

# India

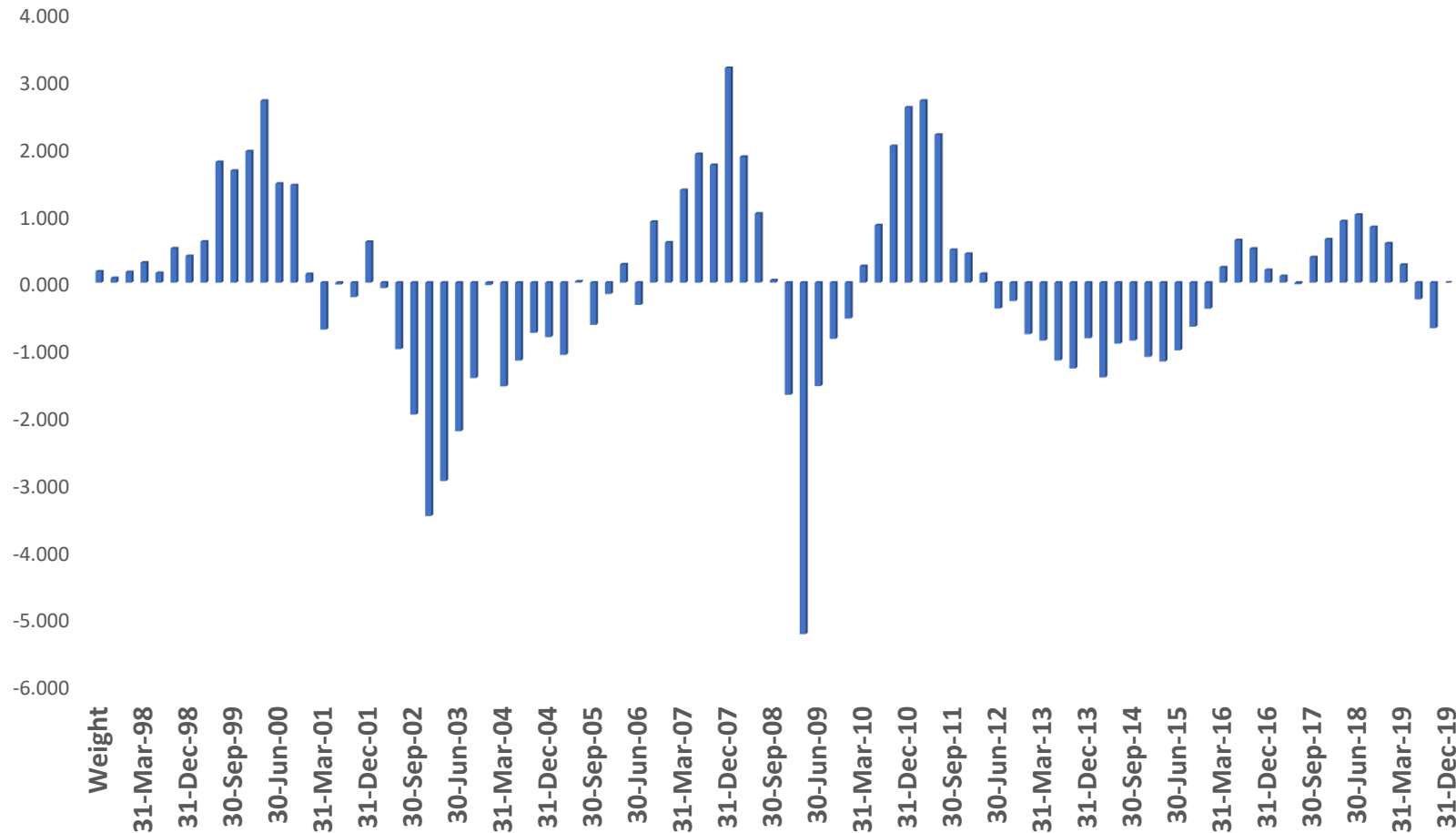
## Economic and financial situation in 2019:Q4

