

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.

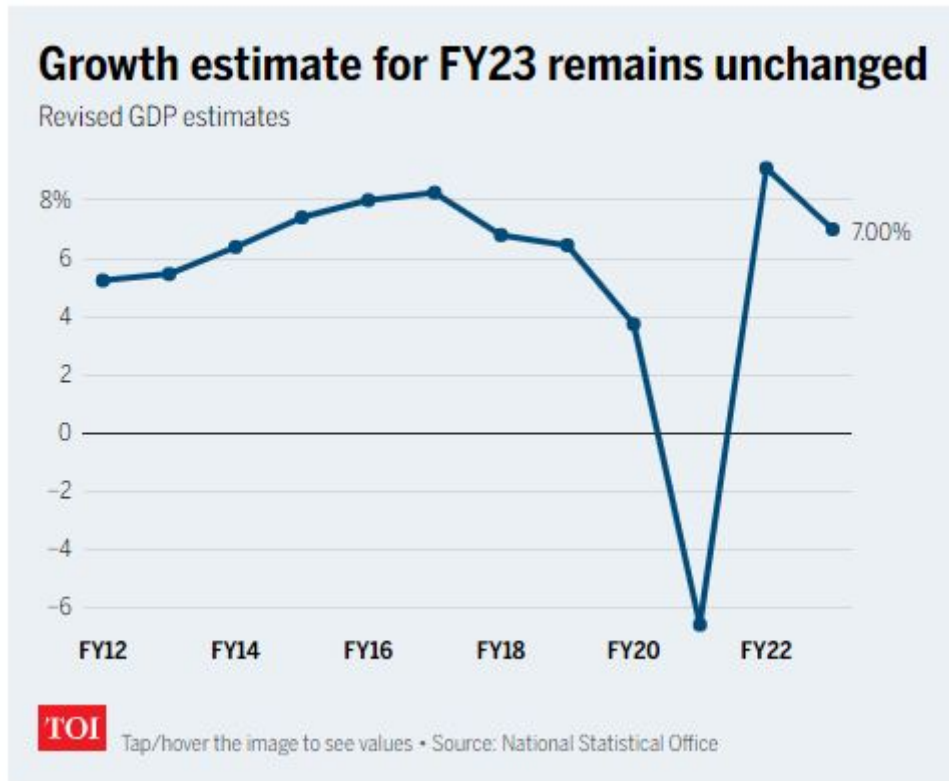
Before economic reforms of 1991, India's economic growth remained stagnant and low, while per capita income averaged around 1.3%.

When did India outgrow the Hindu rate of growth?

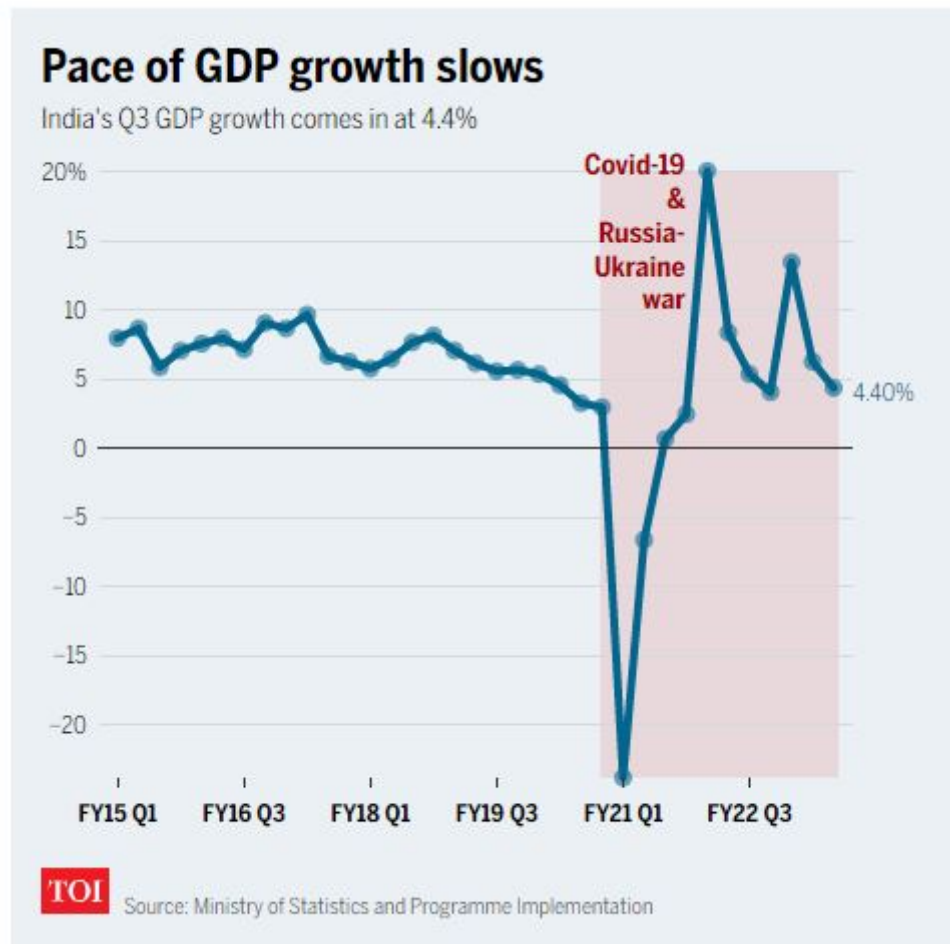
- The GDP growth rate data suggests that India started growing faster than the Hindu rate of 3.5% long before the crisis and reforms of 1991.
- India's average annual GDP growth rate between 1956 and 1975 was 3.4% almost exactly the Hindu rate of growth.
- However, between 1981 and 1991 that is, a full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



