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info@theprayasindia.com
www.theprayasindia.com/upsc

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Grand Renaissance Dam

(Source: The Indian Express)

Context: *Ethiopia, Sudan and Egypt agreed to resume negotiations to resolve their decade-long complex dispute over the* ***Grand Renaissance Dam hydropower project*** *in the Horn of Africa.*

What is the dispute about?

- The Nile, Africa's longest river, has been at the center of a decade-long complex dispute involving several countries that are dependent on the river's waters. At the forefront of this dispute are Ethiopia and Egypt, with Sudan having found itself dragged into the issue.
- Spearheaded by Ethiopia, the 145-meter-tall (475-foot-tall) Grand Renaissance Dam hydropower project, when completed, will be Africa's largest. The main waterways of the Nile run through Uganda, South Sudan, Sudan and Egypt, and its drainage basin runs through several countries in East Africa, including Ethiopia, the portion where this dam is being constructed.
- The construction of the dam was initiated in 2011 on the Blue Nile tributary of the river that runs across one part of Ethiopia. The Nile is a necessary water source in the region and Egypt has consistently objected to the dam's construction, saying it will impact water flow.
- The long-standing dispute has been a cause of concern for international observers who fear that it may increase conflict between the two nations and spill out into other countries in the Horn of Africa.

Why can the dam cause conflict?

- Given the dam's location on the Blue Nile tributary, it would potentially allow Ethiopia to gain control of the flow of the river's waters. Egypt lies further downstream and is concerned that Ethiopia's control over the water could result in lower water levels within its own borders.
- When Ethiopia had announced in 2019 that it planned on generating power using two turbines, Egypt had strongly objected. In addition, Egypt proposed a longer timeline for the project over concerns that the water level of the Nile could dramatically drop as the reservoir fills with water in the initial stages.
- Sudan's location between Egypt up north and Ethiopia down south has caused it to become an inadvertent party to this dispute. But that isn't all; Sudan too is concerned that if Ethiopia were to gain control over the river, it would affect the water levels Sudan receives.

Why does Ethiopia want this dam?

- Ethiopia's goal is to secure electricity for its population and to sustain and develop its growing manufacturing industry. Addis Ababa anticipates that this dam will generate approximately 6,000 megawatts of electricity when it is completed, that can be distributed for the needs of its population and industries.
- Researchers believe that in addition to its domestic requirements, Ethiopia may be hoping to sell surplus electricity to neighbouring nations like Kenya, Sudan, Eritrea and South Sudan, that also suffer from electricity shortages, to generate some revenue.

Current scenario

- The latest round of talks between Ethiopia, Sudan and Egypt occurred through video conference due to the Covid-19 pandemic, with South Africa observing the proceedings in its role as the current head of the African Union's rotating council, in addition to other international observers.
- Despite previous talks, the point of contention hasn't changed: Egypt and Sudan are concerned about the filling and the operation of the dam. Ethiopia continues to insist that the dam is required to meet the needs of its population and has said that downstream water supplies will not be adversely affected.
- But this has done little to pacify both Egypt and Sudan, with Cairo saying that the dam would cut its water supplies — concerning for a country that depends on the Nile for approximately 97% of its drinking water and irrigation supplies. According to a DW report, Sudan believes that the dam will reduce flooding, but is concerned about the path forward if the negotiations end at a stalemate.

Understanding Advance Estimates of GDP

(Source: Indian Express)

Context: *Recently, the Ministry of Statistics and Programme Implementation released the First Advance Estimates (FAE) for the current financial year. According to MoSPI, India's gross domestic product (GDP) — the total value of all final goods and services produced within the country in one financial year — will contract by 7.7 per cent in 2020-21.*

What are the First Advance Estimates of GDP?

- For any financial year, the MoSPI provides regular estimates of GDP. The first such instance is through the FAE. The FAE for any particular financial year is typically presented on January 7th.
- Their significance lies in the fact that they are the GDP estimates that the Union Finance Ministry uses to decide the next financial year's Budget allocations.
- The FAE will be quickly updated as more information becomes available. On February 26th, MoSPI will come out with the Second Advance Estimates of GDP for the current year.
- The first advance estimates of GDP, obtained by extrapolation of seven months' data, are released early to help officers in the Finance Ministry and other departments in framing the broad contours of Union Budget 2021-22. The second advance estimates of GDP will be released on February 26.

How are the FAE arrived at?

- The FAE are derived by extrapolating the available data. According to the MoSPI, the approach for compiling the Advance Estimates is based on Benchmark-Indicator method.
- The sector-wise estimates are obtained by extrapolating indicators such as
    - #Index of Industrial Production (IIP) of first 7 months of the financial year
    - #Financial performance of listed companies in the private corporate sector available up to quarter ending September, 2020
    - #The 1st Advance Estimates of crop production,

- #The accounts of central & state governments,
- #Information on indicators like deposits & credits, passenger and freight earnings of Railways, passengers and cargo handled by civil aviation, cargo handled at major sea ports, sales of commercial vehicles, etc., available for first 8 months of the financial year.

How is the data extrapolated?

- In the past, extrapolation for indicators such as the IIP was done by dividing the cumulative value for the first 7 months of the current financial year by average of the ratio of the cumulative value of the first 7 months to the annual value of past years.
- So if the annual value of a variable was twice that of the value in the first 7 months in the previous years then for the current year as well the annual value is assumed to be double that of the first 7 months.
- However, this year, because of the pandemic there were wide fluctuations in the monthly data. Moreover, there was a significant drop, especially in the first quarter, on many counts. That is why the usual projection techniques would not have yielded robust results.
- As such, MoSPI has tweaked the ratios for most variables.

