

## Hindu Rate of Growth

### Why in news?

India's gross domestic product (GDP) data for the third quarter received a word of caution from the former Reserve Bank of India (RBI) governor Raghuram Rajan.

### What is the issue?

- India's GDP for Q3 slowed to 4.4%, and for Q1, it grew by 13.2%, this slowdown in growth was termed as worrying by Raghuram Rajan.
- A report by the State Bank of India (SBI), dismissed arguments that India is dangerously close to Hindu rate of growth.

*Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.*

### What is meant by Hindu rate of growth?

- It was coined by late economist *Raj Krishna in 1978*.
- It describes the *slow growth in the country*, which basically refers to the low pace of economic growth rates during 1950s to 1980s.
- During this period, the Indian economy averaged 3.5%.
- Only if the *rate of growth is persistently slow and accompanied by low per-capita GDP*, then it will be known as Hindu rate of growth but it has to factor in population growth as well.

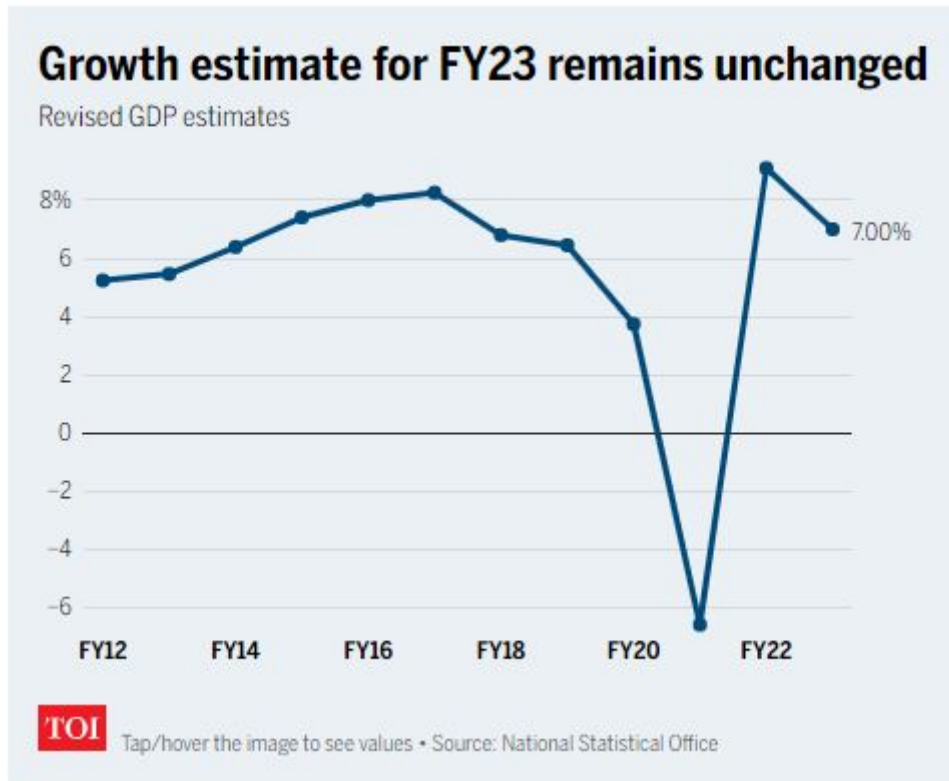
*Before economic reforms of 1991, India's economic growth remained stagnant and low, while per capita income averaged around 1.3%.*

