

Revive disinvestment

It will be useful in sustaining capital expenditure

One of the striking features of the Union Budget over the past few years has been astute fiscal management. The fiscal deficit during the pandemic year (2020-21) increased to 9.2 per cent of gross domestic product (GDP), owing to pandemic-induced disruption in economic activity. However, the government has steadily reduced the fiscal deficit since then and is on the path to achieve the target of reducing it to below 4.5 per cent of GDP this financial year, as announced in the 2021-22 Budget. Besides, what is encouraging is that this reduction has been achieved with increased transparency and improved quality of expenditure.

Although the government has done well to manage its finances and push up capital expenditure, there has been a crucial gap in the overall strategy: Disinvestment. It is encouraging that the government's dependence on disinvestment receipts in managing its finances has reduced, but the instrument should not be discarded. In this regard, among others, the Confederation of Indian Industry recently suggested accelerating the programme to unlock value. It has been argued that lowering the government's stake to 51 per cent in 78 listed public-sector enterprises (PSEs) could unlock value worth about ₹10 trillion. In fact, what is needed is that the government begin implementing its strategic disinvestment policy, announced in the 2021-22 Budget.

According to the policy, there will be only a bare minimum presence of PSEs in the strategic sector, which includes areas such as atomic energy, space and defence; transport and telecommunications; power, petroleum, and other minerals; and financial services. In non-strategic sectors, PSEs are to be privatised or closed down. There has been very little progress on this front. For instance, thus far this financial year, the government mobilised ₹8,768.02 crore through disinvestment. There are a number of reasons why the government must accelerate the disinvestment programme. First, as highlighted in this space, the private sector still seems reluctant to invest. Therefore, if India is to sustain the growth momentum in an unfavourable global environment, the government will need to maintain the level of capital expenditure. However, it would also be desirable for the government to reduce its borrowing to keep debt and deficit on a declining path. Low inflation rates, resulting in lower nominal growth, would require more effort in this regard. Against the given backdrop, higher disinvestment receipts will be useful in sustaining the level of capital expenditure.

Second, there has been a massive surge in household participation in the equity market over the past few years, particularly through mutual funds, increasing the depth of the stock market. It is also reflected in record fund mobilisation by the private sector. Thus, it would be relatively easy for the government to sell its holdings in listed companies or bring unlisted ones to the market. Third, the government in recent months took several steps that reflect a renewed push for economic reforms. An accelerated level of disinvestment and privatisation will strengthen this view and improve overall business confidence. It is worth noting that governments over the years have been reluctant to pursue disinvestment and privatisation, partly for political reasons. However, moving forward on the agenda of economic reforms at a faster pace will require overcoming such hurdles.