Window Dressing Budgetary Figures*

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The tendency of the current government to misinform and conceal is well known. Yet its periodic resort to such practices does not fail to surprise. The most recent example is the decision to sell its shareholding in Hindustan Petroleum Corporation Limited (HPCL) to the Oil and Natural Gas Commission (ONGC), which it owns, ostensibly to strengthen the latter. The decision comes at a time when low oil prices have hurt the ONGC. Yet, the ONGC board has cleared the proposal to buy 778,845,375 equity shares in HPCL for cash at a price of Rs. 473.97 per share. This acquisition of the government's 51.11 per cent stake in HPCL, would give the former receipts to the tune of Rs. 36,915 crore.

The intention of the "deal" is clearly to obtain during fiscal year 2016-17 what are conveniently defined as "non-debt creating capital receipts", which are excluded from the fiscal deficit. On 11 January total disinvestment proceeds during the current financial year 2017-18 stood at Rs. 54,337.60 crore. With the stake sale in HPCL, these receipts from disinvestment will rise to Rs. 91,252.6 crore, far in excess of the Rs. 72,500 crore originally budgeted for. That would help the government claim that it has met its fiscal deficit target of 3.2 per cent of GDP, despite the fall in indirect tax receipts consequent to the shift to the Goods and Services Tax (GST) regime. Whether it would also help the government persuade finance capital, especially international finance capital, that the deficit is actually low and its finances are "in order", is another matter.

The 2017-18 Budget's target for receipts from disinvestment of equity in public sector units, of Rs. 72,500 crore, consisted of Rs. 46,500 crore from disinvestment of Central Public Sector Enterprises, Rs. 15,000 crore from strategic disinvestment and Rs. 11,000 crore from listing of insurance companies. The government did sell equity it held in a number public sector units (PSUs) this year, including HUDCO, EIL, NTPC, NALCO and OIL. It also put on sale new shares of two state-owned insurance companies, GIC and New India Assurance. Yet it has managed to mobilise only Rs. 54,337.60 crore. Hence the desperation to use this devious route to shore up its receipts.

What is noteworthy in the HPCL case is not just that the government is selling assets in order to finance its expenditures. It is that the sale is being made to another public sector company, and therefore to itself, purely to window dress its accounts. This is not the first time this rather odd means to keep down the fiscal deficit is being resorted to. In 1998-99, when too the government exceeded its disinvestment target by a wide margin, the "success" was in substantial part the result of a decision to get cash-rich PSUs to "cross-hold" shares in related PSUs by buying the same off the government. Of the Rs. 9,000 crore garnered in 1998/99, only Rs. 1195.25 crore were raised through market disinvestment in Concor (Rs. 225 crores), GAIL (Rs. 184 crore) and VSNL (Rs. 786.25 crore). Much of the rest came from cross-holding investments by the oil PSUs, ONGC, GAIL and IOC. Cash rich public sector corporations were forced to buy-back the government's holding of their equity or the equity of other public sector enterprises. This amounted to forcing PSUs, that needed investments in expansion and modernisation to face up to the post-liberalisation environment, to hand over their investible surpluses to finance the fiscal deficit of the government.

In the current instance the government seems to be giving up control of an asset that has been appreciating in value. The HPCL stock has been appreciating rapidly over the medium term, gaining more than 700 per cent over the past four years. So, it is not just giving up direct ownership of a profitable company, but one whose value is likely to rise further, strengthening the asset position of the government.

Similarly, there is reason to believe that the deal is not in the best interests of ONGC. To start with, the purchase price of Rs. 473.97 per share, reflects a significant premium compared to HPCL's closing price of Rs. 416.55 on the Bombay Stock Exchange on the day the deal was struck. Earlier in September, when speaking to the press after an Annual General Meeting, then chairman and managing director D. K. Sarraf, while declaring that ONGC "will definitely complete the HPCL stake buy within the current calender year," also said the company was not willing to pay a premium on the current market price for the HPCL stake purchase. Clearly, the ONGC management has been forced to change its mind and relent to a 13.7 per cent premium.

