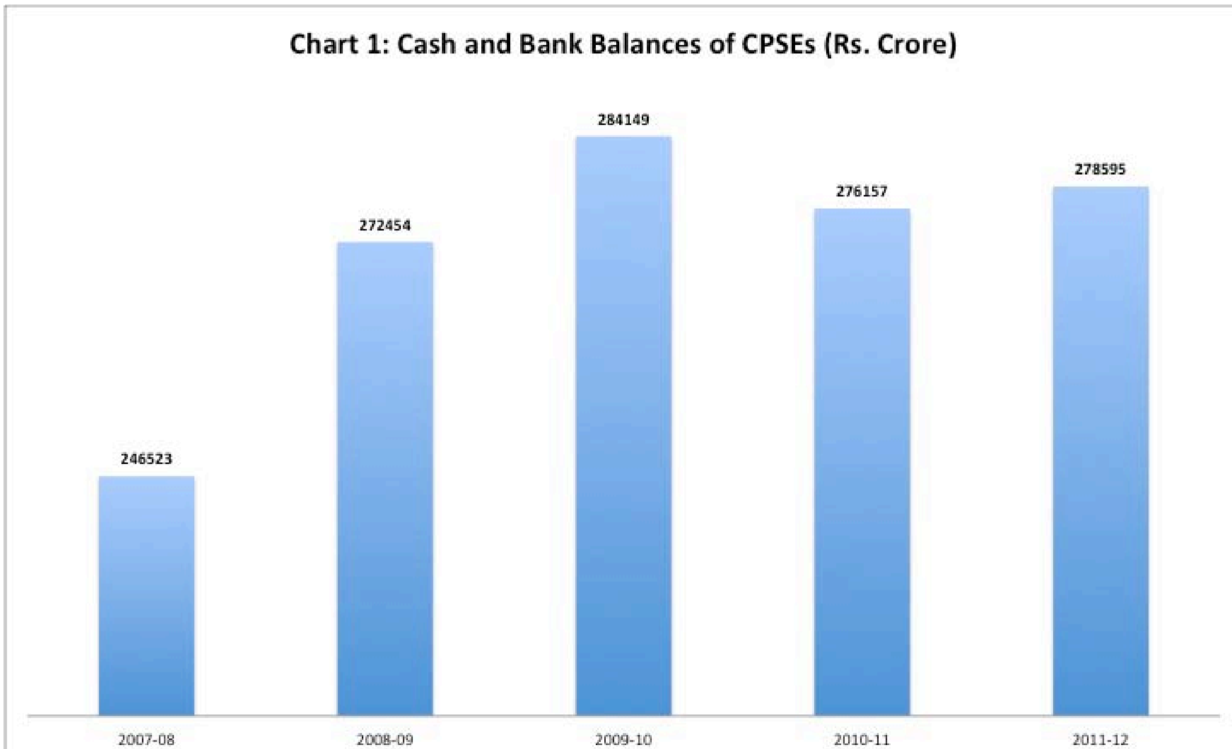
The Public Sector Cash Pile

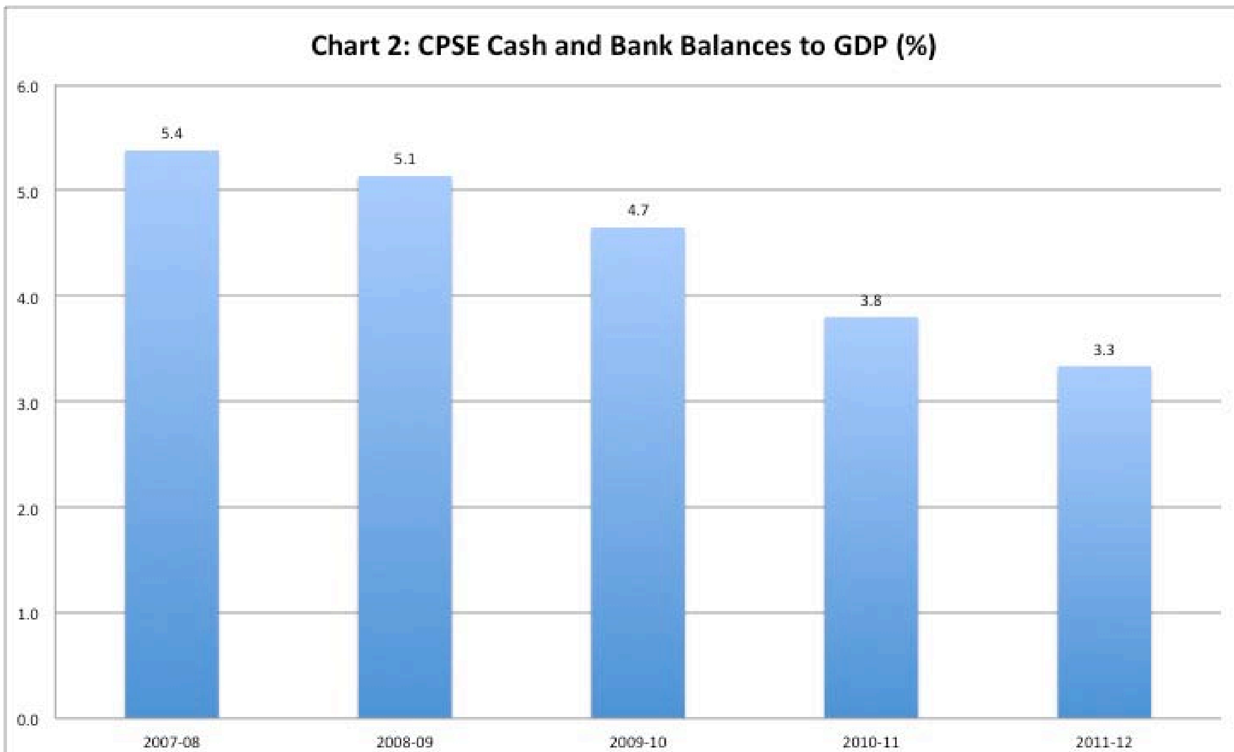
C.P. Chandrasekhar

India's central public sector enterprises (CPSEs) as a group are sitting on a large cash pile estimated at Rs. 2,78, 595 crore at the end of financial year 2011-12. To make sense of that number we need to note that this amounts to 3.8 per cent of GDP and close to 50 per cent of the net fixed assets held by these entities. The CPSEs have half as much cash as they have fixed assets, and their cash and bank balances amount to a little more than a tenth of the sums being invested in the economy every year in the country. What is more, as Chart 1 shows, the absolute value of these cash balances has not changed very much since 2008-09, while GDP has been rising, even if not as fast as earlier. As a result the cash and bank balances of these units amounted to as much 5 per cent of GDP in 2008-09 and were equal to two-thirds the value of the net fixed assets held by these enterprises that year (Chart 2).



This outcome where the CPSEs sit on a huge cash pile indicates that the profits of profit-making CPSEs far exceeded the losses made by the rest, resulting in the accumulation of reserves and balances over time. In 2011-12, for example, 161 profit-making CPSEs notched up a profit of Rs. 1,25,115 crore, whereas 63 loss-making units recorded a total loss of Rs. 27,602 crore. That added close to 1 lakh crore to the pile. However, a large chunk of these profits and their accumulation in the form of balances are concentrated in a few sectors. In 2011-12, close to two-thirds of the total profits of the profit-making entities came from four sectors: Crude oil, Coal, Power generation and Petroleum refining and marketing. Changes in pricing policies have contributed surpluses, but those surpluses remain inadequately utilised by the units to which they accrue.

It hardly bears emphasising that these are all sectors in which investments in both renovation and modernisation and expansion of capacity are much needed. Thus, if a large part of the cumulative profits being generated here are being held as balances rather than being invested, it must be the case that there are institutional constraints to the utilisation of these resources. Clearly, the multiple agencies involved in decision making with regard to large public sector investments are slowing down the process even when there is need for such investments and the required resources are available.



The government requires the CPSEs to place at least 60 per cent of the surpluses under their control as deposits with public sector banks. Moreover, they are expressly barred from inviting competitive bids for bulk deposits from the banks, which would force the latter to offer higher interest rates and encourage them to lend to or invest in risky high profit ventures. Caught between the inability to utilise surplus resources and deploy them in the most profitable ways the CPSEs end up holding them in low return deposits.

