



Disinvestment as a Pathway to Fiscal Sustainability: Evaluating India's Progress under the FRBM Act

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Abstract. India's Fiscal Consolidation framework was established by Fiscal Responsibility and Budget Management (FRBM) Act, 2003. Throughout this framework disinvestment has been used as a tool for both revenue generation and a public sector reform. This paper analyses whether disinvestment has genuinely contributed to fiscal sustainability under the FRBM framework or if it has only been used as a temporary budgetary tool to meet deficit targets. Fiscal sustainability ensures that government deficits and debt remain under control over time without relying on one-time fixes. The FRBM Act established a rules-based framework with the goal of bringing the public debt and budget deficit down to sustainable levels in order to maintain fiscal discipline. This study evaluates the role of disinvestment in achieving fiscal sustainability in India under the FRBM framework. This paper uses time-series analysis to examine short-run and long run dynamics between disinvestment proceeds and fiscal deficit outcomes, and key macroeconomic variables over the period 1991 to 2025. The study shows that disinvestment has been used to meet annual deficit targets rather than improving public finances. The paper identifies main gaps and problems in the FRBM framework and it suggests that reforms are required in the fiscal rule framework to use disinvestment proceeds as a source of fiscal sustainability. Disinvestment should not be considered as a deficit target anymore. The study emphasises that disinvestment can help to reduce the deficit but it needs to be part of a bigger plan. The main focus should be on improved

tax administration, stronger public enterprise governance and also needs to rationalize spending.

Keywords: Disinvestment, FRBM Act, Fiscal Sustainability, Fiscal Deficit, Debt Management, Fiscal Policy

1 Introduction

The Indian government is focusing on fiscal consolidation over the past four decades by evolving macroeconomic conditions and changing developmental priorities. If we look back, we can see that India started facing deficit problems in the 1980s with rising expenditure pressures and weak revenue mobilisation. By the late 1980s, these imbalances increased and this problem had become very big, contributing to the Balance of Payments crisis of 1991.

Fiscal sustainability is defined as the ability of the government to control its spending, income, and debt without causing long-term financial instability. The government must make sure it can pay its debts and avoid taking on too much debt. If the government spends more money than it has in the past, there can be fiscal problems. Fiscal sustainability is essential because it allows the government to carry out its duties without having to liquidate assets or take out huge debts.

The nation was trying to recover from the BOP crisis during the 1990s and it observed initial attempts at fiscal correction through expenditure cutting and revenue-enhancing reforms. The government started looking for new ways to increase revenue to improve its financial situation. When the nation first began to open up its economy, the globalisation process did help a little. But the fiscal condition began to worsen during this ten-year period, particularly at the state level. This showed that the nation lacked a fiscal management framework.

The Government of India enacted the Fiscal Responsibility and Budget Management (FRBM) Act in 2003. This Act signified a significant shift from making decisions based on feelings to following financial management guidelines. The Fiscal Responsibility and Budget Management Act set objectives to control government expenditure and reduce debt.

The regulations are similar to restrictions on the amount of revenue that the government can borrow or spend. These restrictions aid in decision-making and increase transparency for the government. The goal is to reduce spending while increasing the government's credibility. The Fiscal Responsibility and Budget Management Act was initially effective. The mid-2000s saw an improvement in the government's financial status. Over time, the government began to flout the regulations. They altered the regulations. When the economy was poor, they found ways to avoid them. Significant issues like the COVID-19 epidemic and the 2008 financial crisis demonstrated how difficult it is to adhere to regulations when the government must support the economy.

India's fiscal consolidation strategy has relied on changing tax laws, improving tax collection, making prudent use of subsidies, and obtaining funds from other sources are all part of India's strategy to manage its finances. This proposal includes disinvestment. When India's economy opened up in 1991, they began disinvesting. Initially, the government sold a portion of some publicly traded enterprises in order to raise funds and improve their operations. The government's policies evolved over time. They retained ownership even after selling a portion of these businesses between 1991 and 1998. They sold parts and relinquished control between 1999 and 2004. Then, depending on the market and political climate, they were more cautious between 2004 and 2014 about which businesses to sell and when. India has been concentrating on selling businesses since 2014 and using the proceeds to construct roads, bridges, and other significant infrastructure. India's strategy to manage its finances and develop its nation still includes disinvestment.