Second, there are no immediate synergies that are likely from the deal, since it has been made clear that the two companies, though now formally united, would continue as independent entities and function as they did before the acquisition of HPCL by ONGC.

Third, to fund the acquisition, ONGC would have to seek out additional funding, since its cash and bank balances as of September 2017 totalled only about 13,600 crore. "We are yet to finalise the strategy on how to arrange finance for the deal," Shashi Shankar, current chairman and managing director, ONGC is reported to have said. ONGC is reportedly planning to sell all or a part of its 13.77 per cent stake in Indian Oil and 4.87 per cent in Gas Authority of India Limited, which are by no means bad stocks to hold. That is, part of the stake purchase in HPCL is merely a replacement of other public sector stocks with HPCL's, with equity in Indian Oil and GAIL possibly being sold to some other cash rich PSU. The only reason for this merry-go-round seems to be that of depositing cash with the government before the next Budget is presented.

Fourth, even this would not be enough, requiring ONGC to borrow to finance the acquisition. It has already taken permission to borrow Rs. 25,000 crore from the market if needed. So, to keep the government's borrowing requirement down, public sector ONGC is being called upon to borrow funds from the market. That is the government's aggregate public sector borrowing requirement (PSBR), or that of the government per se and the PSUs combined, which is the figure monitored by many government's internationally, may not go down as much as the fiscal deficit prior to the transaction.

Finally, the game has been fixed at the expense of non-government shareholders in HPCL, who will not be in a position to sell their stake at the near-14 per cent premium. ONGC's share purchase is exempt from the requirement of open offer, under which an investor acquiring more than 25 percent in a listed company has to make an offer to buy another 26 percent from public shareholders at the same price.

ONGC's purchase, being a transaction between related parties, is conveniently covered by a statutory exemption in the takeover code, saving the company from having to outlay much more money if other shareholders responded positively to an open offer, if it had been made.

Put all of this together and it is clear that use of this mechanism to control the fiscal deficit is nothing more than open manipulation. It comes when the government has already declared that it is resorting to another sleight of hand to finance its scheme to provide Rs. 1.35 lakh crore from the Budget to recapitalise public sector banks burdened with losses resulting from write offs of non-performing assets. The government claims that this should not affect the size of the fiscal deficit since the recapitalisation is being financed through the issue of bonds for the purpose.

The idea seems to be to use deposits with the banks to get them to buy government bonds and for the government to use the money to acquire new equity in the banks. Since in this process there would be no net outflow or inflow of money from or into the governments account, the process, it is argued, is deficit neutral. That argument, however, is not sustainable. Since the fiscal deficit is defined as the excess of government expenditures (revenue and capital) over government revenues, the investment in public sector equity must be included. Moreover, since the investment is being funded with bonds, those receipts cannot be treated as "non-debt creating capital receipts". And finally, since interest paid on the recapitalisation bonds and dividends (if any) received from the equity purchased would feature in future budgets, there is evidence that debt is being used for a capital acquisition.

So Budget 2018-19 is going to feature window-dressed Revised Estimates to ensure the fiscal deficit is on target. There is no way this will not be identified by finance capital, domestic or foreign. But that alone is unlikely to set off any immediate capital outflow. Given the other concessions that are being doled out to big capital, domestic and foreign, a manipulated deficit figure is hardly going to frighten them. Rather, the stock markets are on a roll, perhaps expecting even more concessions. This goes to show that the fiscal deficit is really not an issue in the current Indian context. If yet the Finance Minister, backed by the Prime Minister, has to make much of having achieved his own irrational deficit target, it is only to show that he is a neoliberal "reformist" who will strive to deliver high profits to big business and finance capital, while keeping taxes low and the tax regime lenient.

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