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# *Understanding Euro Implications for India*

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The responsibility for the views expressed and any error is mine.

Gulshan Sachdeva

# Understanding Euro Implications for India

**Gulshan Sachdeva**

## SUMMARY

The economic and monetary union and advent of the euro is a major milestone on the way to European integration. Although the international role of the euro has grown gradually, it is most prominent in the regions close to euro zone areas. It has grown very significantly in the international debt and loan markets. It is also developing gradually in the international trade and foreign exchange markets and has also inherited the role played by its legacy currencies. It's role as a reserve currency has improved marginally. Still, in Asia and other developing countries, US dollar continues to be used as a prominent international financing currency, as a settlement and invoicing currency and a reserve currency.

Since EU is India's leading commercial partner and a major source of investment and technology transfer, performance of euro zone economies and the euro is bound to have a significant impact on Indo-European trade and other economic relations. Earlier, about 80-85 per cent of India's foreign trade was invoiced in dollars. There are some indications of the changes in favour of euro, particularly in India- EU invoicing. The impact is very mild because the UK still has not joined the euro zone and two of India's major import items i.e. oil and fertilizers are still denominated in dollars. Before the launch of the euro, it was expected that the important impulse for closer trade links between Europe and India will result from positive economic forces set free by the euro. So far weak economic growth in the euro zone economies has affected more than some positive implications from the success of euro.

The strengthening of euro in 2003-04 generated new interest in India. Euro was declared as an additional currency for intervention. There is a possibility that there might have been some increase in euros in India's US$ 140 billion foreign exchange reserves.

In the short run euro implications for the Indian economy and business seems to be positive, albeit very limited. In the long run, factors such as euro as a stable international currency as well as growth and price stability in the euro zone are going to open up many new opportunities for Indian economy and individual businesses. Euro may also help India in rejuvinating its trade economic relations with the countries of Central and Eastern Europe. The success story of euro may also lead to a single Asian/South Asian currency.

# Understanding Euro Implications for India

## Introduction

The establishment of European Economic & Monetary Union (EMU) and the arrival of euro could be best viewed in the context of the overall trends towards globalization. Given that the euro has already replaced its twelve constituent currencies and has become the currency of the world's most significant trading bloc, its impact on third countries is going to be significant. The introduction of single currency has created a zone very similar to the United States, both in size of its economy and the extent of its openness. The euro area includes 12 countries and over 300 million people. It is also the one of the largest trading bloc in the world economy (table 1). The arrival of euro has also completed the single market, which had already ensured the free movements of goods, services, people and capital in the European Union (EU). The euro has become the most tangible symbol of a common "European identity". It also strengthened the image of Europe worldwide despite many negative images of Europe, particularly in the Balkan area. As a result of sound economic preparations for EMU on behalf of all economic agents, the euro was launched smoothly and success-fully on I January 2002. Already established as an accounting currency on January 1, 1999, the euro represents the consolidation of European economic integration.[1] Preparatory steps taken between January 1, 1999 and 1 March 2002 included:

- Fixing the conversion rate of the participating currencies to the euro irrevocably;
- Having all operations of the European Central Bank in euros; having wholesale financial and capital markets use the euro;
- Denominating all public debt in euros;
- Denominating private bank accounts in euros;
- Making euro-denominated credit cards available and making payments in euros possible on existing credit cards;

- Having public administrations in the euro countries allow companies to use the euro for accounting purposes, tax payments, and in some cases, social security payments;
- Dual pricing (in national currencies and euros) to help the general public adapt to the euro. [2]

**Table 1: Overview of Major Economic Areas**

| | EU25 | EU15 | Euro-Zone | US | Japan |
|---|---|---|---|---|---|
| Area (2003,thousands,km sq) | 3,893 | 3,154 | 2,456 | 9,631 | 378 |
| Population (2003, millions) | 454.56 | 380.36 | 306.70 | 293.03 | 127.62 |
| Density ( 2003 km sq) | 116.8 | 120.6 | 124.9 | 30.4 | 337.6 |
| Unemployment Rate (%) | | | | | |
| 2002 | 8.9 | 7.7 | 8.4 | 5.8 | 5.4 |
| 2003 | 9.1 | 8.1 | 8.9 | 6.0 | 5.3 |
| GDP (2003, current prices, USD billions) | 11,017 | 10,522 | 8,209 | 11,000 | 4,301 |
| GDP increase, 2002-03 (%) | 0.9 | 0.8 | 0.5 | 3.1 | 2.7 |
| GDP per Capita (2003, in PPS/inhabitant) | 24,027 | 27,511 | 26,595 | 37,756 | 33,720 |
| Inflation Rate, 2003 (%) | 2.0 | 2.0 | 2.1 | 1.6 | -0.2 |
| Share in World Trade (2003 %) | 19 | | | 19 | 8 |

EU-25: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, United Kingdom*. The 10 additional countries joined the European Union on May 1st 2004.*

EU-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.

Euro-Zone: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain.

Source *Eurostat Yearbook 2005* and Delegation of the EC to the USA [Online web] http://www.eurunion.org/profile/EUUSStats.htm

In Europe, putting the single currency in place aimed to achieve several objectives. First, it aimed to make the Europe more competitive and dynamic as well as to create employment and growth within the participating countries. The microeconomic efficiency gains are expected to arise from the elimination of exchange rate uncertainty and transaction costs within the Union, thereby stimulating trade within the EU and leading to a permanent increase in output.

Similarly macroeconomic efficiency gains are expected to arise both from the elimination of intra-EU exchange rates and from greater discipline in monetary and fiscal policies, which will lower the risk primea built into interest rates and thus lead to higher investments.[3] Secondly, the aim is to establish a stable currency bearing an international weight comparable to that of the US dollar and Japanese Yen.

Since EMU is constructed on the rules of good economic management, it is expected to contribute to economic growth. Therefore it is thought that companies throughout the world, not only those in Europe, may benefit in the context of European growth. The introduction of euro may also contribute to the stability of the international monetary system. Taking into account the economic characteristics of the Euro-zone, its size and integration of its financial markets, the new European currency is definitely going to become a major player in the international currency markets. On the worldwide level the euro presents two major benefits. It would lessen the effect of international currency fluctuations on Europe as a whole. Secondly, it may bring about a progressive decline in the international domination of the US dollar. There could also be greater internationalization of European economic policies. Major benefits of Euro as outlined by the European Commission are outlined in the following table:

**Table 2: Euro benefits**

**Practical Benefits for Citizens**
- Euro zone citizens can use their own currency within the euro zone
- Being an international currency it is accepted everywhere

**Broad Macroeconomic Framework Benefits**
- Price stability
- Sound public finances
- Low interest rates
- Incentives for growth, investment and employment
- Shelter from external shocks

**Single Market**
- Elimination of exchange rate fluctuations
- Better decision making due to reduced uncertainties
- Elimination of the various transaction costs (hedging operations; cross-border payments; management of several currency accounts etc
- Price transparency:
- Enhanced competition:
- More opportunities for consumers:
- More attractive opportunities for foreign investors

**Single Financial Market**
- Single market for financial operators (i.e. banks, insurers, investment funds, pension funds, etc.)
- For private and corporate borrowers better funding opportunities
- **Savers** benefit from a wider and more diversified offer of investment and saving opportunities. **Investors** could spread their risks more easily

**Europe's Role in the World**
- Strengthens Europe's role in international organisations like the IMF,OECD, World Bank
- Important role as an investment and reserve currency
- Use of the euro in international trade
- The option of pricing goods and commodities (like oil and metals) in euro.

**Political Integration**
- Symbol of common identity, shared values and the success of European integration.
- Stimulus to further integration

.

Source: adapted from euro website of the European Commission

## European Economic & Monetary Union

The history of an Economic and Monetary Union (EMU) goes back to 1960s. In 1969, the European Summit turned the EMU into an official objective. The Werner Report of 1970 talked about the EMU in ten years. Many events including the global oil crisis, however, disrupted the process. In 1979, the creation of the European Monetary System (EMS) was another important step. Although it was not a monetary union, yet it promoted greater stability between the Member States' currencies and a better co-ordination and convergence of their economic and monetary policies. In June 1988, the European Council agreed in principle to achive objective of the progressive realisation of Economic and Monetary Union. A committee under the chairmanship of the then European Commission President Jacques Delors was established to look into the various stages leading to the monetary union. The committee proposed that economic and monetary union should be achived in three different steps. On the basis of recommendations of the Delros Report, it was agreed in the European Council in June 1989 that On 1 July 1990 all restrictions on the movement of capital between member States should be aboilished. This was the beginning of the first stage of the EMU. To establish the required legal and institutional structure for the next two stages, an intergovernmental Conference was convened in 1991. These efforts resulted in the Treaty on European Union which was agreed in December 1991 and signed in Maastricht on 7 February 1992. Due to many delys in ratifications etc , the tready came into force only on 1 Novemebr 1993. In the treaty it was agreed that the countries wishing to adopt the single currency must meet a number of economic criteria.[4] This included low inflation, sound public finances, low interest rates and stable exchange rates. It was also agreed that they must also ensure the political independence of their national central banks. Specifically, the following criteria were formulated as preconditions for any EU member state joining the EMU:[5]

- A rate of inflation no more than 1.5 per cent above the average of the three best performing member states, taking the average of the 12-month year-on-year rate preceding the assessment date.
- Long-term interest rates not exceeding the average rates of these low-inflation states by more than 2 per cent for the preceding 12 months.
- Exchange rates which fluctuate within the normal margins of the exchange-rate mechanism (ERM) for at least two years.
- A general government debt/GDP ratio of not more than 60 per cent, although a higher ratio may be permissible if it is "sufficiently diminishing".
- A general government deficit not exceeding 3 per cent of GDP, although a small and temporary excess can be permitted

