INDIA STEPS UP PRIVATIZATION PROGRAMME

By James Crabtree in Mumbai

Indian Prime Minister Narendra Modi is accelerating plans to raise up to $7bn from the sale of stakes in three state-backed companies, including a larger than expected 10 per cent stake in the world's biggest coal miner.
Having pledged tough action to keep India's fiscal deficit in check, Mr Modi has agreed the sale of 10 per cent of Coal India, twice the size estimated by analysts when the divestment was first mooted earlier this year.

The sale would raise about $3.8bn at current market prices, and comes alongside plans to reduce government stakes in energy explorer Oil and Natural Gas Corporation and power group NHPC, all three of which were agreed by India's cabinet on Wednesday.

India hopes to capitalise on recent record stock market highs and heightened interest from global investors, as it struggles to hit a $10.5bn target for the sale of state-owned assets this year.

Mr Modi has faced criticism from some economists for refusing to consider more radical options to privatise India's many state-owned businesses, which dominate sectors from energy and natural resources to banking.

Nonetheless, his plans to accelerate the divestment programme in the face of trade union discontent are likely to be welcomed by business groups as a sign of willingness to push potentially unpopular economic reforms.

Fears of union action have increased in recent months, with Coal India revealing last week that it had been threatened with industrial action by a consortium of five labour groups, all of which are opposed to greater private ownership.

SQ Zama, secretary-general of the Indian National Mineworkers' Federation, criticised the sale plans. "We will oppose this disinvestment tooth and nail . . . We can go to any extent for this, even if it means a strike," he told Mint, an Indian business newspaper.

A possible mining strike creates particular dilemmas for Mr Modi in a country where trade union action can bring cities to a standstill, and at a time when India's fuel-starved power sector already faces coal shortages.

The sales are likely to receive a warmer welcome from investors, however, against a backdrop of cautious optimism over India's economic prospects. The country recently reported its best economic figures in more than two years, expanding by 5.7 per cent year-on-year in the last quarter.

Rohini Malkani, an economist at Citigroup in Mumbai, said sentiment had also been buoyed by attempts to hold down public spending, raising hopes that rating agency Standard & Poor's would reverse a 2012 decision to downgrade its outlook on India.

"The government is doing a good job constraining the fiscal deficit, and is gradually moving forwards on other measures," she said. "It's only a matter of time before S&P will change its outlook."