

Editorial of the Day – 03.01.2026

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1. Unenviable choice- On the government's fiscal policy space (TH)

General Studies 3- Economy

Topic- Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Fiscal Dilemma- Balancing Growth-Oriented Capex and Fiscal Targets

1. Introduction

The latest economic data highlights a critical challenge for the Indian government in the fiscal year 2025-26- a constrained fiscal space amidst efforts to stimulate demand. While the government has implemented tax reductions (both GST and Income Tax) to ease economic pressures, these measures have weakened short-term revenue collections. Simultaneously, public expenditure obligations remain high, creating a growing tension between the need to support economic growth through Capital Expenditure (Capex) and the necessity of maintaining fiscal prudence.

2. Narrow Fiscal Space Exposed by GST Trends

Stagnant Revenue Growth- The GST revenue for December 2025 stood at ₹1.74 lakh crore, registering only a marginal rise over the previous month.

Limited Demand Revival- The lukewarm collections indicate that the recent GST rate reductions have not yet triggered a significant revival in consumption demand.

Shift in Consumer Behaviour- Rather than increasing immediate spending, consumers appear to be prioritizing savings and debt reduction. A similar trend was observed following the income-tax relief measures announced in Budget 2025, suggesting that tax cuts are being saved rather than spent.

3. Short-Term Pain from Tax Relaxations

Fiscal Cost of Policy Shifts- While the cuts in GST and income tax were welcomed as necessary policy interventions to support households, they have proven fiscally costly in the short run.

Revenue Contraction- Total tax revenue collections up to November 2025 stood at ₹13.9 lakh crore, which is 3.4% lower year-on-year.

Time Lag in Benefits- The revenue losses from these cuts are "front-loaded" (immediate), whereas the demand-side benefits (increased consumption driving future tax revenue) are likely to materialize only in the medium term.

4. Expenditure Pressures and Inflexibility

Surge in Capital Expenditure- The government has aggressively pushed for growth, with Capital Expenditure (Capex) rising sharply by 28% year-on-year to reach ₹6.58 lakh crore. This is vital for infrastructure and long-term asset creation.

Rigidity of Revenue Expenditure- While revenue expenditure grew at a slower pace (2.1%), it largely consists of non-discretionary items such as salaries, pensions, and interest payments.

Constraint- These expenditures are rigid and cannot be compressed indefinitely, severely constraining the government's fiscal manoeuvrability.

5. Emerging Fiscal Risks

Delayed Impact of New Levies- The newly announced excise duties, GST rates, and cesses on tobacco and pan masala will only come into effect from February 1, 2026. Consequently, the revenue benefits

from these measures will largely accrue in the *next* financial year, offering little relief for the current fiscal targets.

The Nominal GDP Trap

Low Inflation- The economy is witnessing very low wholesale inflation (average -0.08%).

Impact- This results in a lower Nominal GDP than what was budgeted. Since fiscal deficit is calculated as a percentage of Nominal GDP, a lower denominator mechanically inflates the fiscal deficit and debt-to-GDP ratios, even if borrowing remains constant.

6. The Unenviable Choice

The government faces a tough trade-off

Option A- Protect growth-supporting Capex to ensure long-term economic momentum, risking a breach of fiscal deficit targets.

Option B- Cut back on spending to meet fiscal targets, potentially stalling the economic recovery.

7. Conclusion

The government stands at a critical juncture, facing sluggish revenue growth, inflexible expenditures, and delayed benefits from revenue-augmenting measures. While sustaining capital expenditure is vital for long-term growth, doing so in the face of falling revenues risks fiscal slippage. The core challenge for the remainder of the financial year lies in balancing the imperative of fiscal discipline with the need to safeguard economic momentum in an uncertain environment.

Source- https://www.thehindu.com/opinion/editorial/unenviable-choice-on-the-governments-fiscal-policy-space/article70464114.ece#google_vignette

2. Energy transition will need more than chasing the sun and harnessing the wind (IE)

General Studies 3- Economy

Topic- Infrastructure- Energy

Power Sector Reforms- Shifting Focus from Generation to Systemic Optimisation

1. Introduction

India has achieved a significant milestone with solar and wind capacity crossing 180 GW and costs falling sharply. However, the energy transition has moved from a phase of generation constraints to systemic bottlenecks. The core challenge is no longer just adding capacity but addressing structural issues in distribution companies (discoms), tariff designs, and market mechanisms to prevent the renewable transition from becoming financially disruptive and operationally unstable.

2. The Distribution Sector- The Core Bottleneck

Central Role of Discoms- Discoms are the critical interface between power generation and end consumers. Their financial health dictates the pace of grid modernization.

