Business Standard

Manmohan Singh, peerless policymaker who transformed equity markets

The seeds for robust equity markets were sown during his tenure as Finance Minister in the Narasimha Rao government. Economic growth gathered momentum in Singh's first term as Prime Minister.

Economic growth gathered momentum in Manmohan Singh's first term as prime minister

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The market's performance under the first term of Manmohan Singh, from 2004-2009, was the second best under any Prime Minister: The benchmark Sensex rose 180 per cent and the Nifty 172 per cent.

The gains were a shade better during P V Narasimha Rao's premiership, when Sensex gained 181 per cent, and Nifty rose 171.4 per cent. Manmohan Singh was the finance minister then and oversaw economic reforms, which rescued India from one of its worst fiscal and balance of payment crises and put the economy back on track. Measures that eventually enabled robust equity markets were also introduced during that period.

During Singh's tenure as Rao's finance minister, the market regulator, the Securities and Exchange Board of India (Sebi), was given statutory powers. The office of the Controller of Capital Issues was dissolved. The power to decide and clear the public issue of shares was transferred from the Finance Ministry to Sebi.

Open markets

The private sector was allowed to enter the mutual fund industry and foreign portfolio investors (FPIs) to invest in Indian equities. As of September 2024, mutual funds own 9.5 per cent of the total market capitalisation of companies traded in NSE, and FPIs own 17.5 per cent.

And as of November 2024, 51.8 million Indians are investors in mutual funds. Formal research on equities started after FPIs entered Indian markets.

“The entry of FPIs professionalised Indian markets,” said Devina Mehra, chairperson and managing director of First Global, a portfolio management services firm. “Before that, there was no securities research. No company had an investor relations department.”

“One visible impact of the economic reforms was the trajectory of salaries, and my generation hugely benefited,” she said. “From the end of the 1980s to the 2000s, the salary levels completely changed in many industries. The IT and IT-enabled services sector bloomed during the reforms era. It helped transform the economy by generating direct and indirect employment and improving the balance of payment.”

UR Bhat, director and chief investment strategist of Alphaniti Fintech, said with equity research picking up in the Indian markets, investors could discover undervalued stocks that had the potential to perform.

"Until then, operators were running the market. FPI entry formalised the market,” he said. “Proper broking services, which were on par with international standards, came.” That, in a way, strengthened the trust in Indian equities,” Bhat added. Until then, there was no measure to boost equity culture – except in the ’70s, when provisions of the Foreign Exchange Regulation Act (FERA) forced multinationals to list in India."

The depositaries ordinance, which led to the formation of NSDL and enabled the dematerialisation of shares, was introduced in September 1995.

"Dematerialisation ended the practice of duplicate shares floating around. Until then, there was a lack of trust,” Bhat explained, adding that shareholders didn’t have access to shares for months even after buying them because of logistical issues. “And even when the shares reached them, there would be issues like signatures not being proper. Dematerialisation gave some certainty that if you buy a security, you will get it."

The NSE started operations in 1994, paving the way for the professionalisation of the broking industry.

BSE was very much a brokers' club. There was no professional requirement to become a broker,” Mehra said. “Corporate membership in the stock exchange did not exist, and only proprietorships and partnerships were allowed. Corporate membership in brokerages started after NSE came into existence.”

Economic growth as Prime Minister

Economic growth gathered momentum in Manmohan Singh's first term as Prime Minister. The first four years saw the economy growing at an annual average growth rate of 7.9 per cent before the global financial crisis brought it down to 6.9 per cent.

“The country's debt burden was reduced substantially during Manmohan Singh's prime ministership,” Mehra said. She explained: The debt of the Indian states plus the central government had up to 83.2 per cent of GDP in 2003-4. And then it started to go down, reaching a low of 65.5 per cent in 2010-11. Despite the global financial crisis and oil remaining over $100 a barrel for a few years, the total government debt to GDP was 67 per cent in 2013-14. “The debt reduction reduced interest costs as a percentage of revenue receipts and gave the government elbow room to fund MNREGA and other social schemes.”