### When did India outgrow the Hindu rate of growth?

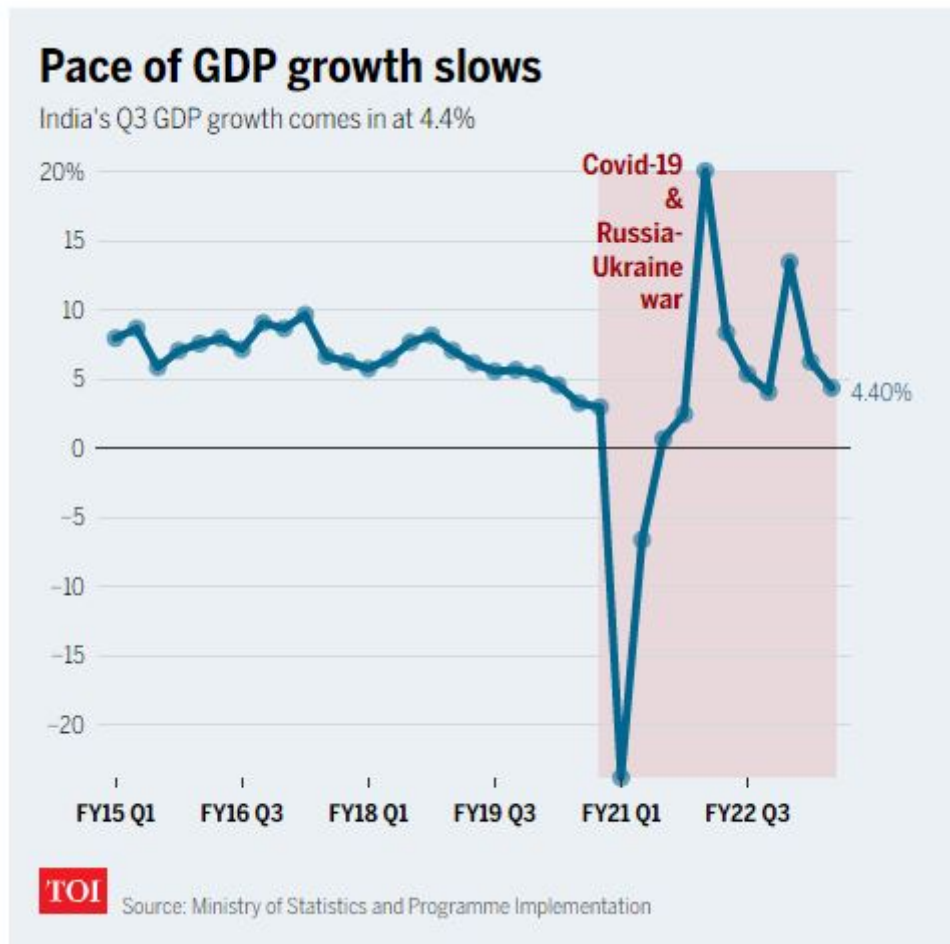
- The GDP growth rate data suggests that India started growing faster than the Hindu rate of 3.5% long before the crisis and reforms of 1991.
- India's average annual GDP growth rate between 1956 and 1975 was 3.4% almost exactly the Hindu rate of growth.
- However, between 1981 and 1991 that is, a full decade before the crisis and reforms, India's growth averaged 5.8%.

## How India's GDP has been growing?

- **GDP** - It shrunk by unprecedented 23.8% in the first quarter of the financial year 2020-2021, due to the pandemic.



- As lockdowns started to ease and business activities resumed, India's GDP also started rising.



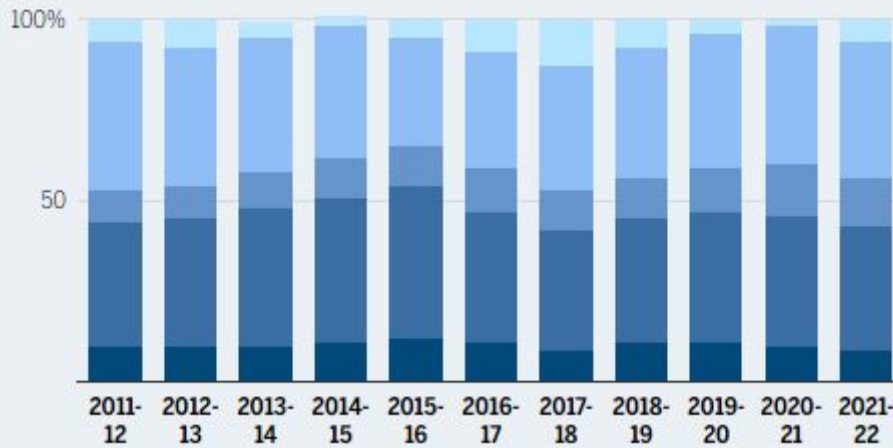
- **Russia-Ukraine** - FY22-23 brought fresh economic challenges in the form of war, impacting almost all major economies of the world, slowing the pace of growth, pushing inflation to record highs.

### What SBI report said on savings and investment?

- Quarterly growth numbers are noisy and should be best avoided for any serious interpretation.