The institutional role of disinvestment was reinforced by the establishment of the Department of Disinvestment in 1999 and its subsequent upgrade to a Ministry in 2001. In 2005, the National Investment Fund was established and the disinvestment proceeds were intended to be used by the fund for capital expenditures. Disinvestment proceeds were eventually used by the government to make up for budget deficits. As a result, disinvestment was utilised less for structural improvements and more for budget support. Disinvestment goals were raised after 2014 and Exchange-traded funds were introduced by the government like Air India, they also made strategic sales. In order to sell government assets, the National Monetisation Pipeline was established in 2021. In order to accomplish its goals, the government needed to use disinvestment.

One important aspect of India's fiscal-rule framework is that it prioritises deficit reduction over spending management. It also pushes the government to rely on one-time revenue sources in order to meet deficit targets and the government has been using revenue from the sale of state assets to meet deficit targets. These adjustments may enhance the fiscal targets but it does not address the issue of financial instability. This raises concerns about the legitimacy and openness of the budgeting regulations. The sustainability of the government's finances becomes crucial in this situation. It is not always the case that the government's long-term financial status is improving when assets are sold to achieve deficit targets.

Disinvestment is not just about revenue generation. It also helps to improve the performance of public sector enterprises, reduce government ownership and promote better market discipline. Disinvestment is also a source of non-tax revenue for meeting budgetary needs when tax collections are low. The proceeds from asset sales can also contribute to easing the government's debt burden. Further, disinvestment leads to the development of capital markets by improving corporate governance and attracting more investors.

India's disinvestment policy is becoming more important, but it has a long way to go. The policy has not been consistently implemented, and disinvestment targets are missed often due to market fluctuations, valuation problems and socio-political resistance. Political disagreements, opposition from trade unions and fears of devaluing public assets have added to the delays. While widely considered a tool to ease fiscal pressure and support compliance with the FRBM Act, the long-term impact of disinvestment on fiscal stability is, therefore, unclear and not studied in depth.

In this paper we study the role of disinvestment in Indian context under the FRBM framework. It examines whether disinvestment has the potential to enhance fiscal sustainability in the longer-term or merely in the short-term. The study also looks at the effectiveness of disinvestment, its challenges and the impact on the country's fiscal position. The main objective is to find out if disinvestment can be a reinforcement to fiscal discipline or it continues to be a part of the government's overall fiscal strategy under the FRBM framework.

1.1 Research Problem

Disinvestment has been discussed in the context of generating revenues, but less so in terms of promoting long-term fiscal sustainability. Most of the empirical studies are on trends in disinvestment and fiscal deficit. They, however, do not examine the effectiveness of disinvestment within the FRBM framework. There is insufficient data to determine if disinvestment helps achieve short-term budgetary goals or actually adds to fiscal consolidation. A few studies have looked at the performance of disinvestment during periods of compliance and non-compliance with FRBM. This paper attempts to examine whether disinvestment has really contributed to achieving fiscal consolidation or has largely been used for meeting budget deficit targets under the FRBM framework. It also investigates whether disinvestment revenue has a significant long-term association in reducing the fiscal deficit or its role is confined to short-term budget management.

1.2 Research Objectives

This study aims to:

1. To examine how disinvestment contributes to fiscal sustainability under the FRBM framework in India.
2. To analyze the impact of disinvestment on fiscal deficit reduction and long-term fiscal consolidation.

3. To provide policy implications for improving the effectiveness of disinvestment as a tool for fiscal sustainability.

2. Fiscal Discipline, Fiscal Sustainability, and Rule-Based Frameworks

Rule-based fiscal frameworks are meant to limit fiscal policy and promote economic stability. They do this by tying government actions to clear goals defined by law or institutions. In India the Fiscal Responsibility and Budget Management (FRBM) Act was a change. It moved away from fiscal management to a rules-based system. This system sets limits on fiscal deficit, revenue deficit and public debt. The basic idea behind the FRBM framework is that strict fiscal rules make the government's fiscal plans more believable. They also reduce the tendency to run deficits and promote lasting fiscal discipline. The FRBM framework helps to achieve stability through these rules. Fiscal discipline is key, to an economy and the FRBM Act helps to ensure this discipline.

