 1961-1993 period, to 7.0% annually in the 1994-2017 period, as financial reforms and deregulation had a positive impact on the economy. Per capita GDP almost tripled, from 1.93% annually in the 1961-1993 period to 5.35% annually in the 1994-2017 period.

Long-Term Trends for Per Capita GDP

In November 2012, the Organization for Economic Cooperation and Development (OECD) released long-range forecasts for GDP and per capita GDP growth in a report titled "Looking to 2060: Long-term global growth prospects." According to the report, rapid growth in China and India would make their combined GDP (measured at 2005 PPP rates) surpass that of the

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both developed and emerging economies. The report noted that major emerging economies that have lower productivity at present - such as China, India, Indonesia and Brazil - would experience faster productivity growth than developed economies due to technology adoption and better business governance.

The report forecast that the convergence in productivity would be matched by a trend of converging GDP per capita between developing and emerging economies. Per capita GDP was estimated to double (in 2005 PPP terms) in the richest economies over the 2011 to 2060 period, but more than quadruple in the poorest economies. China and India were forecast to experience more than a seven-fold increase in per capita income by 2060, although living standards would continue to lag the developed economies. The report also projected that the rankings of per capita GDP in 2060 would remain very similar to the 2011 rankings.

Per Capita GDP vs Other Measures of Output and Income

A nation may have consistent economic growth, but if its population is growing faster than its GDP, per capita GDP growth will be negative. This is not a problem for most advanced economies, as their tepid pace of economic growth can still outpace their extremely low population growth rates. But it is a major issue for countries with low levels of per capita GDP to begin with – including a number of nations in Africa – where rapidly increasing populations have resulted in a steady erosion of living standards.

Per capita GDP suffers from the same shortcomings as GDP in that it does not fully summarize a country's level of development or quality of life. GDP measures may also overstate income because they include profits earned in a nation by overseas companies that are remitted back to foreign investors. Gross National Product (GNP), which differs from GDP by the net amount of incomes sent to or received from abroad, may provide a better measure of national income in such cases. Ireland is a textbook example of an economy where GNP is significantly lower than GDP because of massive profit repatriation by the numerous foreign companies located there.

The World Bank uses a measure called Gross National Income (GNI) per capita to classify economies into income groupings. According to the World Bank, GNI per capita is an easily available indicator that has a close correlation with other qualitative metrics of "quality of life", such as life expectancy, infant mortality rates and school enrollment rates.

Individual Countries Ranked by Per Capita GDP

from the IMF's World Economic Outlook (October 2018) Dataset. (https://www.imf.org/external/datamapper/PPPPC@WEO/OEMDC/ADVEC/WEOWORLD)

Most of the nations in this list have relatively small populations, the only exceptions being the United States (2017 population: 325.7 million) and Germany (82.7 million). With the world's largest economy and third-largest population, the Unites States stands out as a giant among these powerful minnows, with most of the others in the Top 12 comprising energy exporters, regional financial centers, and export/business powerhouses.

GDP Per Capita (PPP*) as of October 2018

1.	Qatar	$128,490
2.	Macao SAR	$118,100
3.	Luxembourg	$109,200
4.	Singapore	$98,260
5.	Brunei	$81,610
6.	Ireland	$77,670
7.	Norway	$74,320
8.	United Arab Emirates	$70,260
9.	Kuwait	$66,980
10.	Switzerland	$64,990
11.	Hong Kong SAR	$64,790
12.	United States	$62,520
13.	San Marino	$61,580
14.	Netherlands	$56,570
15.	Saudi Arabia	$55,930
16.	Iceland	$54,750
17.	Taiwan	$52,960