Indian Economy · GS - III

“The government’s increasing reliance on market-based disinvestment rather than strategic disinvestment raises questions about the objectives of public sector reforms in India. Discuss.”

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 16/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

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Answer Hint

Disinvestment, Strategic Disinvestment, Privatisation, Minority Stake Sale, Offer for Sale (OFS), Initial Public Offering (IPO), DIPAM, Fiscal Deficit, Capital Receipts, Public Sector Efficiency, Corporate Governance, Market Volatility, Asset Monetisation, Transparency, Competition, Fiscal Sustainability

Model Answer

Introduction

Disinvestment is an important instrument of economic reform through which the government sells its equity in public sector enterprises. However, minority stake sales and strategic disinvestment have different implications for ownership and management.

Main Body

Significance of market-based disinvestment:

1. **Revenue generation:** Proceeds provide capital receipts that can help finance government expenditure.
2. **Wider ownership:** OFS and IPOs enable greater public participation in public sector enterprises.

3. **Market development:** These transactions can improve liquidity and deepen capital markets.

Limitations of excessive reliance:

1. **Limited management reform:** Minority stake sales generally do not transfer management control or automatically improve operational efficiency.
2. **Market dependence:** Proceeds depend on share prices, investor demand and market conditions.
3. **Fiscal uncertainty:** Disinvestment is a non-recurring source of receipts and cannot sustainably replace regular tax revenue.

Way forward:

The government should adopt transparent, enterprise-specific strategies, improve corporate governance, strengthen accountability and pursue strategic disinvestment where appropriate. Proceeds should support productive investment and fiscal sustainability.

Conclusion

Disinvestment should not be measured solely by the revenue generated. A balanced policy must combine fiscal prudence, efficient public enterprises, competitive markets and the protection of public interest.

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