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AJAY BODKE'S VIEW ON INDIA'S 1Q FY18 GDP NUMBERS

Although destocking in the run-up to implementation of GST and lingering effects of demonetization partially explain the slowest growth in India's quarterly GDP over the last 13 quarters, more worrisome are fears that a robust, sustainable recovery from this abyss is nowhere in sight. Manufacturing sector continues to suffer from tepid aggregate demand with large unutilised capacities.

An unusually strong exchange rate is not only making exports uncompetitive in a tough global growth environment but also hollowing out India's manufacturing sector with massive import substitution curtailing domestic output and worsening fragile job situation. With limited monetary & fiscal space, RBI needs to use weaker exchange rate as a tool to stimulate aggregate demand.

With crude likely to remain range bound over the medium term weaker Rupee is unlikely to dent India's strong macroeconomic position. Within the limited fiscal space that the government has, it needs to think creatively to aggressively incentivize demand in sectors such as affordable housing by granting additional tax breaks, roll out cash-for-clunkers scheme for the entire spectrum of old vehicles (both commercial & passenger vehicles including 2 & 3 wheelers) and announce a time bound approval for a raft of projects of national importance like expressways, high speed railways and metros.

The economy and equity markets are living in parallel universe with unprecedented domestic and foreign liquidity underpinning the extraordinary buoyancy in the market. Sooner rather than later market (especially the most fragile small & mid-cap space) will have to reconcile to this slowing economic reality and strong likelihood of savage cuts in lofty estimates of earnings growth for FY 18 and FY 19

- Ajay Bodke
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