CURRENT DISINVESTMENT POLICY

India's disinvestment policy has evolved over time since it started in 1991—it has the following *special features* (also known as the 'ideology' behind the policy):

i) Public ownership of PSUs to be promoted as they are wealth of Nation;

ii) Government to hold minimum 51 per cent shares in case of 'minority stake sale';

iii) Up to 50 per cent or more shares might be sold off under 'strategic disinvestment'.

The policy:
i). Minority stake sale (the policy of 5th Nov. 2009 continues):

- Listed PSUs to be taken first to comply to minimum 25 per cent norm;
- New PSUs to be listed which have earned net profit in three preceding consecutive years;
- 'Follow-on' public offers on case by case basis once capital investment needed; and
- DIPAM (Dept. of Investment and Public Asset Management) to identify PSUs and suggest disinvestment in consultation with respective ministries.

ii). Strategic Disinvestment (announced on 29th Feb. 2016):

- Through consultation among Ministries and NITI Aayog;
- NITI Aayog to identify PSUs and advice on the different aspects; and
- CGD (Core Group of Secretaries on Disinvestment) to consider the recommendations of NITI Aayog to facilitate a decision by the CCEA (Cabinet Committee on Economic Affairs) and to supervise/monitor the implementation process.

The disinvestment policy should be seen now as a part of the Government's *Comprehensive management of its investment in the PSUs*. Under this the Government considers its investment in PSUs as an important asset for accelerating economic growth and is committed to their efficient use to achieve optimum return through the following measures—

- Leveraging of assets, capital and financial re-structuring, etc.
- Raising fresh investments by improving investors' confidence;
- Efficient management through rationalization of decision making process.

C & M POLICY

Last of the fiscal 2016-17 (Feb. 8, 2017)—major take away:

- The Monetary Policy Committee of the RBI on February 8, 2017 decided to keep the key policy rate—the repo rate—unchanged at 6.25% citing uncertainties caused by demonetisation, which it said had 'discoloured' an objective assessment of inflation pressures.

- Policy stance changes from 'accommodative' to 'neutral'—it means, interest rates in future could move in either direction.

- Inflation in December was 3.41%, though it could have ended up 1.4% higher if vegetable prices had been excluded (vegetables saw 'fire sales' post-demonetisation), as per the RBI. Though experts had expected a repo rate cut as inflation had slowed well below the RBI's March end goal of 5%.

- RBI added that there is still scope for lending rates to come down because policy rates came down by 1.75% and the weighted average lending rate has come down at most by 0.85-0.90%. Banks had cut their marginal cost of funds based lending rate (MCLR) by 45-90 bps after their cost of funds declined due to higher savings and current account deposits following demonetisation.

- Inflation expectation—4-4.5% and 4.5-5% for the first and second halves of 2017-18.

As per the RBI, 'risks' to its inflation outlook—hardening global crude prices, exchange rate volatility, effects of house rent allowances due to 7th pay commission.

COMMENTS: While west has been aiming to pushing up inflation and growth through it, RBI has been balancing them. These days banks are not borrowing from the RBI but lending to it, effectively making reverse repo rate (5.75%) as the 'base' for funds rate and not the repo rate of 6.25%.

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NOTE: Ramesh Singh will release *meticulously designed notes* on the "Indian Economic & Social Development" before Prelims 2017, in TWO volumes (around 200 pages)—a part of which will be *hand-written* by Ramesh Singh himself). His ex-students will get their FREE copies from the Institute.