

Disinvestment must gather pace

COMPELLING CASE. The shortfall in proceeds can be made good by a calibrated attempt to divest in public sector banks



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One of the more underwhelming aspects of the Union Government's economic strategy in recent years has been the pace and consistency of its disinvestment programme. The bold thrust imparted to the process during the tenure of Atal Bihari Vajpayee — when a dedicated Ministry of Disinvestment was created — had signalled a decisive shift in policy thinking.

Although that institutional structure was later rolled back under the United Progressive Alliance (UPA), the reformist spirit it embodied had raised expectations of a sustained, strategic reduction in the Government's role in commercial enterprises.

In contrast, the past several years have witnessed uneven momentum. From 2020 onwards, the gap between disinvestment targets and actual realisations has become increasingly visible. Budgets have been estimating sizeable resource mobilisation plans through stake sales, only for the final numbers to fall short. The shortfall has not always been due to lack of intent; market volatility, pandemic-induced disruptions, and procedural delays have all played their part. Yet, the pattern of repeated misses has inevitably raised questions about execution expertise of the bureaucracy and resolve.

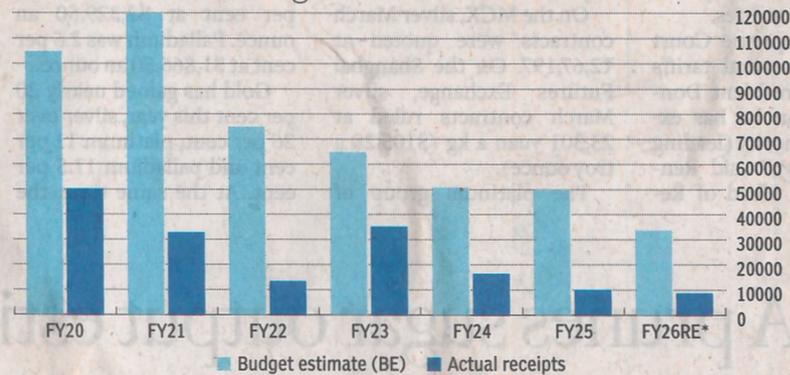
CALIBRATED WITHDRAWAL

The Government's strategic disinvestment policy, announced in 2021, was unambiguous in its direction. It envisaged a calibrated withdrawal of the State from non-strategic sectors, while retaining presence only in four defined strategic areas. In other sectors, the Government's holding was to be progressively reduced, with private capital and management expertise expected to drive efficiency, innovation, and competitiveness. The policy marked a reformist milestone. However, policy articulation has not been matched by sustained action.

The financial sector offers a compelling case for a more intense attempt to divest. Among public sector enterprises, some of the Government's largest equity holdings are in public sector banks. Government ownership ranges from about 56 per cent in the State Bank of India (SBI) to nearly 90 per cent in smaller banks like Central Bank



Disinvestment: Targets versus realisations



Source: Fortune India

*FY26RE - the revised figure proposed in Budget 2026

and IOB (where a nominal sale was executed). The Government still has substantial stakes in banks that are now, by most metrics, in far better financial health than they were a decade ago.

For instance, SBI, the country's largest lender, is poised to report a net profit exceeding ₹75,000 crore this year, with nine-month profits already crossing ₹60,000 crore. The Group's transformation into a modern financial behemoth with leadership in mutual funds, insurance, credit cards and booking stands as a testament to institutional resilience and managerial capability within the public sector framework.

Importantly, market conditions now

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appear conducive for calibrated stake sales. The primary market has remained buoyant, with strong fundraising through initial public offerings (IPOs) and offers for sale (OFS) aggregating ₹1,75,000 crore in nine months. Even if secondary market returns have been relatively flat in the current financial year, investor appetite for quality equity remains robust. Significant capital has been raised across sectors, reflecting confidence in India's medium-term growth prospects.

In this context, the Department of Investment and Public Asset Management (DIPAM) could consider a more assertive approach to share sales, consistent with the 2021 strategic policy. SBI is an illustrative candidate. The bank has recently climbed to become one of the five largest listed entities in India by market capitalisation. A calibrated reduction of, say, 5 percentage points in the Government's stake — while retaining a comfortable majority of 51 per cent — could potentially yield upwards of ₹55,000 crore at prevailing market prices (though prices usually have

dipped at least temporarily in certain OFSs).

MULTIPLE BENEFITS

Such a move would carry multiple benefits:

First, it would generate substantial non-tax revenue without imposing additional burdens on citizens or businesses. At a time when fiscal space is carefully balanced between capital expenditure and welfare commitments, disinvestment proceeds provide valuable headroom.

Second, a larger public float would improve liquidity in the stock, potentially enhancing its inclusion weight in global indices and attracting greater participation from institutional investors.

Third, a gradual reduction in Government shareholding — while retaining control — would reinforce market discipline. Enhanced scrutiny by a broader investor base tends to sharpen governance standards and strengthen accountability. Foreign investments could also come in through this route.

Fourth, it would send a strong reform signal, demonstrating that announced policies are being executed with seriousness and consistency. Credibility in economic management is built not merely on announcements but on delivery.

Fifth, for the banking system as a whole, diversified ownership structures can foster greater operational autonomy, agility in decision-making, and innovation in product offerings — without compromising the Government's strategic oversight.

A similar approach could be calibrated for other public sector banks, particularly where Government ownership significantly exceeds the threshold required for control. Stake reductions can be sequenced to avoid market glut and aligned with favourable market windows.

Crucially, disinvestment targets must be realistic and aligned with market capacity. Just as the Government has established a generally satisfactory track record in mobilising revenues through direct and indirect taxes — barring occasional cyclical slowdowns — so too must it aim for achieving targets in non-tax revenue mobilisation. Setting challenging targets and meeting them consistently would restore confidence in the programme.

The blueprint has already been drawn. The policy has been announced. What is required now is momentum — steady, calibrated, and credible — to translate intent into impact.