Reviving disinvestment

This must be a top priority for the next govt

At a *Business Standard* event last month, Union Finance Minister Nirmala Sitharaman reiterated the central government's commitment to the privatisation policy. Some concerns in this context emerged after the Interim Budget, presented on February 1, did not explicitly provide the disinvestment target for the year. The minister's statement thus is reassuring. The new public-sector policy was announced as part of the Aatmanirbhar Bharat package during the pandemic. It was also part of the Union Budget 2021-22. The policy envisages disinvestment in all strategic and non-strategic areas. The government will maintain a bare minimum presence of central public-sector enterprises (CPSEs) in strategic areas, such as atomic energy, power, petroleum, and financial services.

However, there is no clear timeline for the implementation, which is perhaps understandable because disinvestment and privatisation can be complex exercises. Some CPSEs may take time because of various issues, such as protecting employee interests. Yet, despite the potential complexity, the government would be well advised to move swiftly on this path. Prime Minister Narendra Modi has said that the next term of his government will take big decisions and various ministries are reportedly making a road map in this regard. Irrespective of the shape of the next government, there are strong reasons why reviving disinvestment should be at the top of the agenda.

The government has supported economic revival from the pandemic by increasing capital expenditure. While it did push up growth in recent years, higher government expenditure slowed the fiscal consolidation process. The Union government is targeting to bring down the fiscal deficit to below 4.5 per cent of gross domestic product by 2025-26. Accelerating the fiscal consolidation process will help the Indian economy if the proceeds of disinvestment fund part of capital expenditure. Lower government demand for financial savings will leave funds for the private sector. There are tentative signs of private-sector capital expenditure revival. However, if the government continues to absorb a large part of surplus savings, the revival of private capex will be at risk. It may be forced to import capital, which may not be desirable at this stage. Thus, large-scale disinvestment can not only help sustain government capex but also help revive private investment, which is necessary to sustain growth.

Further, stock markets are booming and the outlook is positive. Assuming India elects a stable government, which looks likely at this point, things could improve further. Global inflation has peaked and financial conditions have eased comparatively. Investors expect the US Federal Reserve to start cutting policy interest rates later this year. A lower cost of money in global markets will support capital flows to emerging-market economies like India, which could further push up stock-market valuations. Increasing demand for stocks and favourable valuations mean the government will get a better price for its assets. It must capitalise on this opportunity. Notably, although stock prices of CPSEs, as reflected by the S&P BSE PSU Index, have doubled over the past year, valuations in terms of the price-to-earnings ratio are still much lower than the benchmark S&P BSE Sensex. Significant disinvestment would likely increase investor participation, making it easier for these firms to raise capital for expansion. Thus, pursuing aggressive disinvestment and privatisation will augment growth in more ways than one.