Fiscal sustainability refers to a government's capacity to settle its debts and this differs from discipline in that it allows the government to pay down its future debt without resorting to unconventional financing strategies, significant adjustments in spending, which could be harmful to the economy. Meeting deficit targets is not the only aspect of fiscal sustainability in India. It also entails examining debt as a component of the nation's overall economy, government spending patterns, and long-term revenue collection capacity. This was discussed in the Reserve Bank of India's 2022 report. A nation's economy depends on fiscal sustainability and discipline, and the government must carefully manage its debt and spending.

Evidence from India indicates that the FRBM framework faces some challenges. Chakraborty and Sinha (2018) find that overly cautious revenue estimates and underestimation of spending affect India's fiscal outcomes in a rule-based system. These errors in the forecasting process lower the credibility of the fiscal rules and give the impression that governments set FRBM targets initially and then later deviate from

them. The FRBM Act has not been very effective in terms of improving financial discipline or curbing discretionary spending.

India's experience with rule-based fiscal policies supports this view (Misra, 2012). He mentioned the FRBM Act initially improved fiscal indicators and improved transparency. However, its effectiveness declined by repeated suspensions, amendments, and use of escape clauses, especially during periods of economic slowdown. This indicates that fiscal rules have often been relaxed to accommodate short-term fiscal needs.

India frequently cuts capital spending to deal with budget pressures. This is happening at the time that India has a very low tax-to-GDP ratio compared to other countries. This raises questions about whether India's really improving its financial situation over time even if it is following the rules of the Fiscal Responsibility and Budget Management Act.

The International Monetary Fund (2023) mentions that India has a lot of hidden debts from borrowing money without including it in the budget and from guarantees it has given to public sector enterprises. The state governments also have their financial obligations. All these debts make it hard to know if India's budget is really sustainable because they are not included in the budget deficit calculations. They are still real debts that India will have to pay in the future as described by Lahiri (2000).

In this situation India has been using temporary revenue sources to balance its budget. This is because India's fiscal rules are flexible and they focus on keeping the deficit under control than limiting how much money is spent. This creates an incentive for the government to use one-time revenues to show that it is following the (Von Hagen, 2006).

3. The FRBM Act and India's Fiscal Architecture

The Indian Government introduced the Fiscal Responsibility and Budget Management (FRBM) Bill in the Indian parliament in 2000 to give the country's institutionalised

fiscal discipline legal support. The FRBM Act was subsequently passed in 2003. The FRBM Act, enacted by the Indian government, aims to address fiscal deficit issues by promoting proper public finance management, setting targets for reducing fiscal deficit and outstanding debt, although many states do not fully comply, affecting economic stability. The Fiscal Responsibility and Budget Management Act, 2003, was enacted with a view to provide a legislative framework for reduction of deficit and thereby debt of the Central Government to a sustainable level over a medium term so as to ensure inter-generational equity in fiscal management and long term macro-economic stability. The Fiscal Responsibility and Budget Management Act, 2003, and the Fiscal Responsibility and Budget Management Rules, 2004, made under Section 8 of the Act have come into force with effect from 5th July 2004. (GoI, 2003).

Key Provisions of FRBM Act:

Fiscal Deficit Goal: The Act sought to reduce the fiscal deficit to 3% of GDP by 2008–09. This objective aimed to reduce government borrowing and maintain a reasonable fiscal deficit in order to stabilise the economy and control inflation.

Revenue Deficit Goal: Over time, the FRBM Act sought to eliminate the revenue deficit, which arises when current government expenditures exceed revenue. Eliminating the revenue shortfall ensures that the government can cover its ongoing expenses with regular income, which is more sustainable in the long run than borrowing.

Debt Management: The FRBM Act aimed to keep government debt under control by reducing budget deficits. This prevented debt from rising too much, lowered interest payments.

Medium-Term Fiscal Framework: The Act needed the government to prepare a three-year fiscal plan. This can help in better financial planning and it ensures better budget decisions for long-term fiscal stability.

Fiscal Transparency: The FRBM Act promotes transparency by asking the government to share its annual budget targets and actual fiscal performance.

4. Disinvestment Policy in India: Trends, Institutions, and Fiscal Role

India's disinvestment policy has developed as an important part of public sector reform. It is influenced by changing views of the government's role in revenue generation, efficiency concerns, and the financial burden. The main objectives of disinvestment include reducing the government's share in public sector undertakings (PSUs), raising funds for the government, and bringing market discipline to state-owned enterprises. However, in practice, the policy has progressively been included into India's fiscal deficit reduction approach, particularly under the FRBM framework. This demonstrates that disinvestment is about managing government finances and achieving fiscal goals in addition to increasing efficiency (FRBM Act, 2003).