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16 January 2020

# India has experienced two back to back negative output gaps starting from 2019Q2

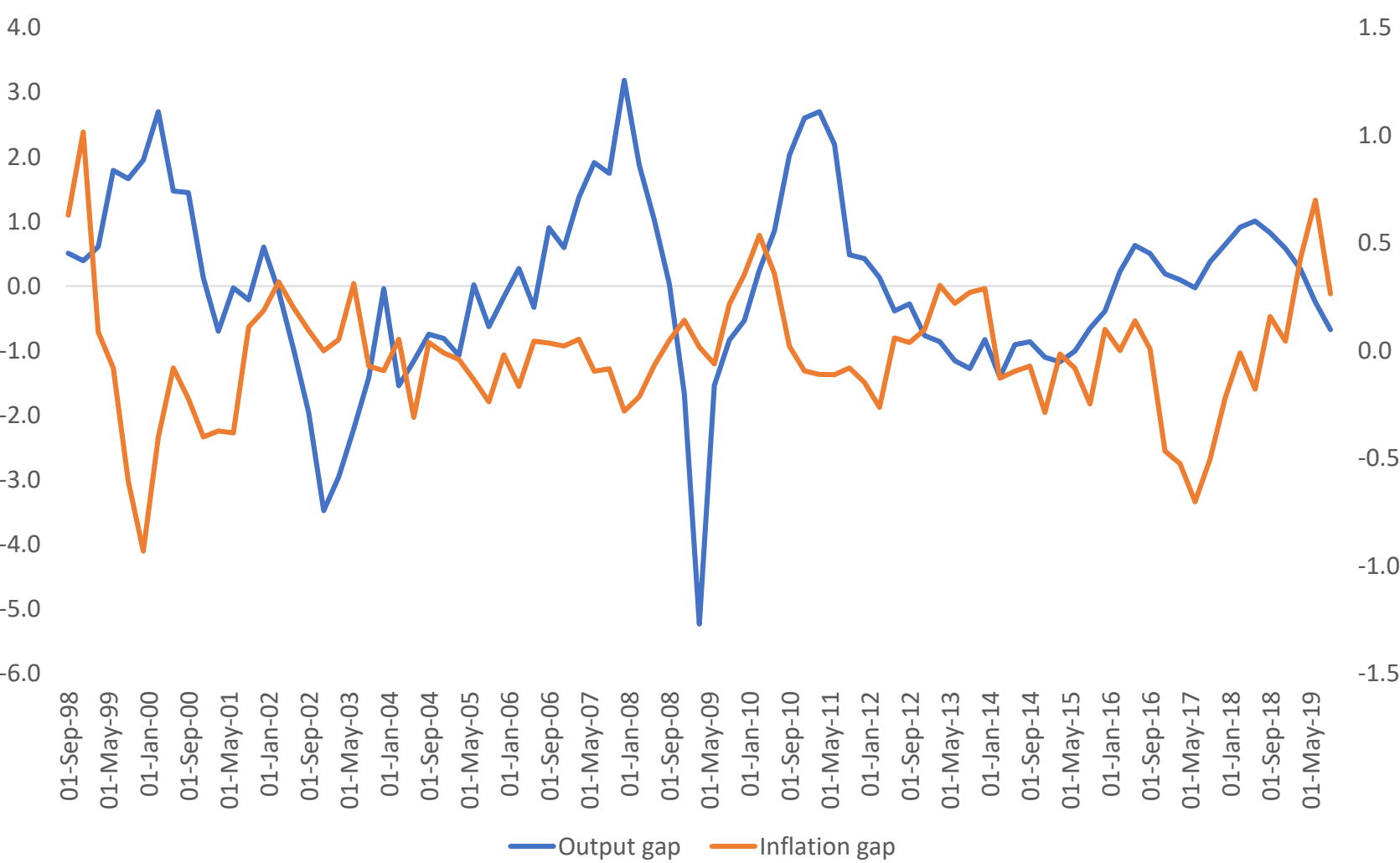
## Output Gap



- Currently in a negative output gap which indicates that the GDP in 2019Q3, but at (0.7%) starting from 2019Q2 [(0.2%)].
- The worst output gap was at (5.23%) which occurred in March 2009, coinciding with the financial crisis.

