Refocus again

Despite stated policy, disinvestment has slowed

A new practice has started in the Union Budget: Of providing a target for capital receipts without spelling out the amount that would be raised from disinvestment in particular. This year, the target for miscellaneous capital receipts — which include those from disinvestment, privatisation, and asset monetisation — in the Union Budget is ₹47,000 crore. This is in line with the target for the previous year. It is certainly tempting to believe that shifts in how disinvestment or privatisation targets are announced are partially a consequence of how the government has failed to meet these targets in successive years. In this financial year as well, some stake sales — in companies such as General Insurance Corporation of India — have taken place, raising less than ₹10,000 crore. It is unlikely that the full-year target will be achieved.

Expectations that the government would increase the speed of strategic disinvestment or privatisation have been dashed. In fact, the last major act of privatisation may have been of Air India and Neelachal Ispat, which were sold to the Tata group in 2022. High targets were set during the government's second term for revenue from disinvestment: ₹1.05 trillion in 2019-20, ₹2.1 trillion in 2020-21, and ₹1.75 trillion in 2021-22. However, even though market valuation, especially for public-sector units, has continued to rise since then, the government seems to have given up on such ambitions. This is in spite of announcing a clear privatisation policy in 2021, which, among other things, promised to shutter or sell all public-sector units in sectors deemed to be "non-strategic". It was also promised to limit the number of state-owned enterprises to four even in strategically important sectors.

It is unclear why the government seems to have turned away from the implementation of a privatisation policy that it itself drafted and announced. This waning of ambition has taken place without any public discussion or defence. Indeed, the process has not been followed in a timely fashion even when specific targets for privatisation have been identified. This certainly seems to be the case, for example, with IDBI Bank. Investors now hope disinvestment from this bank will be completed next financial year — but there is no reason why it should not have happened already. Indeed, rather than selling assets such as the Visakhapatnam Steel Plant, the government has instead set aside additional taxpayer money to invest in these ailing businesses. In January, the Cabinet Committee on Economic Affairs approved a revival package of almost ₹11,500 crore for Rashtriya Ispat Nigam Ltd, which operates the Visakhapatnam Steel Plant and has liabilities of over ₹35,000 crore.

This reticence when it comes to privatisation and disinvestment is particularly difficult to understand, given the government faces a knotty fiscal situation. It needs to finance increases in capital expenditure while also ensuring that the tax burden is not so high that consumption is affected. In this year's Union Budget, this balance was met through cutting the inflow from personal income tax by about ₹1 trillion while also allowing capital expenditure to generally rise at a much lower pace. Disinvestment could assist the Union government's finances to keep the capital-expenditure momentum going.