The evolution of the disinvestment in India can be understood through its different phases. In the early years after the economic reforms of 1991, the government was cautious on disinvestment. It sold only small minority stake in public sector enterprises through public offerings while retaining full management control. During this period the primary goal was to generate revenue, and disinvestment was more a function of short-term budget needs than long-term reform goals. However, the overall level of disinvestment remained low due to political opposition, resistance from labour unions and difficulties in public asset valuation.

The second phase of disinvestment targeted to improve efficiency through privatization and reduce the financial burden of loss-making public sector enterprises (PSUs). The government established the Department of Disinvestment to manage the process in a better way. However, due to political and ideological differences, the strategic disinvestment was carried out only in selected cases and it also lacked consistency. As a result, it did not develop into a long-term reform strategy. The government later launched the National Investment Fund (NIF) to use disinvestment proceeds for capital investment and social development. Over time, these funds increased and it was used to meet general budget needs. Disinvestment became an important source of non-tax revenue after the enactment of FRBM Act. Annual disinvestment targets were

considered in the Union Budget, and new instruments such as Exchange Traded Funds (ETFs) were introduced to encourage greater investor participation.

Disinvestment has become an important source of fund for financing fiscal deficits, particularly when government revenues are lower than expected. Many Supporters argues that it helps to strengthen fiscal consolidation by generating non-tax revenue and improving the performance of public sector enterprises. However, critics highlights the fact that the disinvestment provides only one-time receipts and relying on it to finance regular budget deficits may not support long-term fiscal stability.

India's disinvestment policy has gradually moved from a minor reform measure to an important element of fiscal management under the FRBM framework. It has helped the government in raising revenue and promoting the growth of the capital market. However, its increasing use to finance fiscal deficits has raised concerns about whether it supports long-term fiscal discipline or simply helps the government meet short-term deficit targets. This brings up an important question: is disinvestment a real instrument of fiscal consolidation or is it being used mainly to meet the fiscal targets set under the FRBM framework?

5. Data and Methodology

Annual time-series data from 1991 to 2025 has been used in the study. The secondary data is collected from reliable government sources, including Union Budget documents, FRBM notifications, the RBI Handbook of Statistics, and the Department of Investment and Public Asset Management (DIPAM).

5.1 List of Variables:

- FD (Fiscal Deficit): Central government fiscal deficit (% of GDP)-Dependent variable
- DISINV (Disinvestment): Proceeds from disinvestment (% of GDP) - Main independent variable
- REV (Revenue): Government regular income (% of GDP) - Control variable

- CAPR (Capital Receipts): Capital receipts excluding borrowings (% of GDP) -Control variable
- DEBT (Government Debt): Outstanding government debt (% of GDP) - Control variable
- FSTRESS (Fiscal Stress): Deviation from FRBM target - Control variable

5.2 Econometric Framework

This paper analyses the role of disinvestment to achieve fiscal sustainability in India under the FRBM Act using a time-series econometric approach. Firstly, the key relationship between fiscal deficit and disinvestment is examined using an Ordinary Least Squares (OLS) model. To verify stationarity, the Augmented Dickey-Fuller (ADF) test is employed. The ARDL bounds testing method is used to check for cointegration based on integration properties. The ARDL model estimates long-term impacts after confirmation. Short-term dynamics and adjustment speed are captured by an Error Correction Model (ECM). Lastly, changes in fiscal behaviour are detected using structural break analysis, especially in the post-FRBM era.

5.3. Model Specification

Baseline OLS Regression

Equation:

$$FD_t = \alpha + \beta_1 DISINV_t + \beta_2 REV_t + \beta_3 CAPR_t + \beta_4 DEBT_t + \beta_5 FSTRESS_t + \epsilon_t$$

(1)

Where,

FD = Fiscal Deficit (% of GDP), DISINV = Disinvestment receipts (% of GDP), REV = Government revenue receipts (% of GDP), CAPEX = Capital expenditure (% of GDP), DEBT = Public debt (% of GDP), FSTRESS=Deviation from FRBM target, ϵ = Error term

Table 1: Model Statistics

Statistic	Value
Observations	35
R ²	0.899
Adjusted R ²	0.882
F-statistic	51.68
Prob(F-statistic)	0.000
Durbin–Watson	1.62

Source: Author’s estimation

Table 1 represents OLS results based on 35 observations. A good model fit is indicated by the high R² (0.899) and adjusted R² (0.882). Overall significance is confirmed by the F-statistic (51.68) with a probability of 0.000. Reliable estimates are indicated by the Durbin–Watson value of 1.62, which indicates no significant autocorrelation.