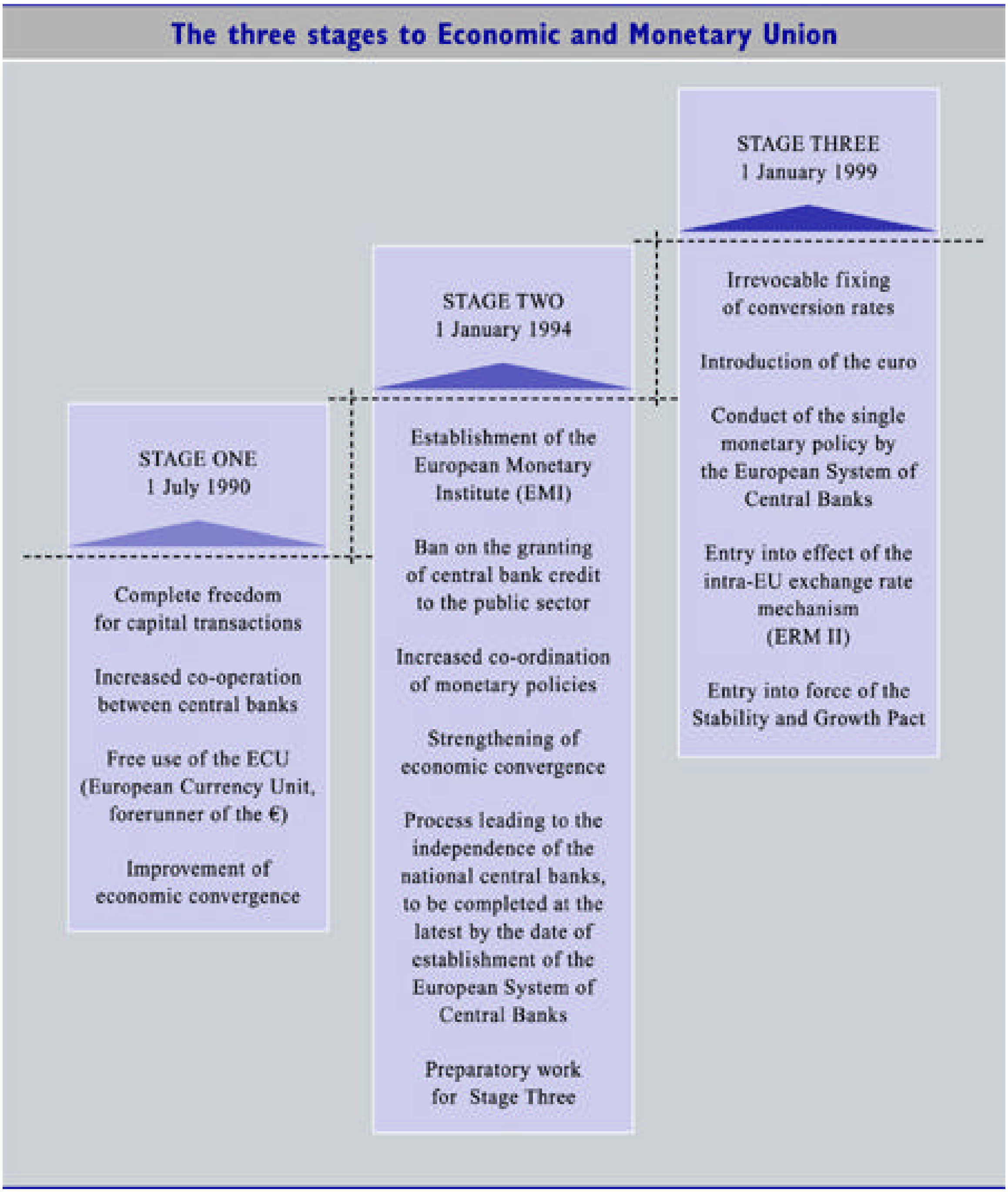
In this way the treaty provided a road map for the unification of the currencies of EU members. Therefore a general framework for the establishment of the EMU was provided, which was agreed by 11 member countries of the EU. Since then it has played an important part in the monetary, fiscal and exchange-rate policies of these member states. Later Greece also joined in 2001. To a lesser extent it has also influenced those countries, which have not participated in the EMU. In literature the EMU is normally discussed in three different stages.

Broadly, the first stage of EMU[6] extended from 1 July 1990 to 31 December 1993. In this stage, all preparatory measures taken prior to the entry into force of the Maastricht Treaty were finalised. This stage of the EMU was characterised by a closer co-ordination of all Member State's economic policies and the progressive dismantling of all internal barriers (with some exceptions) to the free movement of capital within the EU. The second stage of EMU began on 1 January 1994 and extended until 31 December 1998. Under this stage member states were further prepared for adoption of the Euro. The main elements at this stage were the liberalisation of capital movements and payments vis-à-vis third countries in general, the prohibition of monetary financing of the public sector by the central banks, the prohibition of privileged access to financial institutions by the public sector, the avoidance of excessive government deficits and the establishment of the European Monetary Institute (EMI) in Frankfurt. The main tasks of the EMI were to "strengthen central bank cooperation and monetary policy coordination and to make the preparations required for the establishment of the European System of Central Banks (ESCB), for the conduct of the single monetary policy and for the creation of a single currency in Stage Three".[7] Out of EMI a new European Central Bank (ECB) was created on 1 June 1998.. The ECB is also at the centre of the ESCB consisting of the central banks of each participating country. Another important and crucial stage was the permanent fixing of all "legacy" currencies against a new currency, the euro.

The EMU III started with the introduction of euro and the transfer of monetary authority to the ECB on 1 January 1999. Eleven Member States adopted the euro on this date (Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland). Greece adopted the euro on 1 January 2001. Denmark, Sweden and the United Kingdom are not currently participating in the single currency. Denmark is a member of the ERM II, which means that the Danish krone is linked to the euro, although the exchange rate is not fixed. Different stages of the EMU are described in the figure 1 on the next page.

In the last five years since its launch, euro has been established as a major international currency and there has been price stability and the deepening integration of financial markets in the euro area. In the initial period, there was slide in the value of the euro relative to other currencies, particularly the dollar. In the last two years this trend has also been fully reversed. It has sheilded many euro area countries from many adverse shocks. Although the "euro experiment" has also shown that it is possible to form currency unions, it has still to prove its worth in promoting sustained growth rates.[8] With its perceived success, all the new entrants from Central and Eastern Europe are also queing up for the euro.[9]

**Figure 1: The Three Stages to Economic & Monetary Union**




Source: http://www.ecb.int/ecb/history/emu/html/index.en.html

### Growing International Role of the Euro and India

According to the European Central Bank (ECB) officials they have not planned any international role for the euro. It is up to the market forces to determine its place in the international arena.[10] While looking at the different markets in the last three years, however, there are clear indications that since its launch, international role of the euro has continued to grow gradually. [11]

Even before the euro was introduced, many studies suggested that that it is going to become one of the leading international currency. The reasons were manifold. As we have seen earlier euro area constituted an economic size comparable to the US and much bigger than Japan. The euro zone was also one of the largest exporter and importer of goods and services. The stability oriented economic policy frame in the EU was going to make euro an attractive currency. It was also going to inherit the international role from some of its leading “legacy currencies” in particular the Deutsche Mark.

Table 3 summarises the standard use of any international currency based on the three major classical functions of money viz *.a store of value, a medium of exchange and a unit of account* in the international arena, both by the private agents as well as by public sector officials.

**Table 3 : Functions of an International Currency**

| | **Private Sector** | **Public Sector** |
|---|---|---|
| **Unit of account** | Invoicing trade and financial transactions; quotations of commodity prices | Anchor or reference currency for exchange rate regimes |
| **Means of exchange** | Payment currency; vehicle currency in foreign exchange markets | Official intervention in foreign exchange markets; official financial flows |
| **Store of value** | Investment and financing Currency | Foreign exchange reserve currency |

Source: *EMU : The First Two Years*, Euro Papers No. 42, ( Brussels: European Commission, 2001).

If we evaluate the role of euro on the basis of above-mentioned standard functions of an international currency, we find that in its influence is increasing, although not necessary at the same pace in all the areas. While accessing the role of the euro **as an invoicing or settlement currency in international trade in goods and services,** one finds that this is an area where the data are most scarce. There is also a difference between the "invoicing" and actual "settlement". Sometimes "invoicing" is made in different currency but actual "settlement " is done in another currency. According to the ECB, in larger number of euro area countries, there is an increase in the use of the euro as a settlement/ invoicing currency in their trade with non-euro area residents. Latest estimate suggests that about half of their trade in goods and services with non-euro area residents is priced in euro.[12] Some information is available now about the share of euro as a settlement/invoicing currency in a few selected euro area countries (tables 4,5). It is clear that in the euro zone countries it is becoming a major invoicing/settlement currency. Its share is also increased in trade between Japan and the EU, between USA and the EU as well as between the UK and other euro zone countries (tables 6,7).

**Table 4**
**Share of the Euro As a Settlement/Invoicing Currency in Extra Euro-Area Exports of Goods and Services of Selected Euro Area Countries**

*(as a % of the total)*

| | Goods | | | | Services | | | |
|---|---|---|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **2000** | **2001** | **2002** | **2003** |
| **Belgium** | -- | -- | 53.5 | 55.3 | -- | -- | 55.5 | 64.4 |
| **France** | -- | 49.2 | 55.3 | 52.4 | 57.3 | 60.4 | 56.9 | 57.9 |
| **Germany** | -- | -- | 49.0 | 63.0 | -- | -- | -- | -- |
| **Greece** | -- | 23.5 | 39.3 | 47.3 | -- | 11.3 | 13.3 | 16.3 |
| **Italy** | -- | 52.7 | 54.1 | 58.2 | -- | 50.7 | 57.0 | 62.1 |
| **Luxembourg*** | -- | -- | 51.5 | 52.7 | -- | -- | 40.4 | 43.0 |
| **Portugal** | 40.1 | 43.5 | 48.5 | 54.6 | 37.4 | 37.4 | 44.1 | 48.6 |
| **Spain** | 49.1 | 52.0 | 57.6 | 60.8 | 50.5 | 52.9 | 59.9 | 63.8 |

**Separate data for Belgium and Luxembourg were not available in 2000 and 2001.*
*Source: European Central Bank*

**Table 5**
**Share of the Euro as a Settlement/Invoicing Currency in Extra Euro-Area Imports of Goods and Services of Selected Euro Area Countries**

*(as a % of the total)*

| | Goods | | | | Services | | | |
|---|---|---|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **2000** | **2001** | **2002** | **2003** |
| **Belgium** | -- | 47.2 | 53.3 | 57.0 | -- | 44.4 | 57.7 | 64.3 |
| **France** | 35.0 | 39.8 | 46.8 | 45.1 | 47.6 | 54.6 | 54.7 | 51.7 |
| **Germany** | -- | -- | 48.0 | 55.2 | -- | -- | -- | -- |
| **Greece** | -- | 29.3 | 35.8 | 39.6 | -- | 15.3 | 16.8 | 20.1 |
| **Italy** | -- | 40.8 | 44.2 | 44.5 | -- | 49.9 | 56.1 | 62.9 |
| **Luxembourg** | -- | -- | 35.3 | 41.7 | -- | -- | 28.5 | 36.0 |
| **Portugal** | 47.0 | 53.6 | 57.6 | 60.2 | 53.7 | 55.6 | 59.2 | 64.3 |
| **Spain** | 44.0 | 49.7 | 55.8 | 60.3 | 42.4 | 45.3 | 48.7 | 54.6 |

**Separate data for Belgium and Luxembourg were not available in 2000 and 2001.*
*Source: European Central Bank*

**Table 6: Share of the Euro in international trade of Japan and the United Kingdom vis-à-vis the European Union**

*(as a % of the total)*

| | **Exports to the EU** | **Imports from the EU** |
|---|---|---|
| 1999 | | |
| Japan | -- | -- |
| United Kingdom* | 19 | 11 |
| | | |
| 2000 | | |
| Japan | 44 | 17 |
| United Kingdom | 26 | 25 |
| | | |
| 2001 | | |
| Japan | 47 | 22 |
| United Kingdom | 36 | 35 |
| | | |
| 2002 | | |
| Japan | 54 | 31 |
| United Kingdom | -- | -- |

** combined share of euro & the Deutch Mark only*
*Source: European Central Bank*

**Table 7: Share of the Euro as an Invoicing Currency in a Representative Basket of Goods Traded between Euro Area Countries and the US**

*(%, in September 2003)*

| Country | Euro area countries' exports to the US | Euro area countries' imports from the US |
|---|---|---|
| Austria | 38.3 | 4.2 |
| Belgium | 8.4 | 4.7 |
| Finland | 5.0 | 0.0 |
| France | 7.1 | 11.0 |
| Germany | 26.7 | 9.8 |
| Greece | 0.0 | 0.0 |
| Ireland | 4.7 | 1.4 |
| Italy | 13.2 | 2.9 |
| Netherlands | 7.4 | 2.5 |
| Portugal | 0.0 | 0.0 |
| Spain | 12.4 | 4.0 |

*Source: European Central Bank*

Interestingly the highest share of invoicing/settlement in euro is in the new member states of the EU as well as in those candidate countries of Central and Eastern Europe which have stronger ties with euro zone countries. In Hungary and Slovenia about 85 percent exports were invoiced in euro. The share was more than 70 percent in the Czech Republic, Slovakia and Estonia. In Bulgaria and Romaina, more than 60 per cent exports were invoiced in euro in 2003. More or less similar situation is found in the case of imports from EU to these countries. There are also indications that part of their trade even with non-EU countries is also invoiced in euros (tables 8 and9).

**Table 8 Share of the Euro in Exports of Selected Non-Euro Area Countries**

| | Exports invoiced in euro (percentage of total exports) | | | | Exports to euro area (percentage of total exports) | | | |
|---|---|---|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **2000** | **2001** | **2002** | **2003** |
| **Non-euro area EU countries** | | | | | | | | |
| Cyprus | -- | -- | -- | 31 | 19 | 19 | 22 | 32 |
| Czech Republic | -- | -- | 68 | 70 | 63 | 62 | 61 | 63 |
| Denmark | -- | -- | 34 | 35 | 45 | 44 | 43 | 40 |
| Estonia | -- | -- | 65 | 70 | 44 | 41 | 37 | 39 |
| Hungary | -- | -- | 83 | 85 | 70 | 69 | 66 | 63 |
| Latvia | -- | -- | 51 | 57 | 31 | 30 | 29 | 27 |
| Lithuania | -- | -- | 18 | 22 | 31 | 26 | 26 | 27 |
| Malta | -- | -- | -- | -- | 26 | 35 | 30 | 25 |
| Poland | -- | -- | 60 | 65 | 60 | 59 | 58 | 57 |
| Slovakia | -- | -- | -- | -- | 56 | 56 | 57 | 59 |
| Slovenia | -- | -- | 87 | 87 | 60 | 58 | 55 | 56 |
| Sweden | -- | -- | -- | -- | 40 | 39 | 39 | 39 |
| United kingdom | 21 | 23 | 21 | -- | 53 | 51 | 52 | 51 |
| **EU Candidate Countries** | | | | | | | | |
| Bulgaria | 37 | 48 | 52 | 61 | 42 | 46 | 47 | 51 |
| Romania | -- | -- | 59 | 64 | 57 | 62 | 61 | 61 |
| **Other Countries** | | | | | | | | |
| Australia | 0 | 1 | 1 | 1 | 7 | 7 | 7 | 7 |
| India | | | | | 17 | 17 | 16 | 16 |
| Japan | 8 | 7 | 9 | -- | 13 | 12 | 11 | 12 |
| South Korea | 2 | 1 | 6 | 8 | 10 | 10 | 10 | 10 |
| Tunisia | 46 | 52 | -- | -- | 76 | 77 | 77 | 76 |
| Ukraine | -- | -- | 11 | 15 | 15 | 16 | 16 | 17 |

Source: European Central Bank and Ministry of Commerce, Government of India.

**Table 9: Share of the Euro in Imports of Selected Non-Euro Area Countries**

| | Imports invoiced in euro (percentage of total exports) | | | | Imports to euro area (percentage of total exports) | | | |
|---|---|---|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **2000** | **2001** | **2002** | **2003** |
| **Non-euro area EU countries** | | | | | | | | |
| Cyprus | -- | -- | -- | 45 | 38 | 40 | 34 | 27 |
| Czech Republic | -- | -- | 65 | 66 | 56 | 57 | 56 | 55 |
| Denmark | -- | -- | 34 | 30 | 48 | 50 | 51 | 53 |
| Estonia | -- | -- | 59 | 61 | 41 | 39 | 40 | 40 |
| Hungary | -- | -- | 73 | 72 | 54 | 53 | 51 | 59 |
| Latvia | -- | -- | 39 | 49 | 39 | 40 | 41 | 37 |
| Lithuania | -- | -- | 48 | 53 | 32 | 35 | 35 | 35 |
| Malta | -- | -- | -- | -- | 51 | 44 | 47 | 44 |
| Poland | -- | -- | 60 | 60 | 52 | 53 | 53 | 60 |
| Slovakia | -- | -- | -- | -- | 45 | 46 | 46 | 51 |
| Slovenia | -- | -- | 83 | 84 | 63 | 64 | 64 | 71 |
| Sweden | -- | -- | -- | -- | 49 | 49 | 49 | 50 |
| United kingdom | 19 | 19 | 27 | -- | 46 | 44 | 47 | 48 |
| **EU Candidate Countries** | | | | | | | | |
| Bulgaria | 47 | 55 | 60 | 63 | 40 | 44 | 45 | 53 |
| Romania | -- | -- | 66 | 68 | 51 | 53 | 53 | 59 |
| **Other Countries** | | | | | | | | |
| Australia | 2 | 5 | 9 | 9 | 13 | 15 | 16 | 17 |
| Japan | 2 | 3 | 5 | -- | 9 | 10 | 10 | 10 |
| South Korea | 2 | 1 | 5 | 6 | 8 | 8 | 9 | 9 |
| Tunisia | 50 | 56 | -- | -- | 67 | 66 | 66 | 69 |
| Ukraine | -- | -- | 4 | 5 | 18 | 19 | 21 | 29 |

Source: European Central Bank

For the rest of the world, very little information is available on the use of euro as an invoicing /settlement currency. At the same time there are no indications to believe that the role of dollar has declined in other areas. However, figures of Tunisia, Ukraine, Austarlia, Japan and South Korea indicate that countries having strong trading ties with euro zone will slowly move towards invoicing in euro at least while exporting to this region.

Despite the launch of the euro, Indian foreign trade is still dominated by the US dollar. In India-EU trade, however, euro invoicing is slowly becoming popular. According to the data supplied by the Indian Ministry of Commerce and Centre for Monitoring Indian Economy (CMIE), the EU is India's leading and strategic commercial partner. India exports a wide variety of products to the EU (see tables 10-13, *there is a little variation in figures in both the sources*). Along with the United States, EU is also a leading source for investments. It is also an important partner in development cooperation. EU is a major source of supplies for critical imports including important raw materials and investment goods. According to EU data sources, EU- India trade registered an impressive 150 percent growth--from € 9.97 billion in 1991 to € 25.52 billion in 2001. India's major trading partners in EU are UK, accounting for 21.4 percent of the two-way trade, followed by Germany with 20.7 percent, Bel-Lux with 19.3 percent, and Italy with 11.5 percent.[13] Although in absolute terms India's trade with EU has increased, ( tables 10-11) but as a percentage of India's total exports and imports, it has declined in the last few years ( table 14). EU countries's share in India's total exports has declined from about 26 percent in 1997-98 to about 22 per cent in 2002-03. Similarly percentage share of EU countries imports to India has come down from 25-26 per cent a few years ago to about 20-21 percentage of India's total imports in recent years. Still EU is India's leading trade partner. In these circumstances, it is quite natural that the introduction of euro will have far reaching implications for Indian business.

**Table 10: Indian Exports to the EU-15 (country wise), 1997-98 to 2002-03 (US $Mn)**

| | Country | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2001-02 | 2002-03 |
|---|---|---|---|---|---|---|---|
| 1. | Austria | 85.17 | 77.58 | 75.17 | 81.02 | 76.33 | 81.11 |
| 2. | Belgium | 1,215.31 | 1,287.88 | 1,367.65 | 1,470.56 | 1,390.62 | 1,661.84 |
| 3. | Denmark | 158.73 | 186.54 | 211.12 | 174.38 | 151.86 | 183.67 |
| 4. | Finland | 58.15 | 76.62 | 57.93 | 58.31 | 69.75 | 71.14 |
| 5. | France | 759.15 | 829.70 | 897.34 | 1,020.01 | 945.00 | 1,074.09 |
| 6. | Germany | 1,921.10 | 1,851.94 | 1,738.39 | 1,907.57 | 1,788.36 | 2,106.68 |
| 7. | Greece | 93.17 | 135.99 | 89.91 | 113.49 | 106.53 | 148.70 |
| 8. | Ireland | 66.86 | 67.43 | 80.15 | 103.18 | 102.38 | 135.81 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 9. | Italy | 1,113.84 | 1,054.99 | 1,119.75 | 1,308.75 | 1,206.53 | 1,357.08 |
| 10. | Luxembourg | 3.20 | 3.78 | 5.36 | 5.58 | 4.47 | 9.14 |
| 11. | Netherlands | 802.39 | 763.53 | 885.76 | 880.09 | 863.88 | 1,047.91 |
| 12. | Portugal | 111.45 | 106.28 | 124.65 | 146.70 | 147.84 | 162.12 |
| 13. | Spain | 441.98 | 499.34 | 547.95 | 666.25 | 677.21 | 810.49 |
| 14. | Sweden | 165.95 | 149.61 | 146.48 | 176.16 | 154.27 | 176.29 |
| 15. | U K | 2,092.40 | 1,855.40 | 2,034.79 | 2298.71 | 2,160.87 | 2,496.41 |
| | **Total** | **9,088.83** | **8,946.62** | **9,382.38** | **10,410.76** | **9,845.89** | **11,522.46** |

Source: *Ministry of Commerce, Government of India.*

## Table 11: Indian Imports from the EU-15 (country wise), 1997-98 to 2002-03 (US $ Mn)

| | **Country** | **1997-98** | **1998-99** | **1999-00** | **2000-01** | **2001-02** | **2002-03** |
|---|---|---|---|---|---|---|---|
| 1. | Austria | 81.13 | 59.64 | 66.59 | 69.32 | 77.82 | 164.21 |
| 2. | Belgium | 2,668.08 | 2,876.80 | 3,681.27 | 2,870.05 | 2,763.00 | 3,711.93 |
| 3. | Denmark | 90.76 | 99.70 | 135.42 | 142.50 | 120.61 | 143.36 |
| 4. | Finland | 175.79 | 177.98 | 138.76 | 207.39 | 162.09 | 199.00 |
| 5. | France | 784.98 | 719.60 | 711.81 | 640.81 | 844.25 | 1,094.18 |
| 6. | Germany | 2,528.30 | 2,140.68 | 1,840.99 | 1,759.59 | 2,028.10 | 2,404.53 |
| 7. | Greece | 30.10 | 10.34 | 21.43 | 22.00 | 29.57 | 22.81 |
| 8. | Ireland | 35.67 | 40.18 | 55.68 | 72.00 | 84.94 | 97.98 |
| 9. | Italy | 894.25 | 1,088.26 | 733.95 | 723.58 | 704.78 | 811.99 |
| 10. | Luxembourg | 4.73 | 1.23 | 2.54 | 5.22 | 6.72 | 19.34 |
| 11. | Netherlands | 445.19 | 464.19 | 470.90 | 437.53 | 466.47 | 385.74 |
| 12. | Portugal | 15.59 | 9.34 | 8.66 | 11.99 | 14.00 | 14.96 |
| 13. | Spain | 160.98 | 214.28 | 139.88 | 142.15 | 168.78 | 177.12 |
| 14. | Sweden | 274.48 | 200.22 | 238.79 | 238.19 | 402.21 | 517.56 |
| 15. | U K | 2,443.29 | 2,621.37 | 2,702.57 | 3,167.92 | 2,563.20 | 2,777.01 |
| | **Total** | **10,633.33** | **10,723.81** | **10,949.27** | **10,510.25** | **10,436.54** | **12,541.71** |

Source: *Ministry of Commerce, Government of India.*

**Table 12: Composition of India's Exports to EU-15, 1995-96 to 2002-03 (US$ million)**

| | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 |
|---|---|---|---|---|---|---|---|---|
| All Commodities | **8721.27** | **8662.60** | **9156.94** | **8944.69** | **9348.78** | **10329.83** | **9879.43** | **11382.24** |
| RMG of cotton incl. accessories | 1275.53 | 1270.06 | 1110.85 | 1108.99 | 1143.62 | 1273.11 | 1401.95 | 1619.92 |
| Gems &Jewellery | 925.29 | 883.57 | 1036.90 | 1148.50 | 1164.20 | 1229.54 | 1193.41 | 1362.56 |
| Cotton yarn fab.made ups etc | 831.98 | 801.82 | 852.87 | 782.73 | 771.70 | 847.08 | 774.52 | 777.58 |
| Machinery &instruments | 159.74 | 174.51 | 229.69 | 263.95 | 304.29 | 401.72 | 376.72 | 413.32 |
| Drugs, pharm.&fine chemicals | 267.07 | 299.27 | 361.17 | 317.99 | 308.55 | 319.56 | 344.48 | 449.56 |
| Manufactures of metals | 202.24 | 195.39 | 231.20 | 225.90 | 260.00 | 333.66 | 343.33 | 381.30 |
| Footwear of leather | 162.52 | 164.29 | 135.77 | 190.10 | 228.76 | 220.00 | 268.01 | 282.91 |
| Leather garments | 305.73 | 313.30 | 331.69 | 302.05 | 273.09 | 319.85 | 258.34 | 195.79 |
| Electronics goods | 196.25 | 211.67 | 147.14 | 96.89 | 126.29 | 204.37 | 252.50 | 297.74 |
| RMG of man made fibres | 241.51 | 221.79 | 279.57 | 348.89 | 325.69 | 305.36 | 244.32 | 235.01 |
| Man made yarn fab.made ups | 251.10 | 244.32 | 261.95 | 224.75 | 236.32 | 301.06 | 243.63 | 274.72 |
| Marine products | 251.20 | 204.92 | 105.38 | 145.77 | 193.93 | 226.87 | 244.39 | 294.74 |
| Leather goods | 225.47 | 170.28 | 235.54 | 248.28 | 210.44 | 243.04 | 231.77 | 248.33 |
| Inorg/org/agro chemicals | 142.93 | 170.21 | 171.35 | 163.72 | 192.84 | 259.45 | 232.13 | 249.31 |
| Transport equipment | 216.44 | 250.00 | 234.70 | 266.56 | 239.14 | 248.63 | 228.38 | 276.25 |
| Handicrafts excl.handmade carpets | 165.57 | 169.28 | 198.10 | 234.35 | 249.14 | 243.56 | 212.29 | 281.55 |
| Finished leather | 205.20 | 157.29 | 170.79 | 149.59 | 113.54 | 180.32 | 210.00 | 196.72 |
| Leather footwear components | 190.12 | 177.19 | 195.70 | 200.69 | 179.42 | 202.23 | 201.42 | 145.17 |
| Plastic & linoleum products | 243.27 | 153.32 | 122.34 | 130.32 | 152.94 | 178.25 | 166.09 | 199.80 |
| Dyes, | 168.10 | 181.15 | 221.70 | 146.85 | 193.68 | 198.58 | 163.25 | 189.83 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Intermediates | | | | | | | | |
| Carpet handmade | 218.19 | 225.59 | 197.90 | 178.08 | 222.54 | 184.39 | 154.22 | 138.55 |
| Cashew | 91.88 | 13.86 | 145.57 | 127.39 | 184.75 | 152.03 | 113.34 | 107.12 |
| Other ores & minerals | 98.59 | 90.66 | 46.33 | 62.57 | 125.83 | 109.49 | 112.37 | 140.62 |
| Prim.&semi-fin.iron & steel | 57.77 | 52.11 | 132.61 | 109.44 | 124.89 | 140.30 | 99.24 | 114.23 |
| Coffee | 153.88 | 156.87 | 215.29 | 219.06 | 167.25 | 106.10 | 96.14 | 100.51 |
| Natural silk yarn | 56.77 | 53.43 | 72.40 | 73.78 | 90.69 | 114.12 | 90.93 | 90.20 |
| Residual Chem.& allied prod | 55.94 | 60.60 | 126.99 | 71.72 | 76.64 | 86.13 | 90.93 | 104.63 |
| Processed minerals | 53.50 | 53.08 | 56.38 | 56.62 | 84.03 | 92.99 | 82.94 | 85.76 |
| Tea | 74.42 | 73.96 | 112.81 | 105.20 | 87.03 | 87.60 | - | - |
| Glass/glassware/ceramics/cement | 21.29 | | | | | | 60.13 | 79.56 |

**Table 13: Composition of India's Imports from EU-15, 1995-96 to 2002-03 (US$ million)**

| | 1995-96 | 1996-97 | 997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 |
|---|---|---|---|---|---|---|---|---|
| All Commodities | **10318.26** | **10633.71** | **10693.47** | **10721.39** | **10989.28** | **10382.71** | **10472.09** | **12547.97** |
| Pearls precious & semiprecious stones | 1761.32 | 2476.69 | 2873.58 | 3195.60 | 4309.84 | 3636.70 | 3529.16 | 4540.75 |
| Non- electrical machinery | 2230.0 7 | 1951.28 | 1746.13 | 1468.25 | 1240.14 | 1233.32 | 1451.30 | 1607.18 |
| Electronic goods | 375.28 | 301.35 | 465.53 | 439.41 | 554.97 | 622.62 | 799.85 | 1015.20 |
| Organic chemicals | 497.07 | 426.93 | 384.51 | 385.63 | 415.04 | 344.86 | 387.90 | 410.58 |
| Gold | | | | | 538.36 | 798.17 | 325.11 | 159.63 |
| Professional inst, optical goods etc | 236.87 | 184.44 | 275.84 | 294.78 | 270.17 | 284.36 | 325.55 | 345.94 |
| Project goods | 1455.44 | 1449.59 | 939.07 | 1178.37 | 360.08 | 396.30 | 301.63 | 290.53 |
| Transport equipments | 280.63 | 343.10 | 263.99 | 206.82 | 296.62 | 220.77 | 351.59 | 584.38 |
| Metali ferous ores & metal scrap | 155.69 | 229.37 | 233.80 | 145.31 | 207.75 | 177.93 | 264.28 | 202.54 |
| Iron &steel | 591.70 | 606.93 | 483.43 | 304.08 | 252.38 | 201.11 | 238.89 | 263.12 |
| Artfcl. Resins, plastic matrls. Etc | 202.30 | 196.79 | 186.47 | 161.57 | 191.12 | 182.14 | 218.36 | 238.91 |
| Manufacture of metals | 130.06 | 135.58 | 151.54 | 156.04 | 141.81 | 150.16 | 167.24 | 182.74 |
| Chemical material & products | 124.88 | 127.97 | 128.15 | 124.86 | 127.58 | 131.85 | 165.06 | 180.27 |
| Medicinal & pharm.products | 177.99 | 138.54 | 180.63 | 160.92 | 165.72 | 159.47 | 166.37 | 191.19 |
| Electrical | 160.88 | 126.56 | 146.84 | 140.31 | 148.58 | 138.25 | 162.45 | 191.19 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| machinery | | | | | | | | |
| Silver | | | | | 136.33 | 315.57 | 139.56 | 122.24 |
| Non-ferrous metals | 156.16 | 176.34 | 130.15 | 86.13 | 96.51 | 101.60 | 108.39 | 113.37 |
| Computer software | 35.55 | 29.81 | 73.31 | 54.33 | 78.81 | 91.28 | 95.05 | 163.31 |
| Paper board & manufactures | 100.53 | 120.17 | 132.19 | 132.32 | 146.90 | 113.81 | 90.43 | 114.72 |
| Machine tools | 219.29 | 240.44 | 199.33 | 172.94 | 102.83 | 85.42 | 90.24 | 104.61 |
| Non metallic minerals mnfs. | 67.34 | 60.18 | 73.22 | 72.55 | 70.75 | 76.75 | 88.18 | 91.01 |
| Dyeing tanning & colouring matrls | 61.71 | 61.98 | 71.47 | 76.25 | 77.19 | 71.72 | 82.72 | 95.63 |
| Inorganic chemicals | 51.48 | 54.67 | 62.67 | 54.07 | 61.53 | 61.25 | 67.69 | 67.52 |
| Leather | 31.42 | 27.87 | 41.30 | 45.38 | 53.70 | 66.70 | 68.64 | 48.93 |
| Pulp &waste paper | 24.08 | 25.78 | 42.35 | 26.36 | 44.14 | 44.69 | 65.70 | 62.67 |
| Printed books, news papers etc | 36.59 | 44.03 | 75.91 | 79.48 | 51.32 | 47.79 | 63.70 | 48.75 |
| News prints | 57.44 | 83.32 | 70.26 | 50.10 | 37.69 | 37.52 | 47.52 | 52.94 |
| Other text. Yarn, fab, madeups artls | | | | | 35.16 | 41.68 | 41.17 | 57.44 |
| Synthetic & reclaimed rubber | 45.87 | 60.82 | 44.55 | 29.31 | 37.69 | 31.78 | -- | -- |

Source: *Centre for Monitoring Indian Economy*

**Table 14: Percentage Share of EU-15 in India's Total Exports and Imports, 1996-97 to 2002-03**

| **Year** | **% of Total Indian Exports** | **% of Total Indian Imports** |
|---|---|---|
| 1996-97 | 25.86 | 26.53 |
| 1997-98 | 26.12 | 25.63 |
| 1998-99 | 26.93 | 25.29 |
| 1999-00 | 25.48 | 22.01 |
| 2000-01 | 23.36 | 20.79 |
| 2001-02 | 22.46 | 20.29 |
| 2002-03 | 21.85 | 20.42 |

Source: Ministry of Commerce, Government of India

For many years India is having balance of trade problems with many EU countries. Last few years have seen deficit in balance of trade with countries like the Belgium, Germany, UK, Finland and Sweden.

**Table 15: India's Balance of Trade with EU-15 Countries (In US$ million)**

| Country | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---|---|---|---|---|---|
| **France** | -25.83 | 110.10 | 185.52 | 379.20 | 100.74 |
| **Belgium** | -1452.77 | -1588.92 | -2313.62 | -1329.49 | -1372.38 |
| **Germany** | -607.2 | -288.74 | -107.6 | 147.98 | -239.75 |
| **Italy** | 219.59 | -33.26 | 385.8 | 585.17 | 501.74 |
| **Luxembourg** | -1.53 | 2.55 | 2.76 | 0.36 | 2.25 |
| **Netherlands** | 357.70 | 299.34 | 414.86 | 442.56 | 397.42 |
| **Denmark** | 67.97 | 86.84 | 75.71 | 31.88 | 31.25 |
| **Ireland** | 31.19 | 27.25 | 24.46 | 31.18 | 17.44 |
| **UK** | -350.89 | -665.97 | -667.78 | -869.21 | -402.33 |
| **Greece** | 63.07 | 125.65 | 68.48 | 91.48 | 76.96 |
| **Spain** | 280.99 | 285.06 | 408.07 | 524.10 | 508.43 |
| **Portugal** | 95.82 | 96.94 | 115.29 | 134.71 | 133.85 |
| **Austria** | 4.04 | 17.94 | 8.58 | 11.30 | -1.49 |
| **Finland** | -117.64 | -101.36 | -80.83 | -149.28 | -92.34 |
| **Sweden** | -108.53 | -50.61 | -92.31 | -62.03 | -247.44 |

Source: Ministry of Commerce, Govt of India.

Although the EU is India's major trading partner, India accounts for only 1.3 percent of total EU imports of goods whereas China's share is 7.5 percent. In services, India's share is even lower at just 1 percent. Of the EU's global investments, India accounts for a meagre 0.2 percent.[14] The following table shows the shares of major items that EU imports from India.

**Table 16 : India's Major Export Items & their Share in EU-15 Imports**

| | **In US $ Million** | | | **Percentage Share in Total Imports of EU** | | |
|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| India | 11381 | 11542 | 12229 | 1.2 | 1.25 | 1.31 |
| Precious stones, metals | 1396 | 1275 | 1463 | 12.27 | 11.05 | 11.97 |
| Woven apparel | 1057 | 1051 | 1196 | 9.29 | 9.11 | 9.78 |
| Knit apparel | 802 | 890 | 923 | 7.05 | 7.71 | 7.55 |
| Leather art, saddlry bags | 662 | 681 | 675 | 5.82 | 5.9 | 5.52 |
| Organic chemicals | 550 | 523 | 654 | 4.83 | 4.54 | 5.35 |
| Electrical machinery | 365 | 453 | 550 | 3.2 | 3.92 | 4.5 |
| Footwear | 445 | 524 | 538 | 3.91 | 4.54 | 4.4 |
| Misc textile articles | 510 | 514 | 483 | 4.48 | 4.45 | 3.95 |
| Machinery | 420 | 460 | 475 | 3.69 | 3.99 | 3.89 |
| Cotton yarn, fabric | 381 | 383 | 345 | 3.35 | 3.32 | 2.83 |

Source: Ministry of Commerce, Govt of India, cited in Geethanjali Nataraj and Pravakar Sahoo, "Enlargement of EU: Effect on India's Trade" *Economic & Political Weekly*, May 8, 2004.

Some recent studies have concluded that one of the major issues posing a threat to India's export to EU is non-tariff barriers, which are more trade restricting than tariffs. Indian exporters face many non-tariff barriers in EU, especially in the areas of standards, testing, labelling and certification requirements (Sanitary and Phyto-Sanitary measures (SPS) and Technical Barriers to Trade (TBT). It is shown that major NTB's enforced by EU on its imports from India are nearly 50 in number and few of the important ones are state trading, import levy, quota, prohibition for sweet potato, anti-dumping and countervailing duties, rules of origin, etc. (see table 17)

**Table 17: Non-Tariff Barriers to India-EU-15 Trade, 1999**

| Product Description | European Union | |
|---|---|---|
| | Tariff | NTB Coverage Ratio |
| Agriculture & marine products | 5.17 | 27.05 |
| Minerals | 0.23 | 18.97 |
| Chemicals | 4.18 | 12.18 |
| Leather and leather products | 4.3 | 31.35 |
| Wood, paper and board | 2.1 | 2.63 |
| Textile and clothing | 6.1 | 65.85 |
| Carpets | 7.9 | 86.2 |
| Umbrella and accessories | 3.1 | 8.33 |
| Stones, ceramics and glass | 3.5 | 4.73 |
| Gems and jewellery | 0.6 | 5.8 |
| Engineering and electronics | 2.54 | 8.72 |
| Miscellaneous | 2.1 | 10.92 |
| Average | 3.97 | 23.37 |

Source: Same as table 16

It is shown in the table that many of India's exports to EU are covered by NTB's. About 23 per cent of the total exports of India to EU are covered by NTB's -maximum NTB's are in the area of carpets (86.2 per cent), textiles and clothing (65.85), and leather (31.35 per cent).[15] Since these barriers have affected India's export potentials in the EU, Indian negotiators have raised these issues many times. In response to these arguments, EU Trade Commissioner Mr. Pascal Lamy, asserted that EU makes a very moderate use of these instruments. In defence he cited that in 2001 only 1.2 percent Indian exports to the EU were subject to trade defence measures. About sanitary and phytosanitary related issues being raised by India, EU stand is that those should not be construed as protectionist measures but it's the question of "addressing the concerns of citizens".[16]

Before the launch of the euro about 80-85 per cent Indian foreign trade was invoiced in dollar. In comparison, only 50 per cent of global exports were invoiced in dollars, 20 per cent in European currencies and 5 per cent Japanese Yen.[17] With the advent of euro there are some indications of the changes in favour of euro, particularly in the India EU invoicing. This is mainly because some of the euro zone companies are keener on euro invoicing. The Indian companies doing business with euro zone also find it more convenient. Still one of the India’s major EU trade partner i.e. UK still has not joined the euro zone. Moreover, two of India’s major import items i.e. oil and fertilizers are still denominated in dollars as per international practice.

Apart from trade, EU is also a major investor in India. As a result Indian companies looking for commercial ties with EU firms are likely to prefer euro. The EU's share in India's total FDI approvals during January 1991 to May 2002 was around 26 per cent. These investment approvals have risen from US $78 million in 1991 to US $2314 million in 2001. During this period, actual FDI inflows from EU was about $ 4.09 billion, which is 13.5 per cent of total FDI inflow into India ($ 30.17 billion). During this period major approvals were in the fuel sector (power & oil refinery). The share of investments into this sector accounted for about 23 per cent of total investments approved from the EU. Telecommunications and transport sector accounted for about 16 per cent and about 8 per cent respectively.[18]

**Table 18 : Share of top investing countries in FDI inflows (During August, 1991 to October, 2002)**

***Amount Rs crore (US $ million)***

| Rank Country | Sep. 1991 to Dec. 1995 | Jan. 1996 to Dec. 2000 | 2001 (Jan.-Dec) | 2002* (Jan.-Oct.) | Amount of FDI inflows in Rs. | Percentage in total** |
|---|---|---|---|---|---|---|
| 1 Mauritius | 1,732.08 (551.7) | 13,863.27 (3,596.2) | 7,312.98 (1,625.1) | 4,982.81 (1,038.1) | 27,891.15 (6,811.1) | 38.7 |
| 2 USA | 1,345.43 (537.5) | 8,151.27 (2,108.3) | 1,452.88 (322.9) | 1,084.25 (225.9) | 12,333.84 (3,194.6) | 17.1 |
| 3 Japan | 661.20 (216.4) | 2,989.71 (759.7) | 950.41 (211.2) | 324.03 (67.5) | 4,925.35 (1,254.8) | 6.8 |
| 4 UK | 1,097.80 (361.5) | 1,387.12 (355.2) | 270.01 (60.0) | 1,013.84 (211.2) | 3,768.77 (988.0) | 5.2 |
| 5 Germany | 484.63 (159.2) | 2,199.94 (579.4) | 481.75 (107.1) | 437.57 (91.2) | 3,603.94 (936.9) | 5.0 |
| 6 Netherlands | 450.12 (145.7) | 2,047.73 (537.4) | 349.34 (77.6) | 404.46 (84.3) | 3,251.65 (845.0) | 4.5 |
| 7 Korea (South) | 100.70 (32.7) | 2,067.54 (556.8) | 20.30 (4.5) | 66.67 (13.9) | 2,255.21 (667.9) | 3.1 |
| 8 France | 334.00 (108.9) | 931.51 (232.2) | 562.31 (125.0) | 167.96 (35.0) | 1,995.79 (501.0) | 2.8 |
| 9 Italy | 51.45 (16.9) | 1,452.12 (357.3) | 126.93 (28.2) | 207.26 (43.2) | 1,692.60 (441.7) | 2.4 |
| 10 Singapore | 292.32 (94.6) | 1,032.66 (268.7) | 158.36 (35.2) | 17.73 (3.7) | 1,648.22 (406.1) | 2.3 |

Note:
1 * Figures 2002 updated up to October, 2002
2** Percentage figures do not take into account of FDI inflows for ADRs/GDRs /FCCBs, RBI's NRI Schemes, acquisition of existing shares and advance pending for allotment ot shares, as these are not categorrised Country-wise
3. Percentage and ranking of above countries are worked out on the basis of cumulative FDI approvals during August, 1991 to October, 2002.
4. Total amount includes inflows received through FIPB+SIA+RBI routes, acquisition of shares. RBI's NRI schemes, amount on account of ADRs /GDRs & advance pending for issue of shares
Source: SIA (FDI Data Cell), Department of Industrial Policy & Promotion, Ministry of Commerce & Industry.

**Table 19: FDI Approved from EU-15 Countries ( 1991-2002)**
**(In Rupees million)**

| COUNTRY | 1991-95 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|
| France | 6881.50 | 16716.93 | 7134.12 | 5135.57 | 14486.17 | 2020.74 | 6798.08 | 6228.72 |
| Belgium | 2048.70 | 1947.14 | 2163.27 | 32887.74 | 139.96 | 791.33 | 1621.04 | 3495.6 |
| Germany | 22128.50 | 15378.91 | 21558.14 | 8537.58 | 11429.46 | 5937.64 | 4138.91 | 2531.45 |
| Italy | 10758.30 | 1388.76 | 11949.96 | 2783.53 | 17594.76 | 1073.12 | 1714.82 | 705.45 |
| Luxembourg | 560.40 | 93.26 | 1737.22 | 6.40 | 65.55 | 49.00 | 7.35 | 1.75 |
| Netherlands | 16477.80 | 10487.14 | 8705.43 | 4962.56 | 6322.14 | 44.55 | 36935.71 | 5523.57 |
| Denmark | 2441.60 | 729.01 | 1067.15 | 295.41 | 761.65 | 263.41 | 259.34 | 549.21 |
| Ireland | 2033.20 | 63.57 | 228.30 | 42.70 | 64.11 | 167.05 | 86.42 | 7.12 |
| UK | 37975.10 | 15245.99 | 44907.19 | 32008.44 | 29630.47 | 4112.29 | 49942.45 | 18043.58 |
| Greece | 6.00 | 0.00 | 0.00 | 0.00 | 14.40 | 0.00 | 0.00 | 0.00 |
| Spain | 367.80 | 91.70 | 593.25 | 623.22 | 1810.35 | 51.88 | 1.55 | 263.01 |
| Portugal | 1889.20 | 0.00 | 42.30 | 0.00 | 7.53 | 15.22 | 0.00 | 2.80 |
| Austria | 778.80 | 828.08 | 258.94 | 554.79 | 326.77 | 55.83 | 77.20 | 176.71 |
| Finland | 386.60 | 539.62 | 1186.97 | 495.00 | 2.92 | 0.00 | 174.34 | -110.45 |
| Sweden | 5699.00 | 5330.19 | 1089.99 | 2154.25 | 2739.34 | 1011.83 | 2363.99 | 212.56 |
| EU-15 | 110432.5 | 68840.3 | 102654.82 | 90491.19 | 85395.58 | 15593.89 | 103627.2 | 37631.08 |

Source: Ministry of Commerce, Government of India.

**Table 20: Actual FDI Inflow from EU-15 Countries (1991-2000)**

| COUNTRY | 1991-95 | 1996 | 1997 | 1998 | 1999 | 2000 | Total(In Rupees million) | Total (In € million) |
|---|---|---|---|---|---|---|---|---|
| Austria | 310.66 | 157.77 | 133.68 | 3.1 | 64.17 | 24.84 | 694.22 | 17.35 |
| Belgium | 11.4 | 1648.81 | 116.82 | 496.87 | 341.11 | 1715.95 | 4330.96 | 108.27 |
| Denmark | 436.77 | 200.49 | 66.46 | 271.63 | 421.07 | 247.15 | 1643.57 | 41.09 |
| Finland | 100.13 | 200.38 | 0.07 | 99.47 | 0 | 0 | 400.05 | 10 |
| France | 961.96 | 1123.14 | 1588.24 | 2624.94 | 3016.87 | 4942.6 | 14257.69 | 356.44 |
| Germany | 4726.48 | 5656.84 | 6269.2 | 1981.54 | 3335.81 | 2878.49 | 24878.36 | 621.96 |
| Greece | 0 | 0 | 60.08 | 15.4 | 0 | 9 | 95.48 | 2.39 |
| Ireland | 85.7 | 13.44 | 13.36 | 26.7 | 1.5 | 74.11 | 166.81 | 4.17 |
| Italy | 698.44 | 1134.05 | 4291.33 | 2582.38 | 5814.99 | 193.67 | 14714.86 | 367.87 |
| Luxembourg | 42.23 | 19.05 | 192.53 | 13.16 | 1.51 | 10 | 278.48 | 6.96 |
| Netherlands | 4693.9 | 5236.78 | 3719.89 | 3591.58 | 3235.18 | 1343.62 | 21820.95 | 545.52 |
| Portugal | 0 | 0 | 12.56 | 7.5 | 15.22 | 0 | 35.28 | 0.88 |
| Spain | 110.72 | 14.2 | 25.97 | 66.93 | 56.3 | 0.74 | 276.86 | 6.92 |
| Sweden | 2087.13 | 630.55 | 388.02 | 701 | 2289.07 | 1609.24 | 7705.01 | 192.62 |
| UK | 1809.37 | 3323.16 | 2208.52 | 3959.95 | 2570.16 | 1792.12 | 15663.6 | 391.59 |

Source: Ministry of Commerce, Government of India.

### Table 21: EU-15's Share in FDI Approvals in India ,1991- May2002

| Sector | Number of FDI approvals | Amount in US $ Million | percentage of total approved for EU-15 |
|---|---|---|---|
| Fuel (Power & Oil Refinery) | 183 | 4310.19 | 22.83 |
| Telecommunications | 156 | 2765.49 | 15.94 |
| Transportation Industries | 304 | 1512.53 | 8.13 |
| Chemicals (other than fertilizers) | 393 | 1129.87 | 5.69 |
| Electrical equipments (including computer software) | 774 | 953.46 | 5.03 |
| Total of above | 1810 | 10,671.54 | 57.62 |

Source: *SIA data cited in Delegation of the European Commission in India website.*

The EU is also one of the major source of technology transfer to India. During the period between August 1991 and may 2002, more than 3300 technical collaborations were approved which accounted for about 40 per cent of total collaborations during this period. The highest number of technical collaborations were in the area of electrical equipment ( including computer software, industrial machinery and chemicals.[19]

**Table 22 : Technology Transfers from EU-15 to India: Aug, 1991 to May, 2002**

| Sector | No. of technical collaborations | Percentage of total |
|---|---|---|
| Electrical Equipment (including computer software) | 496 | 14.81 |
| Industrial Machinery | 471 | 14.06 |
| Chemicals (Other than fertilizers) | 409 | 12.21 |
| Transportation Industry | 259 | 7.73 |
| Misc Mechanical & Engg Industry | 195 | 5.82 |

Source: same as table 21.

The area, which has some direct relevance for India, is the **role of euro in countries outside the euro areas.** These countries are also called sometimes in literature as "third countries". Official use of the euro in these third countries will be in their monetary and exchange rate policies in the form of an anchor or reference currency, a reserve currency or an intervention currency. In the area of private use this could be in the form of a parallel currency or in the denomination of specific transactions and contacts.[20] To understand the role of euro as an anchor currency, it is useful to look into the exchange rates of those countries which are not classified by the IMF as an Independently floating. Out of about 150 countries, which come into this category, more than 40 countries are using euro either as sole anchor or as a reference currency. Close analysis of these countries, however, reveal that most of these countries are either geographically very close to the euro area or they have established very special institutional arrangement with euro zone countries. Apart New Member States of the EU and candidate or potential candidate countries, recently Russia and Gulf Cooperation Council countries have also increased their linkages with euro.

**Table 23: Countries with Exchange Rate Regimes Linked to the Euro**

( as on 30 June 2004)

| **Region** | **Exchange Rate Regime** | **Countries** |
|---|---|---|
| European Union (non-euro area) | ERM II | Denmark, Estonia 1), Lithuania 1), Slovenia |
| | Peg arrangements based on the euro | Cyprus, Hungary |
| | Peg arrangements based on a basket involving the euro | Latvia (SDR) 2, Malta (euro share: 70%) |
| | Managed floating with the euro as reference currency | Czech Republic, Slovakia |
| | *Memory item*: Independent floating | Sweden, United Kingdom, Poland |
| Candidate and potential candidate countries | Unilateral euroisation | Kosovo, Montenegro |
| | Euro-based currency boards | Bulgaria, Bosnia and Herzegovina |
| | Peg arrangements or managed floating with the euro as reference currency | Romania 3), Croatia, FYR Macedonia, Serbia |
| | *Memory item*: Independent floating | Turkey, Albania |
| Others | Euroisation | European microstates 4), French territorial communities 5) |
| | Peg arrangements based on the euro | CFA Franc Zone 6), French overseas territories 7), Cape Verde, Comoros |
| | Peg arrangements and managed floats based on the SDR and other currency baskets involving the euro (share of the euro) | Israel (approx. 28%) 8), Seychelles (37.7%), Russian Federation (40%)9), Botswana,Morocco, Tunisia, Vanuatu |

1) Unilateral commitment to a currency board.
2) The SDR is a basket of currencies, including the US dollar, the euro, the Japanese yen and the pound sterling.
3) With an informal reference to a currency basket, involving both the US dollar and the euro.
4) Republic of San Marino, Vatican City, Principality of Monaco, Andorra. In the case of Andorra: unilateral euroisation. The other countries and jurisdictions are entitled to use the euro as their official currency.
5) Saint-Pierre-et-Miquelon, Mayotte.
6) WAEMU (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo) and CAEMC (Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon).
7) French Polynesia, New Caledonia, Wallis and Futuna.
8) Peg with automatically and asymmetrically widening band (currently about 55%), data on weight and band refer to end-2003.
9) Russian Federation: real exchange rate target based on a basket comprising the US dollar and the euro. Botswana: weighted basket of currencies comprising the SDR and the South African rand. Morocco: weighted basket in accordance with the distribution of Morocco's foreign trade and the pattern of currencies of settlement. Vanuatu: weighted (trade and tourism receipts)
basket of currencies of Vanuatu's major trading partners.

Source: *Review of International Role of the Euro*, (Frankfurt: European Central Bank, 2005), p. 52.

While looking at the literature on currency regime in India, it is clear that till the late 1970's it was either pegged or de fact pegged to pound sterling. From 1979 onwards it is somehow linked to UD dollar in one way or another. A recent study on Indian currency regime in the 1990's has also concluded that all empirical literature on currency regimes in India suggest that from August 1991 to June 1995 India's currency regime is best described as a *de facto* peg to the US dollar, while from then to end 2001 it was a *de facto* crawling peg to the US dollar. A fully articulated policy framework defining the currency regime in India is not known in the public domain. Still the main focus of the currency regime has been to deliver a low volatility of the nominal exchange rate.[21] Still there are no indications so far that it will be linked to euro in any way in the near future.

**Table 24 : Currency Regime in India 1914-2001**

| Dates | Classification | Comments |
|---|---|---|
| 8/1914 - 22/3/1927 | Peg to pound sterling | Convertibility into sterling was suspended |
| 22/3/1927 - 24/9/1931 | Peg | Gold standard |
| 24/9/1931 - 3/9/1939 | Peg to pound sterling | Suspension of gold standard adherence to sterling area |
| 3/9/1939 - 10/1941 | Peg to pound sterling | Introduction of capital controls |
| 11/1941 - 10/1943 | Peg to pound sterling ; "freely falling" | |
| 11/1943 - 1/10/1965 | Peg to pound sterling | |
| 1/10/1965 - 6/6/1966 | De facto band around pound sterling ; parallel market | There were multiple exchange rates. Band width was ±5%. |
| 6/6/1966 - 23/8/1971 | Peg to pound sterling | |
| 23/8/1971 - 0/12/1971 | Peg to US Dollar | |
| 20/12/1971 - 5/9/1975 | Peg to pound sterling | |
| 25/9/1975 - 2/1979 | De facto crawling band around pound sterling | Band width was ±2%. Officially pegged to a basket of currencies. |
| 3/1979 - 7/1979 | Managed float. | |
| 8/1979 - 7/1989 | De facto crawling band around US dollar | Band width was ±2%. Officially pegged to a basket of currencies. |
| 8/1989 - 7/1991 | De facto crawling peg to US dollar | |
| 8/1991 - 6/1995 | De facto peg to US dollar | One devaluation in March 1993 – black market premia rose to 27% in February |
| 7/1995 - 12/2001 | De facto crawling peg to US dollar | During this period the black market premium has been consistently in single digits |

Source: C M Reinhart. & K S Rogo, *The Modern History of Exchange Rate Arrangements: A Reinterpretation*, Technical Report 8963, National Bureau of Economic Reserach, 2002.

The **role of euro as a reserve currency** has also grown marginally in the last two years. However the major increase in reserves has been in developing countries and in emerging markets. Since 1999, about 85 per cent of the increase has been originated in only seven countries viz. China, India, Japan, Hong Kong, Mexico, Russia and South Korea[22]. Five out of these seven countries are in Asia. Regional breakdown of foreign exchange reserves reveals that more than 56 percent reserves were in Asia. And most indicators suggest that euro's role in these reserves is not very substantial. Some estimates suggest that euro's role in Asian reserves was about 16 per cent. Anecdotal evidence in India suggest that share of dollar in reserves was about 80 percent in 2002. The rest was divided among all currencies including euro. Some surveys also reveal that the range of holdings in euro in Asia were between 0 and 16 percent of total reserves.[23]

**Table 25: Regional Pattern in Current Build up of Foreign Exchange Reserves**

| Region | **Region Holdings End 2002 USD billions** | **As % of total Reserves End- 2002** |
|---|---|---|
| Industrialised Countries | 887.8 | 40.1 |
| Excluding Japan | 436.6 | 19.7 |
| Developing and Emerging Market Countries | 1326.8 | 59.9 |
| Africa | 69.1 | 3.1 |
| Asia | 801.6 | 36.2 |
| Europe | 186.6 | 36.2 |
| Middle East | 112.0 | 5.1 |
| Western Hemisphere | 157.4 | 7.1 |
| **TOTAL** | **2214.6** | **100.0** |
| **Japan & other Asian Countries** | **1253.1** | **56.6** |

According to recent revised estimates of the IMF, euro's role has increased in the international foreign exchange reserves. Since the IMF does not release data on individual countries, it is difficult to know about its role in Asia and in India. While looking at the developing countries category, the role of euro has not really grown significantly in their reserve currencies.

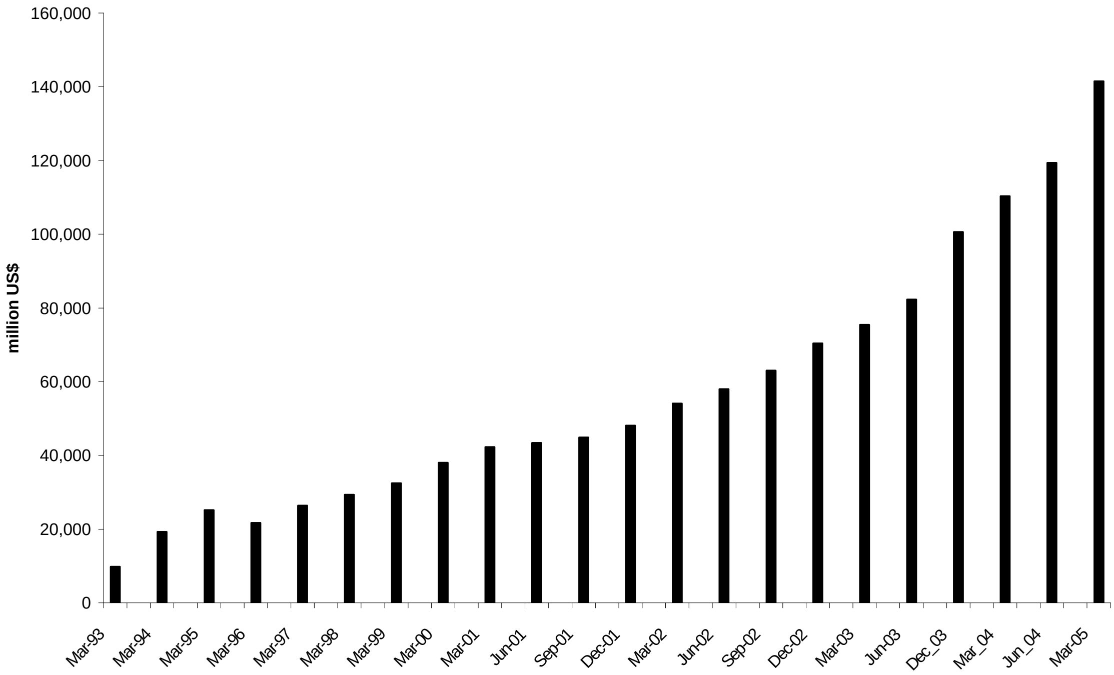
**Table 26: Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Year (In percent)**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **All Countries** | | | | | |
| US Dollar | 64.9 | 66.6 | 66.9 | 63.5 | 63.8 |
| ***Euro*** | ***13.5*** | ***16.3*** | ***16.7*** | ***19.3*** | ***19.7*** |
| Japanese Yen | 5.4 | 6.2 | 5.5 | 5.2 | 4.8 |
| Pound Sterling | 3.6 | 3.8 | 4.0 | 4.4 | 4.4 |
| Swiss Franc | 0.4 | 0.5 | 0.5 | 0.6 | 0.4 |
| Unspecified Currencies | 13.5 | 16.3 | 16.7 | 19.3 | 19.7 |
| **Industrialised countries** | | | | | |
| US Dollar | 72.7 | 72.5 | 72.7 | 69.1 | 70.8 |
| ***Euro*** | ***10.8*** | ***17.2*** | ***17.5*** | ***21.3*** | ***20.9*** |
| Japanese Yen | 6.5 | 6.3 | 5.6 | 4.6 | 4.0 |
| Pound Sterling | 2.3 | 2.0 | 1.8 | 2.2 | 1.7 |
| Swiss Franc | 0.1 | 0.2 | 0.3 | 0.6 | 0.2 |
| Unspecified Currencies | 10.8 | 17.2 | 17.5 | 21.3 | 20.9 |
| **Developing and Other Emerging Markets** | | | | | |
| US Dollar | 59.0 | 62.2 | 62.9 | 59.8 | 59.3 |
| ***Euro*** | ***15.6*** | ***15.6*** | ***16.2*** | ***17.9*** | ***18.9*** |
| Japanese Yen | 4.6 | 6.1 | 5.4 | 5.5 | 5.2 |
| Pound Sterling | 4.6 | 5.1 | 5.4 | 5.8 | 6.2 |
| Swiss Franc | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| Unspecified Currencies | 15.5 | 10.2 | 9.4 | 10.4 | 9.8 |

Source: *IMF Annual Report 2004,* p. 103.

As far as foreign exchange reserves are concerned, India has come a long way since the economic crisis of 1991, when reserves were down to only a few weeks of imports. As a result of economic reforms in the last fourteen years, the level of foreign exchange reserves has steadily increased from US $ 5.8 billion as at end-March 1991 to US $ 75.4 billion by end-March 2003 and further to US $ 91.1 billion by end-September 2003. In September 2004, foreign exchange reserves reached about US$ 120 billions. (Table 28). In March 2005, the reserves have crossed US$ 140 billion mark. In India, the foreign exchange reserves are denominated and expressed in US Dollar only (although now officially euro has also been declared as an intervention currency)

**Figure 2: Movement of Foreign Exchange Reserves in India 1993-2005**




Source: Reserve Bank of India

## Table 27 : Movement in Foreign Exchange Reserves in India

| | | | | | **(**US $ million**)** |
|---|---|---|---|---|---|
| **Date** | **FCA** | **SDR** | **GOLD** | **RTP** | **Forex Reserves** |
| **31-Mar-03** | 71,890 | 4 (2.9) | 3,534 | 672 | 76,100 |
| **30-Jun-03** | 78,546 | 1 (0.9) | 3,698 | 976 | 83,221 |
| **30-Sep-03** | 87,213 | 4 (2.5) | 3,919 | 1,203 | 92,339 |
| **31-Mar-04** | 107,448 | 2 (2.0) | 4,198 | 1,311 | 112,959 |
| **30-Sep-04** | 114,083 | 1 (1.0) | 4,192 | 1,303 | 119,579 |

**FCA** (Foreign Currency Assets): FCA is maintained as a multicurrency portfolio, comprising major currencies, such as, US dollar, Euro, Pound sterling, Japanese yen, etc. and is valued in US dollars.
**SDR**: Values in SDR have been indicated in parentheses.
**Gold**: Physical stock has remained unchanged at approximately 357 tonnes.
**RTP** refers to Reserve Tranche Position in IMF
Source: *Report on Foreign Exchange Reserves 2003-04 (covering period up to September 2004)* ( Mumbai: RBI, 2004)

These increases in these reserves has been on account of capital and other inflows. In recent periods, the major sources of increase foreign exchange reserves have been: (a) investment; (b) Banking capital; (c) Increase other types of capital inflows; (d) Short-credit and (e) Valuation changes in reserves

**Table 28 :**
**Sources of Accretion to Foreign Exchange Reserves in India since 1991**

| | | | **(US $ billion)** |
|---|---|---|---|
| **Items** | | | **1991-92 to 2003-04** |
| | | | **(upto September 2003)** |
| A | | Reserve Outstanding as | |
| | | on end-March 1991 | 5.8 |
| B.I. | | Current Account Balance | -31.4 |
| B.II. | | Capital Account (net) (a to e) | 115.5 |
| | a. | Foreign Investment | 55.4 |
| | b. | NRI Deposit | 21.8 |
| | c. | External Assistance | 11.8 |
| | d. | External Commercial Borrowings | 15.3 |
| | e. | Other items in capital account | 11.2 |
| B.III. | | Valuation change | 0.8 |
| B.IV. | | Gold Valuation | 0.4 |
| | | Total (A+BI+BII+BIII+BIV) | 91.1 |

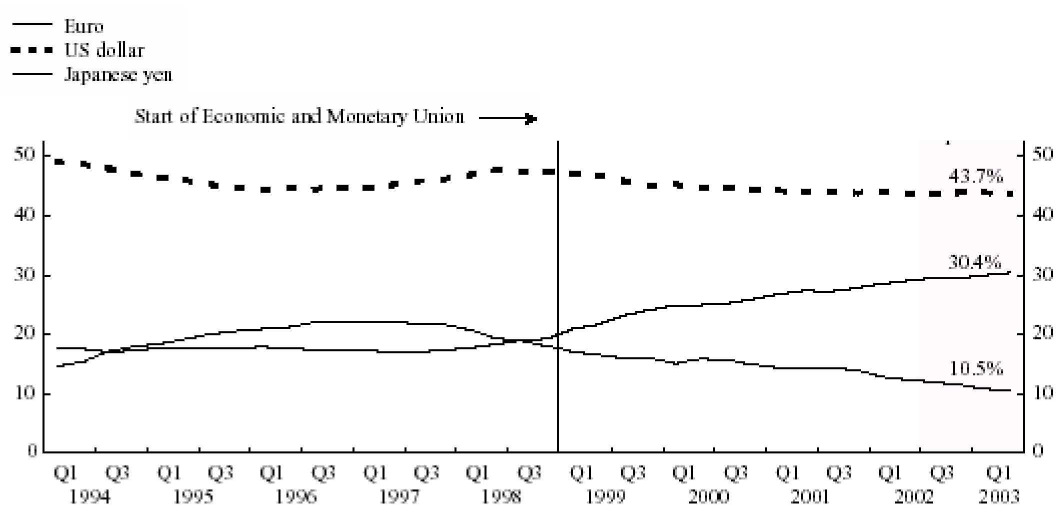
Source: *Reserve Bank of India Bulletin*, March 2004.

According to the official RBI risk management policy these “foreign exchange reserves are invested in multi-currency, multi-market portfolios. In consultation with Ministry of Finance, decisions are taken regarding the long-term exposure on different currencies depending on the likely currency movements and other considerations in the medium- and long-term (such as, the necessity of maintaining major portion of reserves in the intervention currency and of maintaining the approximate currency profile of the reserves in line with the changing external trade profile of the country as also for diversification benefits).” Further “the Top Management of the Reserve Bank is kept informed of the currency composition of reserves through a weekly Management Information System (MIS) Report”.[24] Since RBI does not disclose publicly the composition of reserve currencies, only anecdotal evidences are available to make some judgments. Although euro reserves might have improved a little in the last two years, particularly after making it an intervention currency, it is highly unlikely that the dominant position of dollar (in the range of 70 to 80 per cent of total currency reserves) has changed drastically in India.

In the **international debt market** the role of the euro as an international financing currency has also grown. These markets consist of both instruments with long term maturities (bonds and notes) and short term maturities (money market instruments). This is an area in which role of the euro has grown very significantly. The share of euro-denominated international debt securities issued by non-residents in 2003 increased to more than 30 per cent. Before the launch of the euro, corresponding share for the legacy currencies was below 20 per cent. Many non-euro area residents have also issued euro denominated bonds (table29)

**Figure3: International Debt Securities Stock: Currency Shares**

*(bonds and notes and money market instruments, excluding home currency issuance, as a % of the total amount outstanding and at1994 Q1 exchange rates)*




Source: *European Central Bank*

**Table 29: List of Top 40 Non-euro Area Issuers of Euro-Denominated Bonds**

Issuer (total amount issued in 2002-03, € millions)

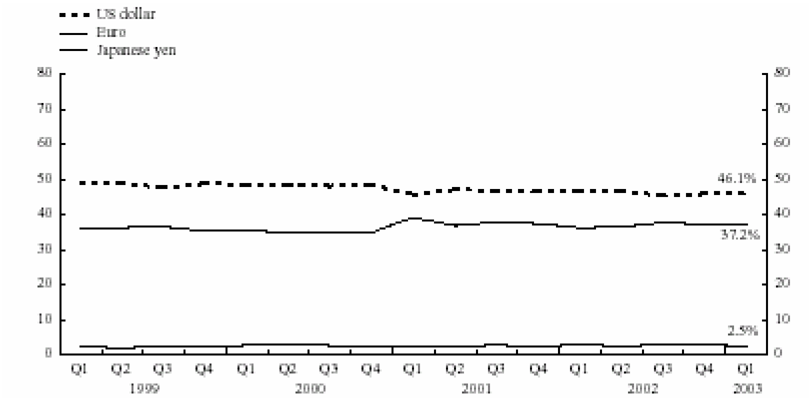
| | | | |
|---|---|---|---|
| European Investment Bank | (23,700) | Danske Bank A/S | (1,600) |
| Federal Home Loan Mortgage Corp. (Freddie Mac) | (14,500) | Hamburgische LB Finance (Guernsey) Ltd. | (1,576) |
| General Electric Capital Corp. | (9,161) | Abbey National Treasury Services plc | (1,510) |
| General Motors Acceptance Corp. | (5600) | Endesa Capital Finance LLC | (1,500) |
| Spintab AB | (4,450) | Goldman Sachs Group Inc. | (1,450) |
| Vodafone Group plc | (3,900) | Permanent Financing No 2 plc | (1,450) |
| BBVA Global Finance Ltd. | (3,675) | UBS AG (London) | (1,441) |
| HBOS Treasury Services plc | (3,367) | Alpha Credit Group plc | (1,400) |
| Citigroup Inc. | (3,250) | Household Finance Corp. | (1,400) |
| Ford Motor Credit Co. | (3,000) | Lehman Brothers Holdings Inc. | (1,345) |
| General Motors Corp. | (2,500) | Northern Rock plc | (1,300) |
| Kingdom of Denmark | (2,300) | National Australia Bank Ltd. | (1,250) |
| Republic of Poland | (2,300) | Republic of South Africa | (1,250) |
| HSBC Holdings plc | (2,000) | Republic of Turkey | (1,250) |
| Toyota Motor Credit Corp. | (2,000) | Granite Mortgages 02-2 plc | (1,194) |
| Royal Bank of Scotland plc | (1,879) | Province of Ontario | (1,150) |
| Nationwide Building Society | (1,825) | Swedish National Housing Finance Corp – SBAB | (1,095) |
| BCL International Finance Ltd. | (1,700) | Holmes Financing (no. 6) plc Series 3 | (1,091) |
| Den norske Bank ASA | (1,700) | Granite Mortgages 03-1 plc | (1,056) |
| Morgan Stanley | (1,631) | Eksportfinans ASA | (1003) |

Source: *European Central Bank*

Recently there has also been increasing interest of Asian investors in euro denominated bond issues. According to the ECB, there is an increasing interest from commercial banks from Japan . In other countries of Asia, central banks also showed interest in euro denominated bond issues. This has opened many new opportunities for Indian corporates who have been mainly tapping the markets abroad in US dollars in bonds etc.

Another area where the role of euro is growing is in the area of **international loan markets.** In the first quarter of 2003**,** the stock of loans made by euro area banks to non-bank borrowers outside the euro area was about USD 619 billion. In the last four years, the euro has been the second currency of denomination for such loans. Its share increased to about 37 per cent in the first quarter of 2003. The US dollar was still at the leading position with 46 per cent (figure 2). The role of remaining currencies including the Japanese yen was very limited.[25]

**Figure 4**
**Loans Made by Euro Area Banks to Non-bank Borrowers Outside the Euro area: Currency Shares**
(as a percentage of the total amount outstanding and at constant 1994 Q1 exchange rates)



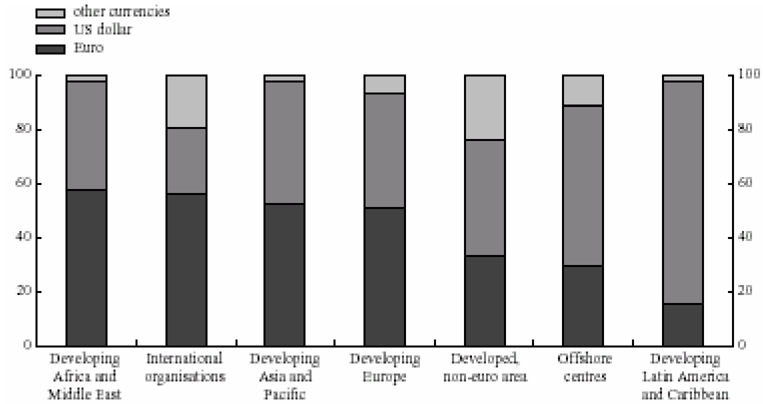

*Source: European Central Bank*

While looking at the regional destination of these roles, non-bank entities in developed non-euro area countries were main borrowers from euro area banks. For these borrowers, euro was the second currency of denomination for loans provided by euro area banks. Within the emerging market economies, the euro was the main currency of denomination ( more than 50 per cent) for loans to the borrowers in developing countries in Africa, Asia and the Middle east. For Latin America and the Caribbean, euro area banks still lent mainly US dollars (between 60 to 80 per cent).[26]

**Figure 5**

**Loans Made by Euro Area Banks to Non-bank Borrowers Outside the Euro area: Currency Shares by Region**

*(as a percentage of the total amount outstanding by region in 2003 Q1 and at current exchange rates)*

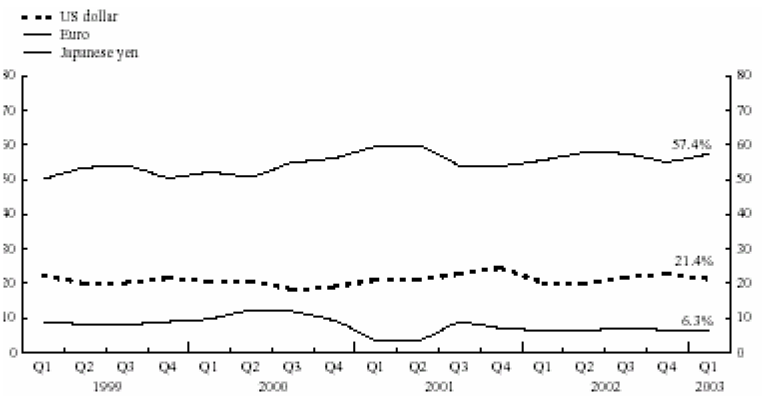



*Source: European Central Bank*

While looking at the loans made by the non-euro area banks to non-bank borrowers in the euro area, one can find that they were predominantly denominated in euro ( about 50 to 60 percent). In this area US dollar was very far behind at about 20 percent.

**Figure 6: Loans Made by Non-euro Area Banks* to Non-bank Borrowers in the Euro Area: Currency Shares**

*(as a percentage of the total amount outstanding and at constant 1994 Q1 exchange rates)*

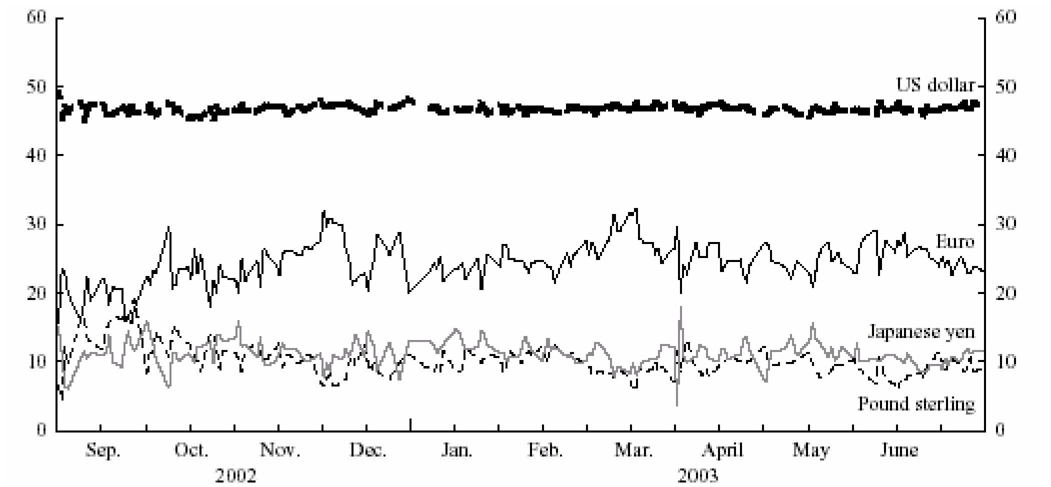



*Excluding data from the US

*Source: European Central Bank*

In the **foreign exchange markets**, the role of euro has not gone much beyond its main legacy currency the Deutsch Mark. Although the US dollar remains the preferred *vehicle currency*[27], the euro is the second currency in these markets. According to the Continuous Linked Settlements (CLS)[28] transactions, from September 2002 to June 2003, the euro accounted for about 25 percent of total transactions within the CLP. The US dollar was the main currency with about half the transactions.

**Figure 7:Settlement within CLS: Currency Breakdown**
*(as a % of the total amount settled)*




*Source: European Central Bank*

According to the ECB, outside the euro area, the **City of London** is the main financial centre, which conducts business in euro. This indicates the euro's strong regional focus as an international currency. ECB estimates that the euro now accounts for almost half of UK resident banks' assets and liabilities denominated in foreign currencies. In the first two years, euro area-owned banks and UK-owned banks were  the largest players in euro-denominated financial markets in the City of London. Recently however, some US and Asian participants have also used  the City of London as an entry point for their financial activities in the euro.[29]

In many developing countries as well in transition economies, there has been a normal practise that residents hold a significant portion of their financial assets in foreign currency denominate assets. The importance of these assets is very high in those economies where large disequilibrium exists and people have more faith in hard currency assets. Due to geographical and economic linkages, and relatively less stable economic and financial conditions, in the neighbouring countries of the euro zone, private citizen are using cash or euro denominated bank deposits in a significant manner. It is difficult to get data on cash euro circulation in third countries, but data on euro denominated bank deposits shows that its role is very significant in Central and Eastern Europe as well as in Egypt, Morocco, Saudi Arabia and South Africa. Euro has become almost de facto currency in some of the countries of former Yugoslavia.

**Table 30 :Outstanding Euro-denominated Bank Deposits in Selected Countries**

| Countries | Absolute amounts ( euro millions) | As a % of total deposits | As a % of foreign deposits |
|---|---|---|---|
| | End 2002 | End 2002 | End 2002 |
| Cyprus | 1762 | 7.9 | 23.4 |
| Czech Republic | 3564 | 6.7 | 59.6 |
| Estonia | 1017 | 26.2 | 62.7 |
| Hungry | 2686 | 9.4 | 58.1 |
| Latvia | 879 | 14.4 | 19.4 |
| Lithuania | … | … | … |
| Malta | 749 | 8.8 | 24.9 |
| Poland | 3557 | 4.7 | 28.3 |
| Slovak Republic | 1686 | 9.2 | 59.6 |
| