

Daily Editorial Analysis 17 June 2025

June 17, 2025 • vajiramandravi.com

India's Fiscal Consolidation Trajectory - Strengths, Slippages, and Policy Implications

Context:

- The article provides a **detailed analysis of the Government of India's (GoI's) fiscal performance** for the financial year 2024-25 (FY25), based on provisional data, and evaluates its implications for FY26.
- **It highlights key trends** in deficit containment, capex growth, revenue collection, and looming policy changes, which are crucial from the perspective of **macroeconomic management and fiscal federalism** in India.

Fiscal Performance in FY25 - A Mixed Bag:

- **Fiscal deficit trends:**
 - FY25 fiscal deficit stood at **Rs 15.77 trillion**, slightly above the Revised Estimate (RE) of Rs 15.7 trillion.
 - As a percentage of GDP, the fiscal deficit was contained at **4.8%**, aligning with the target due to higher-than-estimated nominal GDP.
- **Revenue deficit milestone:**
 - Revenue deficit was curtailed to **Rs 5.7 trillion**, lower than RE of Rs 6.1 trillion.
 - This amounted to **1.7% of GDP**, a 17-year low, and an improvement from the 1.9% target.
- **Capital expenditure (Capex) surge:**
 - Capex exceeded expectations, reflecting stronger infrastructure push.
 - April 2025 alone saw **61% year-on-year increase in capex**, reaching Rs 1.6 trillion.

Receipts and Revenue Challenges:

- **Shortfall in tax revenues:**
 - Gross tax revenues missed FY25 RE by Rs 0.6 trillion.
 - To meet FY26 targets, tax revenue must grow at 12.5%, up from earlier 10.8% projection.
- **Compensatory dividends:** A Rs 0.4 trillion higher-than-budgeted RBI dividend transfer, offering partial cushion for FY26.

- **Miscellaneous capital receipts:** In April 2025, such receipts were 46% of FY26 BE, versus nil in April 2024, indicating positive early momentum.

FY26 Outlook - Optimism with Caveats:

- **Nominal GDP revision as a fiscal cushion:**
 - FY25 nominal GDP was 2% higher than First Advance Estimate.
 - Despite a lower FY26 nominal growth projection of 9% (ICRA), **the fiscal deficit can be contained at 4.4%**, aided by a larger base effect.
- **Capital expenditure momentum:** Capex can potentially exceed BE by Rs 0.8 trillion, pushing the total to **Rs 12.0 trillion**, ensuring higher public investment momentum.
- **Expenditure composition and timing:** FY26 requires higher revenue expenditure growth than earlier estimated, but lower capex growth, due to front-loading in April.

Emerging Fiscal Policy Considerations:

- **Finance Commission recommendations:** The 16th Finance Commission's upcoming report will **redefine Centre-State fiscal relations** for the next five years.
- **Geopolitical and defence implications:** Potential increase in defence spending due to global tensions may **crowd out developmental expenditure**.
- **Pay Commission (8th) impact:** The timing of the Pay Commission award **could strain central finances** and influence state-level fiscal decisions.
- **Future of GST compensation cess:** The imminent cessation of GST compensation cess in its current form **raises questions on Centre-State revenue sharing**.

Conclusion - A Cautiously Optimistic Fiscal Trajectory:

- **India's fiscal consolidation trajectory** appears largely on track, with encouraging signs from higher capex and lower revenue deficit.
- However, **medium-term sustainability will depend on structural reforms** in revenue mobilization, expenditure efficiency, and Centre-State fiscal coordination in light of upcoming institutional and geopolitical developments.

India's Fiscal Consolidation Trajectory FAQs

Q1. What factors contributed to the containment of India's fiscal deficit at 4.8% of GDP in FY2025 despite a marginal overshoot in absolute terms?

Ans. The containment was aided by higher-than-expected nominal GDP and significant savings in revenue expenditure that offset shortfalls in receipts.

Q2. How did the Government of India's capital expenditure performance in FY2025 impact fiscal trends and planning for FY2026?

Ans. A back-ended surge in capex, especially in Q4 of FY2025, created momentum for early spending in FY2026 and reduced the required capex growth rate for the rest of the fiscal.

Q3. What are the implications of the shortfall in gross tax revenues in FY2025 for fiscal planning in FY2026?

Ans. The Rs 0.6 trillion shortfall has increased the required growth rate in gross tax revenue to 12.5% in FY2026, raising concerns about revenue buoyancy.

Q4. Why is the upward revision of nominal GDP estimates for FY2025 significant for India's fiscal consolidation path?

Ans. It provides a larger economic base that helps in meeting deficit and debt targets, even with moderate slippages or lower projected growth in FY2026.

Q5. What key fiscal policy developments could influence Centre-State fiscal dynamics in the near future?

Ans. Recommendations of the 16th Finance Commission, restructuring of GST compensation cess, potential Pay Commission awards, and rising defence spending could all significantly impact intergovernmental fiscal relations and priorities.

Source: IE

Serving Justices, But Not Justice

Context

- **The Indian judiciary, often hailed as the guardian of constitutional morality** and a bulwark against executive excesses, **has long been viewed as one of the most trusted public institutions** in the country.
- Yet, **recent revelations and controversies have cast a long shadow** over the credibility of this institution.
- **The case of Justice Yashwant Varma**, involving sacks of cash found amidst a fire at his official residence, followed by opaque proceedings and an impeachment recommendation, exemplifies a broader malaise.
- The **problem lies not just in the specific allegations of corruption, but in the lack of transparency that characterises the judiciary's own internal accountability** mechanisms, particularly the so-called 'in-house procedure'.

The Justice Varma Controversy: A Symptom of a Deeper Problem

- On March 14, a fire broke out at Justice Yashwant Varma's residence, **leading to the discovery of half-burnt sacks allegedly filled with cash.**
- **Within days, Justice Varma was relieved of his duties** and transferred from the Delhi High Court to the Allahabad High Court.

- Eventually, **an impeachment recommendation followed**, reportedly based on a judicial inquiry.
- **The swift and secretive nature of these developments is unusual** and troubling.
- Though **the Supreme Court made some material public, such as video footage and redacted correspondence, crucial documents**, including reports by the Commissioner of Police and the judicial committee's final findings, were withheld.
- **Most concerning is the disappearance of the alleged sacks of cash**, reportedly removed by Justice Varma's staff, raising serious questions about the integrity of the investigative process.
- **Why was such critical evidence not preserved?** Why were law enforcement agencies seemingly unable or unwilling to secure the scene?
- **These questions remain unanswered**, as they are enveloped in the secrecy of the judiciary's internal disciplinary system.

The 'In-House Procedure': Institutionalised Opacity

- The **Justice Varma episode illustrates the inherent opacity of the judiciary's 'in-house procedure'**, an informal mechanism designed by the higher judiciary to deal with allegations of judicial misconduct.
- **Under this system, inquiries are conducted exclusively by fellow judges**, and nearly all aspects of the process, from the complaint's existence to the findings of the inquiry, are shrouded in secrecy.
- The problems with this system are numerous:
 - **Lack of transparency:** The public is not entitled to know whether an inquiry was conducted or what its outcome was.
 - **Absence of procedural safeguards:** Unlike regular inquiries, these proceedings are not bound by legal norms or due process requirements.
 - **No public accountability:** There is no external oversight or appeal, and even findings of guilt are not published.
- The judiciary, while demanding **accountability** from other institutions, **exempts itself from the same standards**, thus undermining its own legitimacy.

Precedents of Concern: A Pattern of Secrecy and Impunity

- **Justice Ramana and the Andhra Pradesh Allegations (2020)**
 - Grave **accusations made by the Chief Minister against Justice Ramana and other judges were summarily dismissed** without explanation.
 - There was no public record of any inquiry into **Justice J.K. Maheshwari**, another named judge, who was soon elevated to the Supreme Court.
- **Sexual Harassment Allegations Against CJI Ranjan Gogoi (2019)**
 - A former employee accused then CJI Gogoi of sexual harassment and **victimisation**.
 - **The inquiry, conducted by his peers, exonerated him**, without allowing the complainant legal representation or access to the final report.
 - Meanwhile, **the Court launched a separate inquiry into an alleged conspiracy against the judiciary**, a claim that lacked evidentiary backing.

- **After Justice Gogoi's retirement, the complainant was reinstated with full back wages,** a tacit admission of procedural and moral inconsistency.
- **Allegations Against Justice Surya Kant**
 - Slated to become the CJI in 2025, **Justice Surya Kant has faced serious allegations ranging from corruption to abuse of power.**
 - Although some judges expressed concern and called for inquiry, **there is no public record of any investigation into the charges.**
 - Yet, **his career trajectory has remained unaffected, underscoring the in-house system's tendency** to brush controversies under the carpet.

The Case for Reform: Transparency as a Democratic Imperative

- The **opacity of the judicial accountability process stands in sharp contrast** to the principles the judiciary has itself laid down.
- The Supreme Court has repeatedly affirmed that the **right to information** is intrinsic to the **freedom of speech and expression**, and a cornerstone of participatory democracy. Yet, the judiciary's internal practices betray these ideals.
- Public disclosure of in-house inquiry findings is essential:
 - It would develop **institutional trust** by showing that misconduct is taken seriously.
 - It would deter future impropriety by signalling that **judicial office is not immune** from scrutiny.
 - It would affirm the judiciary's own **moral and legal authority** by holding itself to the same standards it imposes on others.
- **Secrecy does not protect the judiciary's independence;** it erodes it.
- **Independence does not mean insulation from accountability, rather,** it should coexist with mechanisms that ensure public confidence.

Conclusion

- **The Justice Varma case, and others like it, should serve as a wake-up call and the judiciary cannot continue to operate in a parallel universe,** where norms of due process and transparency do not apply.
- While it rightly demands autonomy and respect, **it must also embrace scrutiny and openness.**
- **A reformed, transparent mechanism** for dealing with judicial misconduct, possibly involving a mix of judicial and independent oversight, **is not just desirable; it is essential for the continued legitimacy of the Indian judiciary.**
- **Until then, the in-house procedure will continue to resemble a papal conclave,** leaving the public to interpret shadows and smoke instead of facts and findings.

Serving Justices, But Not Justice FAQs

Q1. What sparked the inquiry against Justice Yashwant Varma?

Ans. The inquiry was triggered after several sacks of cash were discovered during a fire at his official residence.

Q2. What is the 'in-house procedure'?

Ans. The 'in-house procedure' is an internal mechanism through which senior judges investigate allegations of misconduct against other judges, without public disclosure.

Q3. Why is the in-house procedure criticized?

Ans. It is criticized for being opaque, lacking transparency, and not ensuring public accountability.

Q4. What happened in the sexual harassment case against CJI Ranjan Gogoi?

Ans. CJI Gogoi was exonerated by a closed-door judicial committee, while the complainant was denied legal representation and access to the final report.

Q5. What reforms are necessary in Indian Judiciary?

Ans. Judicial inquiries should be made transparent to uphold public trust and strengthen institutional accountability.

Source: **The Hindu**

India's Uneasy Balancing Act in the Bay of Bengal

Context

- **India's economic engagement in the Bay of Bengal** region appears to be **entering a dynamic and consequential phase**.
- On the surface, **there are several encouraging indicators**: trade volumes are increasing, major eastern ports such as Visakhapatnam, Paradip, and Haldia are witnessing steady growth in cargo throughput, and the recent signing of the **BIMSTEC Maritime Transport Cooperation Agreement augurs well for improved regional integration**.
- However, **this optimism is tempered by emerging geopolitical tensions**, particularly in India's relationship with Bangladesh.
- **These tensions have cast a shadow on India's broader regional ambitions** and exposed the fragility of its leadership claims in the Bay of Bengal.

The Withdrawal of the Transshipment Facility: Strategic Signal or Logistical Necessity?

- A critical turning point came in April when **India abruptly withdrew a transshipment facility that allowed Bangladesh to route exports** through Indian ports to third-country destinations.
- While **New Delhi justified this move on logistical grounds**, citing congestion and resultant delays at Indian terminals, the decision coincided with a diplomatic misstep in Dhaka.

- **Bangladesh's interim Chief Adviser**, speaking in Beijing, referred to **India's northeastern states as landlocked and suggested that Bangladesh served as their maritime gateway.**
- This **statement clashed with New Delhi's strategic narrative**, which positions the Northeast as a linchpin of regional connectivity, not a dependent outpost.
- **Although India's concerns about logistics may be valid, the timing of the decision appeared retaliatory**, especially in light of Bangladesh's growing engagement with China and its broader hedging strategy.
- **In Dhaka, the move was interpreted not as a pragmatic trade adjustment but as a calculated message**, India was asserting displeasure through economic means.

The Larger Context: India's Maritime Push

- This **controversy unfolded just as India was redoubling its efforts to strengthen regional integration** through maritime initiatives.
- Under the Sagarmala programme, **India has invested substantially in improving port infrastructure and coastal logistics.**
- **Trade along the eastern seaboard has more than doubled over the past decade**, thanks in part to policy incentives such as GST cuts on bunker fuel and support for coastal shipping.
- The **BIMSTEC Maritime Transport Cooperation Agreement represents another layer of this effort, aiming to harmonise customs procedures and create multimodal linkages** that would benefit not only India but also smaller landlocked or less-connected countries such as Bhutan, Nepal, and Myanmar.
- However, **India's unilateral withdrawal of the transshipment facility appears at odds with the cooperative ethos** these regional efforts promote.
- **For Bangladesh's export-reliant economy, particularly its ready-made garment sector, the loss of access to Indian transshipment ports introduces significant uncertainty** and cost, especially when alternatives via Sri Lanka or Southeast Asia are less viable.

Potential Implications of India's Move

- **Escalating Trade Frictions**
 - The situation worsened in mid-May **when India imposed new restrictions on the import of several Bangladeshi goods**, mandating that they enter only through select seaports, rather than via the more accessible northeastern land ports.
 - **Indian officials framed this as a reciprocal measure** following Bangladesh's earlier restrictions on Indian yarn imports.
 - However, **given that India's transshipment rollback preceded Bangladesh's actions, many in Dhaka perceived the Indian response as excessive** and punitive.
 - These **tit-for-tat measures risk undermining years of progress in regional cooperation.** Some in New Delhi argue that Dhaka is being warned of the perils of strategic hedging, given its closer ties with China and Pakistan.
 - **Yet, Bangladesh, as a sovereign nation,** is within its rights to diversify its foreign policy.

- If **India begins to weaponize trade access in response to perceived diplomatic slights, it risks transforming economic cooperation into a geopolitical contest**, precisely what BIMSTEC and other multilateral efforts were designed to avoid.
- **The Risk of Undermining Regional Trust**
 - The **implications extend beyond bilateral relations**. Other regional capitals, Naypyidaw, Bangkok, Colombo are observing these developments closely.
 - The **concern is not merely that India is using its leverage; great powers often do**.
 - Rather, **the concern is that India is doing so in a domain traditionally kept separate from geopolitics**: regional trade infrastructure.
 - Once considered neutral and collective, **these maritime corridors are beginning to feel conditional and transactional**.
 - **India does retain considerable strategic advantages**. Its port infrastructure is the most advanced in the region, and its capacity for multimodal transport is unmatched among BIMSTEC countries.
 - However, **material capacity alone is insufficient for regional leadership**.
 - In a region historically marred by mistrust and fragmentation, **India's credibility**, its consistency, fairness, and reliability, will **ultimately determine the success of its regional ambitions**.

The Way Ahead: Rebuilding Credibility and Drawing Clearer Lines

- The Bay of Bengal stands at an **inflection** On one hand, it offers tremendous potential as a **connective corridor between South and Southeast Asia**.
- A **well-executed BIMSTEC Free Trade Agreement** could reshape trade patterns and deepen economic ties.
- On the other hand, **the region remains vulnerable to strategic anxieties** and national rivalries.
- The **recent blurring of economic policy and geopolitical positioning threatens to derail India's carefully constructed narrative** of regional cooperation.
- **There is still time for course correction**. India could reframe its withdrawal of the transshipment facility as a temporary measure and set clear, rule-based criteria for its reinstatement.
- Better yet, **it could establish a depoliticised mechanism for trade facilitation**, one that ensures predictability and fairness irrespective of diplomatic currents.
- **Such a move would not only reassure Bangladesh but also reinforce India's image** as a responsible regional leader.

Conclusion

- **The central question facing India is whether it can balance the assertion** of its strategic interests with the cultivation of regional trust.
- Its **recent actions have sent mixed signals**, combining infrastructural ambition with political reactivity.
- For India to truly lead in the Bay of Bengal, **it must ensure that its economic policies serve as bridges, not battlegrounds**.

- The **success of its regional vision hinges not merely on ports and corridors**, but on the credibility, it commands among its neighbours.

India's Uneasy Balancing Act in the Bay of Bengal FAQs

Q1. Why did India withdraw the transshipment facility for Bangladesh?

Ans. India withdrew the transshipment facility for Bangladesh citing port congestion, but the move was widely interpreted as a political signal linked to Bangladesh's growing ties with China.

Q2. What is the Sagarmala programme?

Ans. The Sagarmala programme is India's flagship initiative aimed at enhancing coastal logistics, improving port infrastructure, and boosting maritime trade.

Q3. How does the BIMSTEC Maritime Agreement help trade?

Ans. The BIMSTEC Maritime Transport Cooperation Agreement helps trade by harmonising customs procedures and promoting multimodal linkages to reduce costs and delays in the Bay of Bengal region.

Q4. What was Bangladesh's statement that upset India?

Ans. Bangladesh's interim Chief Adviser referred to India's northeastern states as "landlocked" and described Bangladesh as their maritime lifeline, a statement that was not well received in New Delhi.

Q5. What risk does India face by linking trade to politics?

Ans. By linking trade access to political considerations, India risks eroding regional trust and weakening the credibility of its leadership in Bay of Bengal cooperation efforts.

Source: **The Hindu**

Source: <https://vajiramandravi.com/current-affairs/daily-editorial-analysis-17-june-2025/>

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