## Institutions share in % total gross capital formation

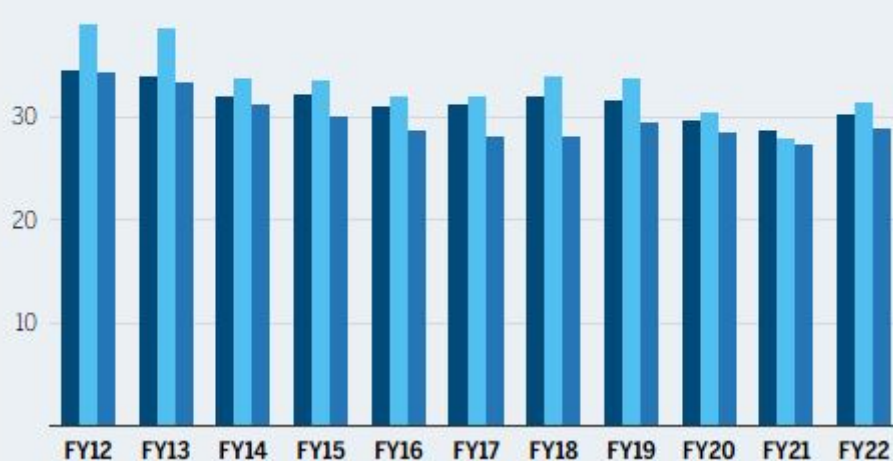
Public sector Private sector General government Household sector  
Valuables and adjustment factor from flow of funds



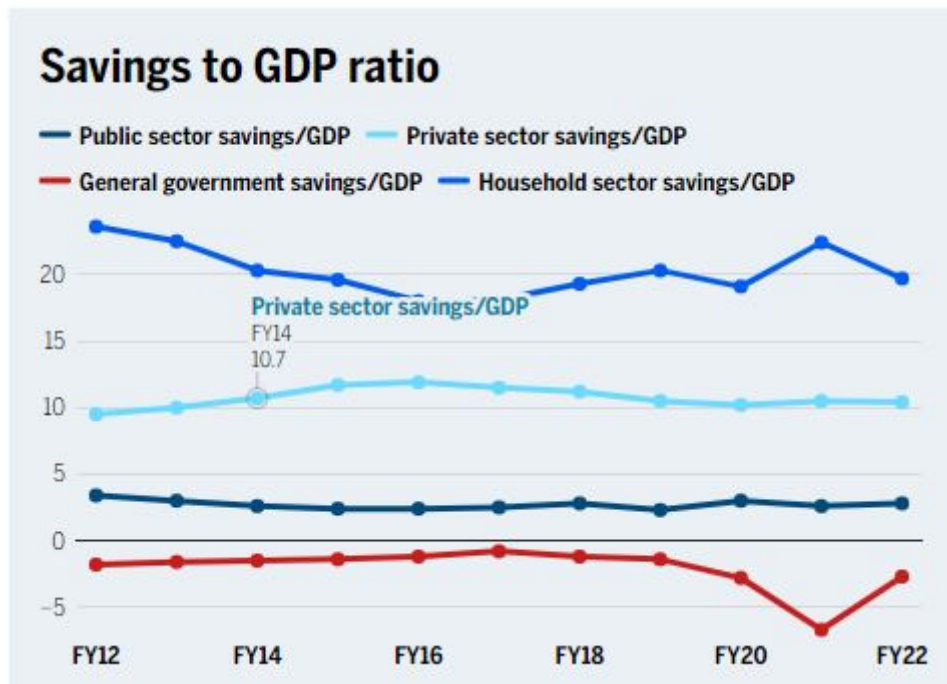
- **Gross capital formation (GCF)** - The GCF of the government touched a high of 11.8% in 2021-22, up from 10.7% in 2020-21.
- **Private sector investment** - This also had domino effect on private sector investment that jumped from 10% to 10.8% over the same period.
- **Gross savings** - In 2021-22, gross savings have risen to 30% from 29% in 2020-2021.

## Savings and investment ratios

Gross savings/GDP GCF/GDP GFCF/GDP



- **Household savings** - It increased sharply during the pandemic on account of sharp accretion in financial savings such as deposits.



- **Incremental Capital Output Ratio (ICOR)** - It measures additional units of capital investment needed to produce additional units of output.
- Reducing ICOR in the current years reflects a relatively increasing efficiency of capital and shows that the economy is on a sound footing.
- From that point of view, future GDP growth rates even at 7% could still mean a decent number by any standards.

### What is the conclusion?

- The country is making rapid progress in all fields and willing to compete with the best in almost all spheres.
- In a world where each country is taking care of its own, India too has learnt to do the same.
- As things stand today, India is still far from the 3.5% level that is associated with the Hindu rate of growth.
- However, it is noteworthy that India had been decelerating in the 3 years leading up to the pandemic and grew by just 3.9% in the year just before Covid.

### References

1. [The Times of India | What is Hindu rate of growth?](#)
2. [The Hindu Business Line | Why the fuss over the Hindu rate of growth?](#)
3. [The Indian Express | Is India reverting to the Hindu rate of growth?](#)