# With negative output gap, inflation gap has also reduced in the recent quarter

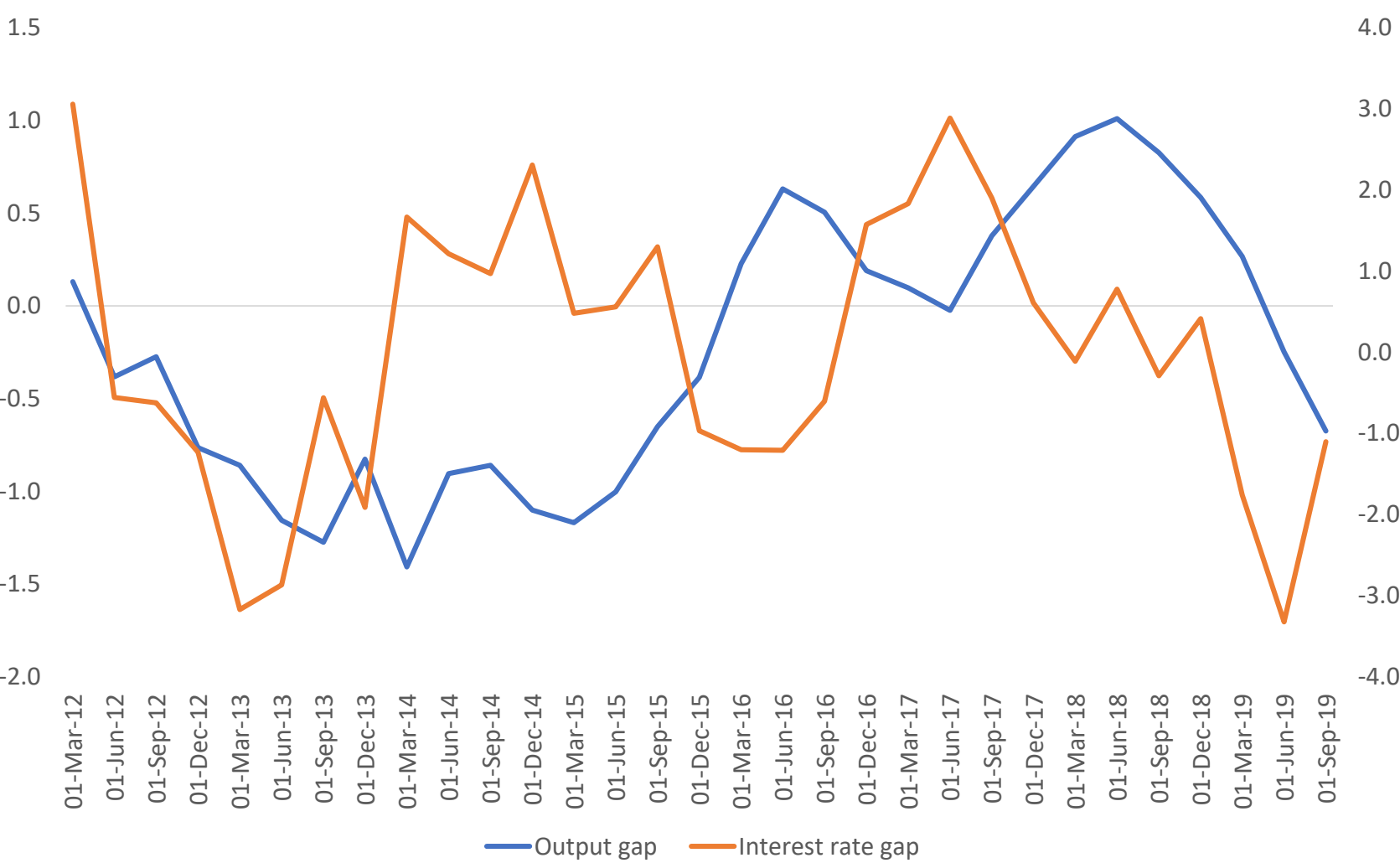
Output gap vs Inflation gap



- Output gap is negative indicating production in the country below potential.
- A deviation from this relationship was experienced in 2Q19 due to a supply shock

Given that inflation effect is transitory we see that RBI will continue an easy stance for the next three months until output gap recovers

Output gap vs Inflation gap



- Interest rate gap is (1.1%) in 2019Q3, and there seems to be an increasing momentum.
- Interest rates are lower than expected for India currently.

# Summary for Sri Lanka

- **Economic Activity** – The negative output gap will lead to lower inflation, making Indian goods cheaper to Sri Lanka, hence imports from India is likely to increase
- **CPI Inflation** – Lower prices from India will soften any inflationary pressures
- **Monetary Conditions** – An easing stance from the RBI will help to drive CBSL toward an accommodative stance in the near term.
- **Exchange rates** – Exchange rates is likely to build pressure as imports from India increase, which would create more frequent illiquid situations in USD markets