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Strategic disinvestment: The next frontier in economic reform

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Over the last two months, social media has been active with both President Trump and Prime Minister Modi hailing each other as friends, yet the stalemate in US-India trade continues. Despite this exogenous tariff shock, the Indian economy has remained resilient with GDP growth of around 6.5 per cent. Given the present trend, tariff-war-led

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protectionism and global uncertainty driven by conflicts are likely to continue, but to make the Indian economy more shock-proof, further reforms are necessary. Although GST rate rationalization was lauded, another low-hanging fruit that could come next is disinvestment. In Modi's own words, the government has & "no business to be in business" and reforms in the form of strategic disinvestment will not only showcase his image as a reformist but will also strengthen the Indian economy in these turbulent times. Unlike minority stake sales, strategic disinvestment involves transferring majority ownership along with management control of public sector enterprises (PSEs) to private investors or other government entities, transforming operational dynamics and unlocking value.

India's fiscal health has faced increasing pressures as government expenditures have expanded alongside ambitious development goals. Achieving a fiscal deficit of 4.8 per cent of GDP in FY 2024-25 demonstrated improved fiscal discipline, yet gross government debt continues to rise, with expectations to hit Rs 196.78 lakh crore by FY 2025-26. The Central government's debt-to-GDP ratio stood at 57.2 per cent as of late 2024, with a governmental goal to reduce this to 50 per cent by 2031. Strategic



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disinvestment is pivotal for this fiscal consolidation journey, as it generates government revenue without increasing borrowing.

Disinvestment receipts in FY 2025 were Rs 9,319 crore, the lowest since 2014-15, clearly reflecting a deliberate policy shift from blunt stock sales to optimizing PSE performance and value creation. Annual targets have been replaced with a more flexible strategy focusing on increasing capital expenditure, improving dividend payouts, phased share dilution and targeted privatization. For FY 2026, the government has announced a Rs 47,000 crore target for disinvestment proceeds, emphasizing quality and strategic impact over mere volume. Since 2014-15, disinvestment has raised over Rs 4.37 lakh crore, reaffirming its financial importance.

Hindustan Zinc's privatization in 2002 gave the government a large upfront fiscal inflow and shifted the company into private management. Since then, capacity has expanded nearly six-fold, making the company the world's largest integrated and one of the lowest-cost integrated zinc producers globally. In FY 2025, the company reported revenues of Rs 34,083 crore with profits up 33 percent year on year, contributing Rs 18,963 crore to the exchequer through

taxes and royalties. Alongside zinc, Hindustan Zinc has turnaround the silver portfolio significantly with 20x growth since disinvestment and now it has become one of the top 5 silver producers globally, and with rising global demand for both metals, zinc for infrastructure and steel, silver for solar, EVs and electronics, profits are set to expand further, translating into higher tax and royalty collections for the government. The company has delivered total shareholder returns i.e. share price appreciation along with the dividends paid to the shareholder by over 1300x since disinvestment. The company's market capitalization has risen from Rs 237 crore in 2002 to over Rs 2.09 lakh crore in 2025 reaffirming how strategic disinvestment converted a low-performing state asset into a globally competitive enterprise that continues to generate recurring fiscal value and support national priorities.

The Air India privatization highlights another facet of strategic disinvestment. It ended the government's daily rs 20 crore subsidization burden and brings more light on how the Rs 60,000 crore accumulated debt will be eventually addressed. Post-acquisition by Tata Group, Air India has regained competitiveness and removed a persistent fiscal drag on the exchequer.

Together, Hindustan Zinc and Air India illustrate how well-designed privatizations deliver both fiscal relief and long-term operational transformation. Persistent PSU losses continue to weigh on public finances. The 2022 comptroller and auditor general (CAG) report showed 63 loss-making PSUs with combined losses of Rs 4,065 crore and cumulative net worth erosion exceeding Rs 18,000 crore. Between 2015-2020, operational inefficiencies led to losses over Rs 1.5 lakh crore. Revamping these entities through strategic disinvestment can reduce fiscal drain and enhance competitiveness. The 2021 public sector enterprise Policy prescribes a minimal presence by the government in strategic sectors such as atomic energy, defense, space, and banking, while advocating privatization or closure in non-strategic sectors. This ensures focus on national security while unlocking economic potential in competitive areas.

The IDBI Bank sale epitomizes upcoming large-scale disinvestment, with the government and LIC together holding 94 per cent equity. Financial bids anticipated by late 2025 predict proceeds around Rs 50,000 crore, offering substantial fiscal relief and improved operational efficiency from private stewardship.

Academic studies link strategic disinvestment to improved returns on capital and productivity enhancements across sectors. While large Maharatna PSUs outperform private firms, smaller entities lag, making them prime candidates for privatization. Revenue gains from disinvestment, which exceeded Rs 1,00,000 crore in the 2017-18 financial year alone, play a key role in non-debt capital receipts that ease fiscal pressures.

Strategic disinvestment generates vital immediate fiscal space and enhances operational efficacy, but it must also manage potential long-term impacts on public welfare, employment, environmental sustainability, and strategic sovereignty. Smart policy design can harness technological innovation and value maximization to align disinvestment with sustainable development goals.

Strategic disinvestment is no longer an opportunistic manoeuvre; it is an indispensable fiscal strategy for India. By unlocking capital, enhancing efficiency, and enabling fiscal consolidation, it supports India's transition to a robust, market-aligned economy while intelligently retaining government control in sectors critical to national interest. Hindustan Zinc's transformation

exemplifies how strategic disinvestment can create recurring fiscal dividends, global competitiveness, and shareholder value, making it a model for future Privatizations.

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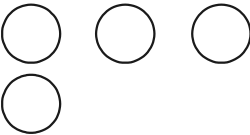
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