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Q18

Which of the following best describes the term 'import cover', sometimes seen in the news? (a) It is the ratio of value of imports to the Gross Domestic Product of a country (b) It is the total value of imports of a country in a year (c) It is the ratio between the value of exports and that of imports between two countries (d) It is the number of months of imports that could be paid for by a country's international reserves Official key: D.

UPSC Civil Services Prelims 2016 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

Imports to GDP. That ratio is import intensity or openness, not import cover. This letter is not the key.

(b)

Total yearly imports. A stock of imports in a year is not a reserve-adequacy measure. This letter is not the key.

(c)

Exports versus imports between two countries. That is a bilateral trade balance idea, not import cover. This letter is not the key.

(d) Official key

Months of imports payable from international reserves. Import cover is how many months of merchandise (often goods) imports the central bank's foreign-exchange reserves could finance. That stored letter is the official key.

Summary

Official key is (d) months of imports that reserves could pay for. Import cover is a reserve-adequacy yardstick, not an import/GDP ratio, an annual import total or a bilateral export-import ratio. Honour the stored letter (d).

Related possible facts

These can be asked in a future Prelims paper.

Thumb rule often cited

At least three months of import cover

Reserves include

Forex, gold, SDRs, reserve position in the IMF (RBI presentation)

Guidotti-Greenspan

Short-term external debt cover, a related adequacy rule

Current-account link

Low cover raises vulnerability to sudden stops

RBI weekly statistical supplement

Publishes foreign-exchange reserves

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