Key takeaways from the First Advance Estimates for 2020-21

- **#1 GDP Growth Rate:**
  - In the context of recent history, the 7.7 per cent contraction in GDP (see Table 1) is a sharp one considering that India has registered an average annual GDP growth rate of 6.8 per cent since the start of economic liberalisation in 1992-93.

Table 1: India has been losing the GDP growth momentum

Year	GDP Growth Rate (in %)
2015-16	8
2016-17	8.3
2017-18	7
2018-19	6.1
2019-20	4.2
2020-21	—7.7

Source: MoSPI

Table 1

  - But, a big reason for the contraction this year has been the disruption caused by Covid-induced lockdowns which saw the economy contract by almost 24 per cent in the first quarter (April, May and June) and by 15.7 per cent during the first half (H1) of the year (first two quarters or from April to September). As a result, the domestic economy had entered a technical recession.
  - However, in the second half of the current financial year — that is, October to March — the government expects the economy will produce almost exactly the same amount of goods and services that it produced in the second half of the last financial year (2019-20).
  - In the H1 of 2020-21, India produced goods and services worth Rs 60 lakh crore — much lower than the Rs 71 lakh crore worth of goods produced in H1 of 2019-20.
  - But in H2 of 2020-21, MoSPI expects GDP to be worth Rs 74.4 lakh crore, which is roughly the same as the GDP in H2 of 2019-20 — about Rs 74.7 lakh crore.
  - For the full year of 2020-21 then, India's GDP is likely to be Rs 134.4 lakh crore as against Rs 145.7 lakh crore in 2019-20.

- **#2 Absolute level of real GDP:**

- At Rs 134.4 lakh crore, India's real GDP — that is, GDP without the influence of inflation — in 2020-21 will be lower than the 2018-19 level (see Table 2).

Table 2: Real GDP in 2020-21 will be lower than the 2018-19 level

Year	GDP in Rs Lakh Crore (constant prices)
2015-16	114
2016-17	123
2017-18	132
2018-19	139
2019-20	143
2020-21	134

Source: MoSPI

Table 2

- In other words, from the start of the next financial year, India would first have to raise its GDP back to the level it was at in 2019-20 (Rs 143.7 lakh crore).

- **#3 Per Capita GDP:**
  - While the GDP provides an all-India aggregate, per capita GDP is a better variable if one wants to understand how an average India has been impacted.
  - As Table 3 shows, India's per capita GDP will fall to Rs 99, 155 in 2020-21 — last seen four years ago during 2016-17.

Table 3: This year India's per capita GDP will fall to levels last seen in 2016-17

Year	Per Capita GDP in Rs (constant prices)
2015-16	88616
2016-17	94751
2017-18	100268
2018-19	105361
2019-20	108620
2020-21	99155

Source: MoSPI

Table 3

- In fact, while the overall real GDP will fall by 7.7 per cent, per capita real GDP will fall by 8.7 per cent.

- **#4 Absolute level of real Gross Value Added (or GVA):**
  - The Gross Value Added provides a picture of the economy from the supply side. It maps the value-added by different sectors of the economy such as agriculture, industry and services. In other words, GVA provides a proxy for the income earned by people involved in the various sectors.

Table 4: India's real GVA level will fall below the 2018-19 level

Year	GVA in Rs Lakh Crore (constant prices)
2015-16	105
2016-17	113
2017-18	121
2018-19	128
2019-20	133
2020-21	123

Source: MoSPI

Table 4

- As Table 4 shows, at Rs 123.4 lakh crore, India's real GVA level, too, will fall below the 2018-19 level.

- **#5 Absolute level of Private Final Consumption Expenditure (PFCE):**
  - India's overall GDP can be divided into four main sections.
  - The biggest demand for goods and services comes from private individuals trying to satisfy their consumption needs. Typically this would include all the things — be it a toothpaste or a car — that you and your family members buy in their private individual capacity. This demand is called PFCE and it constitutes over 56 per cent of the total GDP.

Table 5: Aggregate private consumption levels of Indians will be almost what it was in 2017-18

Year	PFCE in Rs Lakh Crore (constant prices)
2015-16	63.8
2016-17	69
2017-18	73.8
2018-19	79
2019-20	83.3
2020-21	75.4

Source: MoSPI

Table 5

- As Chart 5 shows, PFCE levels will be almost what they were in 2017-18.

- **#6 Per capita PFCE:**
  - Just like per capita GDP, the per capita PFCE is also a relevant metric as it shows how much does an average Indian spend in his/her private capacity. Typically, with rising incomes standards, such consumption levels also rise.

Table 6: But per capita private consumption level will fall below the 2017-18 level

Year	Per Capita PFCE in Rs (constant prices)
2015-16	49738
2016-17	55120
2017-18	56163
2018-19	59594
2019-20	62087
2020-21	55609

Source: MoSPI

Table 6

- However, as Table 6 shows, at Rs 55,609, per capita PFCE will fall below the 2017-18 level.

- **#7 Absolute level of Gross Fixed Capital Formation (GFCF):**
  - The second biggest component of GDP is called GFCF and it measures all the expenditures on goods and services that businesses and firms make as they invest in their productive capacity. So if your firm buys computers and software to increase the overall productivity then it will be counted under GFCF.

Table 7: The investment demand in the economy will fall even below the 2016-17 level

Year	GFCF in Rs Lakh Crore (constant prices)
2015-16	34.9
2016-17	37.9
2017-18	40.6
2018-19	44.6
2019-20	43.3
2020-21	37.1

Source: MoSPI

Table 7

- This type of demand accounts for close to 28 per cent of India’s GDP. Taken together, private demand and business demand account for almost 85 per cent of all GDP.
- As Table 7 shows, at Rs 37 lakh crore, GFCF (or the investment demand in the economy) has fallen even below 2016-17 level.