Operational Inefficiencies

High AT&C Losses- Persistently high Aggregate Technical and Commercial (AT&C) losses (approx. 16%) indicate continued power theft, billing inefficiencies, and technical weaknesses.

Lack of Modernization- Financial stress prevents discoms from investing in necessary forecasting tools, balancing capacity, and grid upgrades.

Failure of Past Reforms- Schemes like UDAY and RDSS improved infrastructure and liquidity but failed to fix the fundamental incentive structures and tariff distortions.

3. Rising Renewable Penetration and System Stress

Intermittency Issues- The increasing share of solar and wind energy introduces variability and forecasting uncertainty into the grid.

Peak Demand Management- Misalignment between renewable output (e.g., solar peaks at noon) and consumption patterns leads to sharper, more expensive peak demand periods.

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Incentive Mismatch- Discom incentives are currently focused on electricity sales volumes rather than reliability or flexibility, discouraging proactive renewable integration.

4. Cross-Subsidisation and Revenue Erosion

Structural Flaw- Tariffs rely heavily on cross-subsidisation, where Commercial and Industrial (C&I) consumers pay higher rates to subsidize households and agriculture.

The Vicious Cycle- High tariffs drive C&I consumers toward rooftop solar, energy efficiency measures, and open access.

Revenue Loss- The exit of these high-margin consumers erodes the discoms' revenue base while subsidy obligations remain constant.

Result- This forces tariffs higher for remaining users, prompting further exit and deeper financial stress.

5. Fixed Costs vs. Volumetric Tariffs

Cost Structure Mismatch- Discom costs are largely fixed (network O&M, long-term Power Purchase Agreements), but revenue is collected via volumetric tariffs (per unit sold).

Impact of Efficiency- Adoption of energy efficiency and behind-the-meter solar reduces sales volume (revenue) without reducing the discom's fixed costs.

Need for Reform- The absence of separate fixed charges distorts price signals. Demand response initiatives may lower peak demand but ironically reduce discom revenues before cost savings are realized.

6. Rooftop Solar and Net Metering Challenges

Hidden Costs- Net metering compensates exported solar power at retail tariffs, which include network and cross-subsidy components, effectively overpaying prosumers at the cost of the discom.

Backup Supplier Dilemma- Discoms act as "backup" providers during non-solar hours (evenings/nights) without adequate remuneration for this reliability service.

Financial Stress- Without tariff restructuring, increased rooftop solar adoption deepens discom financial distress rather than enabling decentralized energy.

7. Technological Solutions- Smart Meters & Automation

Smart Metering- The installation of nearly 49 million smart meters provides the foundation for granular consumption measurement and dynamic pricing.

Time-of-Day (ToD) Tariffs- A nationwide mandate for ToD tariffs is shifting the sector toward cost-reflective pricing.

Automated Demand Response (ADR)

Limitation of Price Signals- Manual demand shifting is unrealistic for households.

Automation- Smart appliances and EV chargers can shift load automatically without consumer intervention.

Benefit- ADR offers grid flexibility comparable to battery storage but at a significantly lower cost.

8. Wholesale Market Limitations and Reforms

Current Fragmentation- Despite a physically interconnected grid, markets are institutionally fragmented. Power exchanges handle only 7–9% of electricity, restricting true price discovery.

Self-Scheduling- Long-term PPAs encourage self-scheduling, preventing the "least-cost dispatch" of power and leading to the curtailment of cheaper renewable energy.

Solution - Market-Based Economic Dispatch (MBED)

Concept- Prioritizes the dispatch of the lowest-cost generation on a national level.

Economic Impact- The CERC estimates annual savings of \$1.6 billion from MBED implementation.

Efficiency- It improves liquidity and ensures zero-marginal-cost renewables are utilized effectively.

9. Redefining the Role of Discoms

Paradigm Shift- Discoms must evolve from passive bill collectors to active system managers.

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New Incentives- Regulatory frameworks should reward reliability, peak load management, and loss reduction rather than just sales volume.

Performance-Linked Regulation- Aligning discom interests with climate goals ensures that energy efficiency and distributed generation become assets rather than threats to their viability.

10. Conclusion

India's renewable energy journey has reached a critical juncture where system optimization outweighs capacity addition. Success depends on fixing distribution finances, modernizing tariff designs (to recover fixed costs), enabling automated demand response, and integrating wholesale markets. Without these structural reforms, the transition to clean energy risks being inefficient and financially unsustainable.

Source- <https://indianexpress.com/article/opinion/columns/energy-transition-will-need-more-than-chasing-the-sun-and-harnessing-the-wind-10452456/>