The government, embarrassed by this state of affairs, has taken to blaming the units that are sitting on the resources for the lack of investment. Last October, in a meeting with the Chairmen/Managing Directors of 25 major CPSEs, the Prime Minister called on them to use their surpluses to drive investment, growth and employment, though he conceded that there was need for improving coordination in expediting project clearances and for generating an appropriate long term vision. But Heavy Industries and Public Enterprises Minister Praful Patel made a pitch for the transfer of these surpluses to the government. "If the PSUs do not deploy the investible surpluses in their own growth and expansion, that money should not lie idle and it must be paid back to the government by way of special dividend," he is reported to have said.

What needs to be noted however is that when the CPSEs hold their surpluses as bank balances those balances are by no means “idle”. With access to this low cost capital, the banks are in a position to enhance their lending to other agents in the economy. In fact, they must, since their business lies in using deposits for which interest is paid as the base on which to expand credit and make investments at rates that offer a spread and ensure profit after covering intermediation costs. So the problem is not that the money is not used. It is that public resources are used to support private activity and crucial capacities that need to be created are not, despite the availability of funds.

The government’s real problem is not that there are balances with the PSUs or that their investment is curtailed, but that the surpluses are not diverted to activities it considers crucial. The PM, for example, is unhappy that these funds are not being used to raise the investment rate, reverse the downturn and restore the high growth rates that he claims credit for delivering. Praful Patel’s statement quoted earlier reflects the fact that the government’s eyes are on CPSE balances as a means to financing expenditures without widening the deficit on its budget. To achieve that, in April last year the government announced a scheme under which it could, through the Department of Disinvestment, sell shares it owns in one CPSE if another decides to buy it out of its surplus cash. That would, of course, transfer the cash to the government, as was attempted under the cross-ownership arrangement experimented with a few years earlier. Finally, the government has also contemplated using CPSE balances to revive the stock market when it flags, by permitting them to invest in mutual funds linked to private equity.

While these efforts to redirect and mop up the surpluses of the CPSEs rather than assist them invest the funds in new capacities continue, their modernisation and expansion requirements are ignored, with adverse effects on profitability. On occasion this failure provides the basis for calls to privatise these entities. If and when that happens these cash surpluses can be transferred directly to the private sector, as happened in the case of VSNL.

*** This article was originally published in the Hindu on March 28, 2013.**