Source : www.livemint.com Date : 2020-11-16

PSES AREN'T A GOLD MINE OF DIVIDEND FOR GOVT ANYMORE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

With tax collections falling majorly this year, the govt now wants PSEs to chip in by paying a higher dividend than they normally do. The higher dividends will help fill up a part of the gap. Mint examines if this is a good long-term policy.

With tax collections falling majorly this year, the government now wants public sector enterprises (PSEs) to chip in by paying a higher dividend than they normally do. The higher dividends will help fill up a part of the gap. Mint examines if this is a good long-term policy.

How bad is the drop in government revenue?

The gross tax revenues of the government for the period between April-September are down 21.6% to 7.21 trillion. Other than Union excise duties, the collections of all other taxes have fallen because of a slowdown in economic activity. The jump in excise duties has primarily been driven by the government increasing the excise duties on petrol and diesel. Of the total disinvestment target of 2.1 trillion for 2020-21, the government has earned only around 5,781 crore or just 2.75% of the entire target. This is despite the stock market having been on a strong footing for most part of this fiscal.

How has the trend in PSE dividends been?

Dividends given by the central public sector enterprises peaked at 0.33% of the gross domestic product (GDP) in 2009-10 and have largely been falling since 2011-12. A decade later in 2019-20, the dividends stood at 0.24% of GDP. Clearly, the contribution of PSEs in the form of dividends has gone down over the years. This isn't surprising given that the overall net profit of PSEs has fallen from 1.45% of the GDP in 2009-10 to 0.75% of the GDP in 2018-19, the last year for which data is available. The government now wants PSEs, to even dip into their reserves and pay a dividend this year, if the need be.

Why have the profits of PSEs been declining?

Barring a few sectors, where PSEs have a strong footing, they have been losing out to private players. In 2018-19, PSEs made a total profit of 1.43 trillion, out of which the top 10 profit making PSEs accounted for over 75% share amounting to 1.08 trillion. These companies operate in the areas of oil and gas, power and coal, where they don't have much competition.

What does this mean for Centre's finances?

In 2018-19, 70 out of the 249 operating PSEs incurred losses. Many others did not earn enough money to justify the quantum of capital invested in them by the government. The return on capital employed of PSEs in 2009-10 had stood at 10.15%. By 2018-19, this figure had dropped to 5.56%. In a capital starved country such as India, this is not the most efficient way of going about things. The lack of profit-making PSEs also explains the slowdown in the dividend that has been paid to the government.

What can the govt do to get out of this ditch?

The need of the hour is to look at these public sector enterprises as investments. The ones that are not earning adequate profit to justify the capital invested in them by the government need to be shut down or sold off. A lot of right noises have been made on this front over the years. However, the efforts taken so far have failed to bear fruit. Now is as good as a time as any to do the right things in this space.

Vivek Kaul is the author of Bad Money.

END