2. PSU Disinvestment- Economy

The Union Budget 2026–27 reiterates the government's preference for growth led fiscal consolidation, balancing deficit reduction with sustained capital expenditure, and disinvestment

Fiscal Strategy Context- Growth vs Fiscal Consolidation

The current fiscal approach prioritises economic growth over aggressive fiscal deficit reduction, recognising weak private demand and global uncertainties. Capital expenditure (Capex) has been consciously protected due to its high output, employment, and crowd in effects on private investment. Infrastructure spending in sectors such as transport, logistics, energy, and urban development acts as a countercyclical policy tool, sustaining aggregate demand.

The projected fiscal deficit trajectory-

1. FY26- 4.4% of GDP
2. FY27- 4.3% of GDP

This reflects a strategy of gradual and credible fiscal consolidation, avoiding sharp expenditure compression that could derail growth momentum. PSU disinvestment is positioned as a no distortionary financing mechanism, supporting fiscal discipline without increasing tax burden or cutting productive spending.

What is PSU Disinvestment?

PSU (Public Sector Undertaking) disinvestment refers to the process through which the government reduces its equity stake in Central Public Sector Enterprises (CPSEs).

It may involve

1. Partial sale of government shares
2. Sale of majority stake
3. Increase in public shareholding through capital market mechanisms

Key distinction from privatisation- Disinvestment does not necessarily imply transfer of ownership or management control. Privatisation involves substantial dilution of ownership and transfer of management control to private entities. Disinvestment is thus a spectrum, ranging from minority stake dilution to full strategic sale.

Role of Department of Investment and Public Asset Management (DIPAM)

DIPAM functions under the Ministry of Finance.

The nodal department responsible for-

1. Management of Central Government equity investments
2. Formulation and execution of disinvestment policy
3. Strategic disinvestment of CPSEs

DIPAM coordinates with-

1. Administrative ministries
2. NITI Aayog
3. Transaction advisors
4. SEBI and stock exchanges

It also oversees capital restructuring, buybacks, and dividend policy of CPSEs to maximise shareholder value.

Modes of Disinvestment of CPSEs

Strategic Disinvestment- Involves sale of substantial or entire government shareholding. Accompanied by transfer of management control to a strategic buyer. Objective is long term efficiency gains, rather than short term revenue. Typically used for nonstrategic sectors where private participation is viable.

Minority Stake Sale- Government retains management control while diluting equity.

Executed through SEBI approved market mechanisms, such as-

1. Initial Public Offer (IPO)
2. Further Public Offer (FPO)
3. Offer for Sale (OFS)
4. Buyback of shares

Helps in-

1. Broadening ownership
2. Improving market discipline
3. Enhancing transparency and disclosure standards

Objectives of PSU Disinvestment

Mobilisation of nontax revenue

1. Reduces reliance on market borrowings.
2. Limits interest burden and future debt servicing costs.

Improving efficiency and productivity

1. Market scrutiny induces better financial discipline.
2. Strategic buyers bring managerial expertise and technology.

Strengthening corporate governance- Listing requirements improve transparency and accountability.

Optimal resource allocation- Enables the government to redirect scarce fiscal resources towards-

   a. Social sectors (health, education)
   b. Infrastructure creation

Supporting fiscal consolidation- Allows deficit reduction without cutting capital expenditure, preserving growth impulses.

Challenges in PSU Disinvestment

Market Related Constraints

Volatility in equity and bond markets affects

1. Valuation discovery
2. Timing of stake sales

Adverse global conditions reduce investor appetite.

Labour and Social Concerns

Strong resistance from employee unions due to fears of-

1. Job losses
2. Wage rationalisation
3. Dilution of postretirement benefits

Political sensitivity in labour intensive CPSEs.

Procedural and Institutional Bottlenecks- Multilayered approval processes cause delays. Interministerial coordination issues slow execution. Litigation and regulatory clearances further complicate timelines.

Sector Specific Limitations- CPSEs in heavily regulated or low profit sectors attract limited investor interest.

Strategic disinvestment becomes difficult where-

1. Longterm commercial viability is uncertain
2. Policy risks remain high

Operational Inefficiencies

Persistent underperformance due to-

1. High legacy costs
2. Excess manpower
3. Obsolete technology

Weak balance sheets reduce asset attractiveness.

Way Forward

Transparency and predictability- Clear timelines and well communicated disinvestment roadmaps to build investor confidence.

Pre disinvestment restructuring-

1. Cleaning up balance sheets
2. Resolving legacy liabilities
3. Rationalising manpower through voluntary mechanisms

Institutional streamlining- Faster decision making and reduced procedural delays.

Sectoral clarity- Clear classification of strategic vs nonstrategic sectors.

Outcome oriented approach- Shift focus from revenue maximisation to long term value creation and efficiency gains.

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