Shifting targets

Govt should not go slow on disinvestment

There has been a persistent reluctance to pursue the disinvestment programme from the beginning. Disinvestment of central public-sector enterprises (CPSEs) was part of the overall opening up and liberalisation process. A well-run disinvestment programme would have allowed the government to get out of CPSEs, unlock value, reduce fiscal costs, and provide resources to increase public investment in other priority areas. Privatisation of CPSEs or significantly increased public shareholding would have also helped improve their performance. However, the programme has mainly been used over the years to contain the fiscal deficit with minority stake sales. There have also been instances of one central CPSE buying another, mainly to help the government meet Budget targets, which completely defeated the purpose.

Given the government has significantly increased capital expenditure to support growth in the post-pandemic period, higher asset sales could have been useful. It would have allowed the government to increase the pace of fiscal consolidation. However, as reported by this newspaper last week, the disinvestment target could be lowered by 15-20 per cent in 2024-25, over the current financial year's target of ₹51,000 crore. The government is unlikely to pursue any new big-ticket asset sales. In fact, till now it has been able to raise only about ₹8,000 crore this financial year. Last financial year, it raised a little over ₹35,000 crore against the target of ₹65,000 crore. In recent years, the government managed to attain the target only in 2018-19, raising about ₹85,000 crore against the target of ₹80,000 crore. In 2020-21, the government managed to sell shares worth only ₹32,885 crore against the initial target of ₹2.1 trillion.

It has been argued that the slower pace of asset sales is not a matter of concern because the government would be able to meet the fiscal deficit target for the year. Again, better collection of tax and non-tax revenue should not be the reason for going slow on asset sales. Even if the government is confident of meeting the fiscal deficit target, a well-structured disinvestment programme will allow it to sustain higher capital expenditure without delaying fiscal consolidation. The Union government is expected to reduce the fiscal deficit to below 4.5 per cent of gross domestic product by 2025-26, which will still be on the higher side. Given the global geopolitical uncertainty, with potential implications for the Indian economy, it is important to create policy space to be able to respond if the need arises.

In this context, the government can use disinvestment proceeds to push capital expenditure while accelerating the pace of fiscal consolidation. The idea of reducing the disinvestment target or generally going slow in this regard is also intriguing at another level. The government has a clear policy on disinvestment with the stated objective of minimising the presence of CPSEs to create space for the private sector. It also aims to keep only a "bare minimum presence" even in sectors defined as strategic. CPSEs in the non-strategic sectors are to be privatised or shut down. Given the policy clarity and continued need to raise resources to push public investment, policy-makers would be well advised to not deliberately go slow on disinvestment. In fact, it's time to increase the pace. The process should also be fast-tracked for names shortlisted for strategic disinvestment.