Inside India newsletter: What's behind India’s rush to sell shares in state-owned firms

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Hello, this is Priyanka Salve, writing to you from Singapore.

Welcome to the latest edition of “Inside India” — your one-stop destination for stories and developments from the world’s fastest-growing large economy.

The Indian government has been rushing to sell stakes in state-owned companies this year. So far, it has pared its stake in 10 public sector companies, raising more than 620 billion rupees ($6.5 billion) this year. This week, I unpack what’s driving India to meet its often-missed disinvestment target.

The big story

It can be difficult to be the world's fastest-growing large economy when inflationary pressures and fiscal constraints threaten to put the brakes on government spending.

But India cannot afford to lose its growth edge as it competes for the attention of global investors who have already put the country on the back burner as they focus on artificial intelligence-driven plays — something the South Asian country's growth story has been missing.

So, to keep its growth engine running amid a widening fiscal deficit, the country is ramping up stake sales in state-owned companies, with the government offloading shares in 10 firms since the start of the year, despite dull market conditions.

The government has sold shares in several companies including Cochin Shipyard, Indian Railways Finance Corp, NHPC, and Coal India this year and, on Wednesday, it completed one of its biggest stake sale.

It raked in $3.3 billion by selling a 6.5% stake in the country's top life insurer, Life Insurance Corporation of India. The share sale was priced at a 10% discount to attract buyers — unsurprisingly, it was oversubscribed.

While the government does have an obligation to reduce its stake in these businesses to comply with listing regulations, there has been a sudden and sharp rise in transactions this year.

The last time the Indian government met its disinvestment goal — target for stake sales in state-owned firms — was in the financial year ending March 2019.

The disinvestment rush

Excluding LIC, India has sold stakes in 9 state-owned firms in 2026 and raised nearly 270 billion rupees ($2.8 billion), its highest in more than 10 years, according to Indian market intelligence provider Prime Database.

And LIC alone surpasses that number by a good margin, signaling the state's increasing proclivity toward raising funds without widening the fiscal deficit.

The government is well on its way to achieving its annual target of raising 800 billion rupees ($8.4 billion) through stake sales in state-owned enterprises, experts said, adding that these funds will be crucial for India as it faces deepening macroeconomic headwinds. The country has now met over 65% of its annual disinvestment target.

Buildings in Lower Parel area in Mumbai, India, on Tuesday, Sept. 9, 2025.

Bloomberg | Bloomberg | Getty Images

“Tapping into the divestment proceeds is a very good strategy,” Anubhuti Sahay, head of India economic research at Standard Chartered Bank, told CNBC, adding that the government is facing a downside revenue risk and an upside expenditure risk due to a higher subsidy burden.

India did not meet its disinvestment targets for years as it was in a “comfortable fiscal situation,” she said, adding that right now the stake sale is akin to tapping into “family silver” in times of need.

For the quarter ending June, the country’s goods and services trade deficit was $37.4 billion. Its fiscal deficit at the end of June was 3.1 trillion rupees, or 18.2% of the budget estimate for the financial year ending March 2027.

While this is not unusual for India, the country has also seen strong capital outflows from foreign investors, which limits its ability to cover the rising import expenses. The capital outflows have led to currency weakness and tighter domestic financial conditions, experts said.

The acceleration of government stake sales reflects “greater fiscal pressure,” Alexandra Hermann Prasad, lead economist at Oxford Economics, told CNBC, adding that these funds will “provide useful non-debt revenue as strong expenditure growth makes the deficit target harder to achieve.”

Non-debt revenue is the income earned by a government that does not have future repayment liabilities.

Global brokerage Citi, in a report on Monday, called it a “favorable” trend, adding that during the quarter ended June, India’s fuel, food and fertilizer subsidies had increased 37% on year but the South Asian country has not scaled back its capex spending.

Higher-than-expected proceeds from disinvestment are likely to ease the fiscal pressures arising from GST rationalization in September 2025, as well as costs associated with the policy response to the Middle East shock, Christian de Guzman, SVP, Sovereign Risk Group at Moody’s Ratings, told CNBC.

Need to know

An exam leak in India exposed a Gen Z jobs crisis that goes much deeper

India's youth unemployment crisis has become one of the biggest vulnerabilities for Prime Minister Narendra Modi's government, exposing the gap between the country's economic ambitions and the reality facing millions of young graduates.

J.P. Morgan expects India IPO activity to pick up in the second half of 2026

India's IPO market is entering a stronger second half of 2026, supported by improving market conditions, lower volatility and a more stable macroeconomic backdrop, J.P. Morgan's Abhinav Bharti told CNBC's Inside India on Tuesday.