Bhat added that equity markets became more robust during the time, and this helped the private sector raise capital and invest in expanding their capacity.

“Financing big projects through risk capital picked up,” he said. “Entrepreneurs were more confident in raising capital from the markets. And that led to capacity expansion in core sectors.” The Satyam scam, he said, was handled well, despite there being no precedent for it.”

How markets did under India's prime ministers								
			Market performance					
Policy Term			Sensex			Nifty		
Start	End	Prime Minister	Start	End	Return (%)	Start	End	Returns (%)
Aug 15, 1947	May 27, 1964	Jawaharlal Nehru	na	na		na	na	
May 27, 1964	Jun 09, 1964	Gulzari Lal Nanda	na	na		na	na	
Jun 09, 1964	Jan 11, 1966	Lal Bahadur Shastri	na	na		na	na	
Jan 11, 1966	Jan 24, 1966	Gulzari Lal Nanda	na	na		na	na	
Jan 24, 1966	Mar 24, 1977	Indira Gandhi	na	na		na	na	
Mar 24, 1977	Jul 28, 1979	Morarji Desai	na	118.2		na	na	
Jul 28, 1979	Jan 14, 1980	Charan Singh	118.2	123	4.1	na	na	
Jan 14, 1980	Oct 31, 1984	Indira Gandhi	123	267.8	117.7	na	na	
Oct 31, 1984	Dec 02, 1989	Rajiv Gandhi	267.8	712	165.9	na	na	
Dec 02, 1989	Nov 10, 1990	VP Singh	712	1,392.50	95.6	na	430.3	
Nov 10, 1990	Jun 21, 1991	Chandra Shekhar	1,392.50	1,361.70	-2.2	430.3	415.8	-3.4
Jun 21, 1991	May 16, 1996	PV Narsimha Rao	1,361.70	3,823.10	180.8	415.8	1,128.60	171.4
May 16, 1996	Jun 01, 1996	Atal Bihari Vajpayee	3,823.10	3,725.00	-2.6	1,128.60	1,089.90	-3.4
Jun 01, 1996	Apr 21, 1997	HD Deve Gowda	3,725.00	3,799.80	2	1,089.90	1,060.60	-2.7
Apr 21, 1997	Mar 19, 1998	IK Gujral	3,799.80	3,820.90	0.6	1,060.60	1,105.80	4.3
Mar 19, 1998	May 22, 2004	Atal Bihari Vajpayee	3,820.90	4,961.60	29.9	1,105.80	1,560.20	41.1
May 22, 2004	May 22, 2009	Manmohan Singh	4,961.60	13,887.20	179.9	1,560.20	4,238.50	171.7
May 22, 2009	May 26, 2014	Manmohan Singh	13,887.20	24,716.90	78	4,238.50	7,359.10	73.6
May 26, 2014	May 30, 2019	Narendra Modi	24,716.90	39,832.00	61.2	7,359.10	11,945.90	62.3
May 30, 2019	Jun 04, 2024	Narendra Modi	39,832.00	72,079.10	81	11,945.90	21,884.50	83.2
Jun 04, 2024	Dec 24, 2024	Narendra Modi	72,079.10	78,472.50	8.9	21,884.50	23,587.50	7.8

Source: India.gov.in
compiled by BS Research Bureau

Singh's second term from 2009 to 2014 was less impressive, though the average annual growth rate during this time was 6.7 per cent. There were two years when growth declined to 5.2 and 5.5 per cent. Corruption allegations and price rises marred the second term. The wholesale price inflation rose to 9.57 in fiscal 2010-11 and was close to 9 per cent in 2011-12.

“By the second term, the markets had bought into the India story, and then they discovered that those who they thought had the magic wand to fix any economic ill had feet of clay,” recalled Bhat. “It was disillusioning. And inflation hurt the public.”

Market experts are divided on Singh's legacy, and though there is consensus that he pushed transformational initiatives in the economy, the disappointment with the scams and the policy inertia in his second term lingers.

"Perhaps he will be remembered more for what he did as finance minister – as someone who functioned well when the political fallout was taken care of," said Bhat.