lies which are rated," a bank executive said.

immediately on non-repayment, even as banks following RBI's as-

sil Ratings. "There may be short-term disruption, if any, but in the

against defaults like the new bankruptcy code," Sur said.

07-08-2017

NO BUFFER The reserves are the highest ever, but in terms of number of months' imports that it can fund, it is still much lower than the level in 2008

Large Forex Kitty may Not be Good Enough Cushion

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Record High
$392.9billion
Current forex reserves

How Long Import Cover of Reserves can Fund:

10 months	14 months
CURRENT RESERVE	EARLY 2008 LEVELS

Mumbai: India's foreign exchange reserves may be at the highest level ever. But that may not be sufficient buffer at a time when the Federal Reserve is considering unwinding of its quantitative easing strategy which will have a ripple-down effect on the financial markets. Trouble may be compounded if local economic activity revives or if global commodity prices rise.

Foreign exchange reserves are at $392.9 billion, the highest ever that India's central bank has ever amassed. But in terms of number of months' imports that India's forex reserves can fund, it is still much lower than the level in 2008 before the global financial crisis touched its peak.

Import cover of reserves, an important measure of foreign exchange reserves adequacy, is currently adequate to fund a little over 10 months' imports compared to over 14 months' imports that the reserves could finance in early 2008 until September that year, when the crisis deepened virtually leading to the collapse of the global financial markets.

"Admittedly, import cover of reserves, currently adequate to fund over 10 months' imports, is still lower than the pre-crisis levels in 2008, while recovering from the 2012-13 lows," said Siddhartha Sanyal, chief India economist, Barclays Capital. "Going ahead, this number will depend on two factors: the pace at which the central bank chooses to build reserves and the import bill. For a country like India, the import bill depends materially on commodity price levels. The central banks can manage the former to an extent, but has little control over the latter, which depends on global commodity prices."

> **This number will depend on two factors: the pace at which the central bank chooses to build reserves and the import bill. For India, the import bill depends materially on commodity price levels. The central banks can manage the former to an extent, but has little control over the latter, which depends on global commodity prices.**
>
> SIDDHARTHA SANYAL,
> chief India economist,
> Barclays Capital

The ratio depends on the level of foreign exchange reserves in an economy and its import bill in a given month. There are fears that the reserves could fall if the US Fed decides to unwind quantitative easing resulting in forex pullout from emerging markets, including India.

But, India's import bill is sensitive to global commodity prices if they rise or if the economy revives resulting to higher import demand. "Moreover, the ratio could again slip in the future in case of stronger economic recovery and faster growth in imports demand. Thus, although building reserves comes at a cost, we feel that the RBI will likely maintain tolerance for the safer option of maintaining somewhat higher foreign exchange reserves," Sanyal said.

"For countries with less open capital accounts, import cover is often seen as a relevant measure, highlighting how long imports can be sustained in the event of a shock," an IMF research paper of 2015 stated.

Dollar Bears Undaunted after Burning in Jobs Rally

Bloomberg

Dollar bears, singed by the currency's biggest rally since January, say they're still holding their ground. Bloomberg's dollar index surged as much as 0.8% on a government report showing that the US added 209,000 jobs in July, beating the consensus prediction of 180,000. The data highlighted the strength of the world's biggest economy and sparked a surprising reversal for the greenback, which sat close to a 15-month low ahead of Friday's report. The end result, though, is that the dollar is merely back to around where it started the week against the euro, which held above a key technical level that it breached last week for the first time since August 2015. The dollar-bear camp can also take cheer in one observation: Expectations for the pace of Federal Reserve tightening barely budged on the report. "It is more of a story of providing underlying dollar support at key levels rather than a full-on reversal," said Alan Ruskin, global co-head of foreign-exchange research at Deutsche Bank. The dollar ended Friday at $1.1773 per euro, about 0.2% weaker on the week. Europe's shared currency bottomed out just above the $1.1714 level it exceeded last week for the first time in almost two years.