Table 2: OLS Regression Results

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	-2.802	0.858	-3.264	0.003
Disinvestment (DISINV)	-0.139	0.202	-0.686	0.498
Revenue Receipts (REV)	0.072	0.051	1.407	0.170
Capital Receipts (CAPR)	0.920	0.078	11.719	0.000
Public Debt (DEBT)	0.051	0.015	3.396	0.002
Fiscal Stress (FSTRESS)	0.085	0.035	2.464	0.020

Source: Author’s estimation

The baseline OLS regression model's estimated coefficients are shown in Table 2. The findings show a limited direct impact of disinvestment (DISINV), which has a negative but statistically not significant effect on the fiscal deficit. While positive, revenue collections (REV) are insignificant. On the other hand, capital receipts (CAPR) show a

considerable and strong positive impact, indicating that they play a major role in determining the fiscal deficit. Fiscal stress (FSTRESS) and public debt (DEBT) are both positive and statistically significant, suggesting that rising fiscal deficit is a result of both fiscal deviations and higher debt levels. The baseline fiscal position is reflected in the significant and negative constant term.

Unit Root Test Equation (ADF Test)

$$\Delta Y_t = \alpha + \gamma Y_{t-1} + \sum_{i=1}^k \delta_i \Delta Y_{t-i} + \varepsilon_t \quad (2)$$

Where: Y_t : (FD, DISINV, REV, CAPR, DEBT, FSTRESS)

Table 3: Unit Root Test Results (ADF Test)

Variable	ADF Statistic	p-value
FD	-3.42	0.016**
DISINV	-2.11	0.24
REV	-3.08	0.03**
CAPR	-4.96	0.000***
DEBT	-1.89	0.33
FSTRESS	-3.67	0.009***

Source: Author's estimation

According to IDF findings FD, REV, CAPR, and FSTRESS are stationary at level I (0) and DISINV and DEBT becomes stationary after differencing, showing I (1).

Bound Test for Cointegration-ARDL

$$\Delta FD_t = \alpha + \Sigma \beta_i \Delta FD_{t-i} + \Sigma \gamma_{1j} \Delta DISINV_{t-j} + \Sigma \gamma_{2j} \Delta REV_{t-j} + \Sigma \gamma_{3j} \Delta CAPR_{t-j} + \Sigma \gamma_{4j} \Delta DEBT_{t-j} + \Sigma \gamma_{5j} \Delta FSTRESS_{t-j} + \delta_1 FD_{t-1} + \delta_2 DISINV_{t-1} + \delta_3 REV_{t-1} + \delta_4 CAPR_{t-1} + \delta_5 DEBT_{t-1} + \delta_6 FSTRESS_{t-1} + \varepsilon_t \quad (3)$$

Where,

FD = Fiscal Deficit (% of GDP), DISINV = Disinvestment receipts (% of GDP), REV = Government revenue receipts (% of GDP), CAPEX = Capital expenditure (% of GDP), DEBT = Public debt (% of GDP), FSTRESS=Deviation from FRBM target, ε = Error term

H0: $\delta_1 = \delta_2 = \delta_3 = \delta_4 = \delta_5 = \delta_6 = 0$ (no Cointegration)

Table 4: Bound Test Result

Statistic	Value
F-statistic	5.21
Upper bound (5%)	3.79

The ARDL bounds test shows an F-statistic of 5.21, which is more than the upper bound critical value of 3.79 at the 5% level. It rejects the null hypothesis of no cointegration. This confirms a stable long-run relationship among the variables.

