

Evaluation of Strategic Disinvestment of PSUs

What is the issue?

- The cabinet committee on economic affairs (CCEA) recently approved strategic disinvestment in BPCL and four other PSUs. Click [here](#) to know more.
- In this context, here is an analysis if the decision is financially and strategically sound or not.

What are the key considerations to disinvestment?

- A few strategic issues of national importance need to be considered for stake sale of profit-making public sector undertakings (PSUs):
 - i. if the Government must get out of business
 - ii. the need to bring the fiscal deficit down
 - iii. whether public- or privately-owned was better for the Government treasury
 - iv. national security and self reliance i.e. if India could be under pressure if there is no full control over petroleum
- The last one arises from the fact that U.S., China and other superpowers have control over their petroleum reserves.

Is selling profitable PSUs financially wise?

- Financially, India as a nation is worse off by selling a profitable venture as the BPCL.
- The numbers on current value of the PSUs, the government's profit in holding or selling the entity, make the above fact evident.
- As the case of the BPCL and several other PSU 'Navratnas' show, they have given super normal returns to the public exchequer.
- So, instead of selling such high performing PSUs, the government should consider selling the loss-making ones.

How is fiscal deficit target a factor in this?

- Another issue underlying the disinvestment is the fiscal deficit target of 3.4%, now reduced to 3.3%.
- [Fiscal deficit is the difference between total revenue and total expenditure of the government.]

- Given that revenue collections are not enough, the Government is perhaps planning the sale of well-running PSUs to meet the fiscal deficit target.
- The Government may meet its fiscal deficit target by the stake sale of various PSUs including the BPCL this year.
- However, how would the target be met in the next year is a big question.
- Notably, despite the huge one-time dividend from the RBI, the government is far from meeting the deficit target.
- Also, nothing much will change in terms of the expenditure or revenues in the coming years.
- The strategic sales and dividends cannot be repeated every year.
- So, in effect, the country will be back to the same levels of fiscal deficit.
- The real way of meeting this target is to cut out wasteful Government expenditure.
- Unfortunately, the cuts will be in the social sector.

What is the national security concern involved?

- National security also depends on the economic power that a Government has.
- The ideological issue of Government versus private ownership is related to the strategic issue about national security.
- Natural resources, especially oil, are a strategic national resource.
- The United States maintains such an underground crude oil reserve to mitigate any supply disruptions.
- Such reserves stands at over 600 billion barrels for the U.S., 400 for China, 146 for South Korea, 120 for Spain and 39.1 for India.
- India does have a target to substantially increase its reserves.
- At today's prices to reach Chinese levels of reserves, India will need nearly Rs. 2 lakh crore, which is 10% of the Central Budget.
- Even if it is spread out over several years, it is still a lot of money.
- While China sticks to state-owned national resources, India is moving in the opposite direction.
- India does have plans to build perhaps the world's largest refinery in India, with the help of Saudi Arabia.
- However, ownership and control will be in foreign hands.
- Meanwhile with the strategic disinvestments, India will lose Government control over both crude and refining.

What is the way forward?

- Financially, the country is worse off, and strategically the nation finds itself in a vulnerable situation.
- India thus needs to see through the ideological narrative coming from the

developed nations.

- They embraced free trade when it suited them and are now trying to embrace protectionism.
- China adopted a market system but this does not cloud its thinking in strategic national issues; the control remains with the Government.
- India too needs to re-think its strategy.

Source: The Hindu