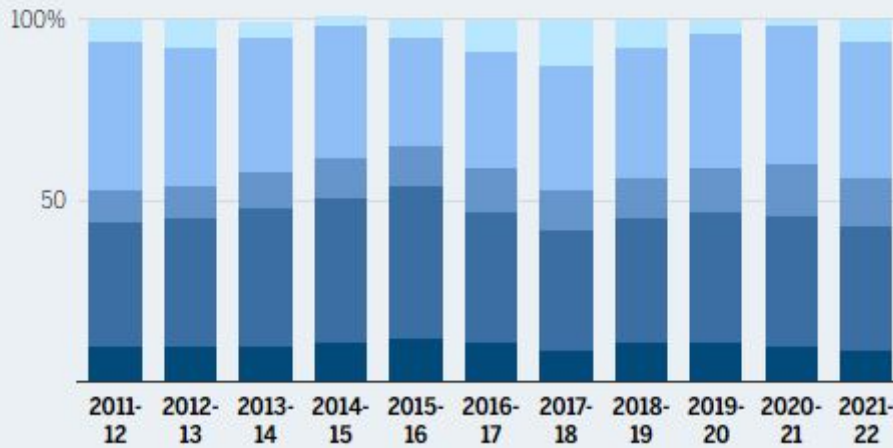
- **Russia-Ukraine** - FY22-23 brought fresh economic challenges in the form of war, impacting almost all major economies of the world, slowing the pace of growth, pushing inflation to record highs.

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

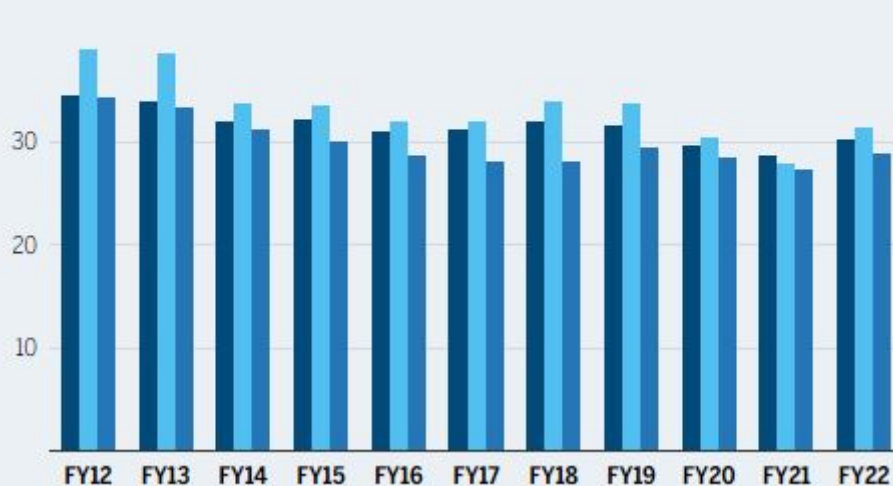
Public sector Private sector General government Household sector
Valuables and adjustment factor from flow of funds



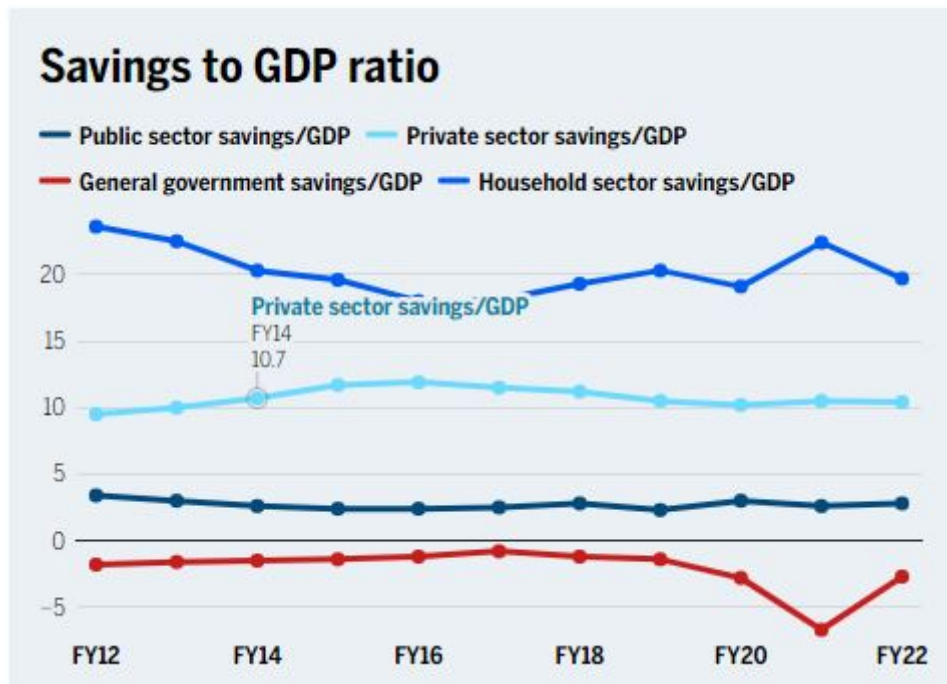
- **Gross capital formation (GCF)** - The GCF of the government touched a high of 11.8% in 2021-22, up from 10.7% in 2020-21.
- **Private sector investment** - This also had domino effect on private sector investment that jumped from 10% to 10.8% over the same period.
- **Gross savings** - In 2021-22,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