ARDL -Long-Run

$$FD_t = \alpha + \sum \varphi_i FD_{t-i} + \sum \beta_j DISINV_{t-j} + \sum \theta_k REV_{t-k} + \sum \psi_l CAPR_{t-l} + \sum \lambda_m DEBT_{t-m} + \sum \omega_n FSTRESS_{t-n} + \varepsilon_t \quad (4)$$

Where,

FD = Fiscal Deficit (% of GDP), DISINV = Disinvestment receipts (% of GDP), REV = Government revenue receipts (% of GDP), CAPEX = Capital expenditure (% of GDP), DEBT = Public debt (% of GDP), FSTRESS=Deviation from FRBM target, ε = Error term

Table 5: ARDL Long Run Estimation

Variable	Coefficient	t-value	p-value
DISINV	-0.162	-0.94	0.35
REV	0.068	1.21	0.23
CAPR	0.901***	9.88	0.000
DEBT	0.049***	3.11	0.004
FSTRESS	0.079**	2.09	0.04

Source: Author's estimation

According to the long-term ARDL results, revenue receipts (REV) and disinvestment (DISINV) have statistically minimal impact on the fiscal deficit. Capital revenues (CAPR), on the other hand, have a significant positive and very significant influence, emphasising their important role in fiscal performance. Also, public debt (DEBT) shows a positive and significant impact, suggesting that greater debt levels raise the budget deficit. At ordinary levels, fiscal stress (FSTRESS) is positive and significant, indicating that fiscal imbalance is made worse by departures from FRBM targets. This table indicates that fiscal deficit adjustment is primarily driven by structural fiscal factors such as revenues, expenditures, and fiscal stress rather than by disinvestment. Disinvestment appears to be only short-term or relief and sustainable fiscal consolidation depends on deeper structural adjustments.

Error Correction Model (ECM)

ECM is estimated to confirm long-run equilibrium and to measure how quickly short-run fiscal imbalances adjust back to that equilibrium.

Equation-

$$\Delta FDI_t = \beta_1 \Delta DISINV_t + \beta_2 \Delta REV_t + \beta_3 \Delta CAPR_t + \beta_4 \Delta DEBT_t + \beta_5 \Delta FSTRESS_t + \lambda ECT_{t-1} + \varepsilon_t \quad (5)$$

Where,

- ΔFDI_t = Change in fiscal deficit in the short run
- $\Delta DISINV_t, \Delta REV_t, \Delta CAPR_t, \Delta DEBT_t, \Delta FSTRESS_t$ = Short-run changes in disinvestment, revenue, capital expenditure, debt, and fiscal stress.
- ECT_{t-1} (Error Correction Term)
- λ shows the speed of adjustment back to long-run balance.

Table 6: ECM Results

Variable	Coefficient	p-value
ΔCAPR	0.612***	0.000
ΔDEBT	0.029**	0.02
$\text{ECT}_{(-1)}$	-0.63***	0.000

Source: Author's estimation

Stable long-term relationships are confirmed by quick adjustment to equilibrium. 63% of the equilibrium deviation has been corrected. Short-term financial development is driven by capital requirements (coefficient: 0.612) The short-term benefits of debt increase are small (coefficient: 0.029). Revenue, financial hardship, and disinvestment all show no immediate impact.

Structural Break (FRBM) Equation

India adopted fiscal rules under the FRBM Act to ensure discipline; however, deviations occur due to economic shocks, policy relaxations, and exceptional circumstances.

A dummy variable tells the difference between times when people follow rules (0) and times when they don't (1). This helps show changes in structure and suggests that the link, between not investing and the budget deficit might change over time.

Structural break Equation using DT (fiscal rule regime):

$$FD_t = \alpha + \beta_1 DISINV_t + \beta_2 DT_t + \beta_3 (DISINV_t \times DT_t) + \beta_4 REV_t + \beta_5 CAPR_t + \beta_6 DEBT_t + \beta_7 FSTRESS_t + \varepsilon_t$$

(6)

Table 7: Structural Break Analysis

Variable	Coefficient	t-statistic	p-value
Constant (α)	4.05***	11.33	0.000
DISINV	0.09	0.20	0.844
DT (Fiscal Rule Deviation)	1.69***	3.23	0.003
DISINV $\times$ DT	-2.85	-1.16	0.256

Source: Author’s estimation

The results shows that the dummy variable (Dt) is positive and it is statistically significant. It confirms that the periods of fiscal rule deviation are associated with higher fiscal deficits. Disinvestment (DISINV) is not statistically significant in reducing the deficit during normal periods. Furthermore, the interaction term between disinvestment and the dummy variable (DISINV* Dt) is negative but insignificant. It suggests that the effectiveness of disinvestment weakens during periods of crisis and fiscal slippages. This implies that one-time asset sales are insufficient to offset large fiscal shocks, highlighting the limited role of disinvestment in ensuring fiscal stability during adverse economic conditions.

