

It is time to set realistic disinvestment targets

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There is a debate on whether the target for PSU disinvestment should be fixed at a more realistic level. In a recent interview, the Secretary of the Department of Investment and Public Asset Management stated that the focus should be on privatisation instead of chasing high disinvestment targets.

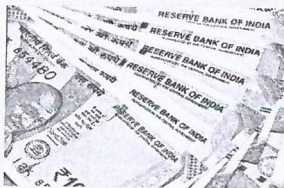
He said high targets lead to a perception that the government will sell minority stakes in CPSUs, which tend to lead to a fall in their share prices. Fixing an unrealistically high target achieves no purpose.

In 2021-22, the government realised only ₹0.14 lakh crore against a revised estimate of ₹0.78 lakh crore, according to DIPAM.

On the other hand, if the government keeps the disinvestment target low and the expenditure remains same, the size of the amount to be borrowed would be more than the borrowing estimate. The impact of increased borrowings can be seen on the size of the fiscal deficit and in the bond market. The extra government borrowing for meeting expenditure can drain the liquidity from the market and lead to an increase in the cost of debt. This will hit the corporates' borrowing plans as credit gets squeezed.

The high cost of debt will impact the balance sheets of corporates as well as government finances.

We have already seen the response of the bond



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market as an increase in bond yield when the government pegged the budgeted gross market borrowing at ₹14.3 lakh crore in 2022-23. The 10-year bond yield closed at 6.85 per cent from its previous close of 6.68 per cent.

Since Yashwant Sinha's interim Budget in 1991, all succeeding governments have set disinvestment targets. The Budget targets are usually followed by a Revised Estimate midway through the financial year.

The government selects the candidates for privatisation on the basis of various parameters that include — its existing stake in the targeted CPSU, condition of the stock market, economic scenario, interest of private players in ownership of the CPSU

etc. But disinvestment targets are most often missed.

From the financial year 2014-15, the Budget target has been changed every year except in the financial year 2018-19. It has been lowered six times and raised only in 2017-18. In the last eight years, the average Budget target was ₹1.04 lakh crore, which has been reduced to an average revised target of ₹0.58 lakh crore. That average Budget estimates for disinvestment have been revised by lowering it by about 45 per cent.

Now let's look at the second interesting point. The Revised Estimate has been achieved except in 2019-20 and in the last fiscal year.

In 2019-20 also about 77 per cent of the revised target and about 49 per cent of it in 2020-21 was realised. In the last eight years on an average the Budget target was ₹1.04 lakh crore, with a revised estimate of ₹0.57 lakh crore and an actual realisation of ₹0.50 lakh crore. It can be concluded that the Revised Estimate has been more accurate than the Budget Estimates.

The provision of disinvestment, under the head of capital receipts, has become a regular feature of the union Budget. So the government must set realistic targets that can be achieved. If this is done, then issues such as fiscal deficit, stock market volatility, liquidity crunch due to higher government borrowing can be avoided.

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