6. Results Interpretation

The study findings suggests that disinvestment does not help India in achieving stable finances under the FRBM framework. The initial results show that although disinvestment does have some impact on fiscal consolidation but it is too small to make a meaningful difference in reducing fiscal imbalance. So, we cannot completely rely upon disinvestment as a strong long-term tool for fiscal consolidation. Instead, factors like fiscal stress, government debt, and capital receipts play a much bigger role in shaping the country's financial position.

The results show that there is a long-term connection between these variables, which means they are connected over time. When the FRBM targets are not achieved the fiscal deficits usually go up. The results also show that disinvestment does not work well when the economy is struggling or during a crisis, which shows that it has limits as a way to manage finances. In general the evidence shows that disinvestment is used more as a fix than, as a long-term way to keep the finances under control.

The main thing to understand about India is that it cannot just sell assets to fix its money problems. India needs to make changes and handle its money better if it wants to have a stable financial situation for a long time. India has to do more than just sell assets to fix its issues.

7. Discussion

This study looks at whether stopping investing in areas has made the finances of India more stable under the FRBM rules. The results show that stopping investing does not really help reduce the money deficit in the term or the long term. This means that even though stopping investing is part of how the government manages money it is not a way to make finances better over time.

One reason for this might be that the money from stopping investing is not always the same. It changes depending on how the marketsre doing so it is not something the government can count on. On the hand the study also found that things like money from

investments, debt from the government and pressure on the budget have a much bigger effect on the budget deficit. This shows that the main problems with the budget in India come from issues not from short-term steps like stopping investing.

The study also points out how important it is to follow the rules in the FRBM Act. The results show that if these rules are not followed the budget deficit tends to get bigger. During times when the economy is struggling like during the financial crisis or the COVID-19 pandemic the government is not as careful with money and depends more on quick fixes like stopping investing.

The results also show that stopping investing does not work well when the budget is under pressure or when the economy is in a crisis. This means it is not a choice when things are tough. Its purpose is mainly to help with money when the market is doing well.

Overall, the findings support earlier studies that view disinvestment as a supporting measure rather than the main tool for managing public finances. The study suggests that greater attention should be given to improving tax revenue, strengthening fiscal transparency, and ensuring better compliance with fiscal rules. These measures are likely to be more effective in achieving long-term fiscal stability than relying on disinvestment alone.

8. Policy Implications

The results show that India should not put much trust in selling assets as a part of its money plan. Instead more attention needs to be given to keeping control over spending. The main goal should be meeting the money deficit goals set by the FRBM rules of just hitting yearly asset sale targets. The money from selling assets should be seen as money coming in from investments. Should not be used just to lower the money deficit that is reported.

The research also says that using asset sales during economic times is not a good idea. These kinds of money are not reliable and happen once. Relying on them when times

are hard can make money problems worse. A better idea would be to keep the money from asset sales in a fund and use it for investments that last a long time instead of paying for short-term money needs.

The results also show that being financially stable for a time depends a lot on having a strong and steady way to get money. Improving how taxes are collected cutting down on tax breaks and making money from other sources stronger can give more reliable financial help than selling things once in a while.

There is also a need for openness and control when using the FRBM rules that allow for exceptions. Of changing the rules often an independent group could check when breaking the money rules is needed and make sure there is a clear plan to get back to the money goals.

In the end selling assets should be planned with a time in mind instead of being pushed by yearly money plans. A good money plan for the few years can make selling assets work better and reduce using it as a quick fix for money problems. Overall an open and controlled money system will be important, for making sure India has a strong money future.

9. Conclusion

This paper looked at disinvestment as a way to make India's finances stable under the FRBM framework. The study found that disinvestment has been used to solve the problem of burden but it does not really help to reduce the deficit over time. Things like capital receipt, public debt and financial stress have an impact, on how the finances turn out.

The study also shows that it becomes harder for the government to maintain discipline when the country is going through tough economic times. At times the government must follow strict fiscal rules. The effectiveness of disinvestment goes down more during these phases, which shows its limitations as a tool to counter economic cycles.

So this study says that disinvestment has mostly been used to fix term problems but it cannot be seen as a long term plan to maintain fiscal sustainability. To keep India's finances stable it is important to follow fiscal rules improve the way revenue is collected and introduce a more transparent and disciplined fiscal framework. India's fiscal stability is the main goal and disinvestment is not enough to achieve this goal. India needs a plan to maintain its fiscal stability over time.

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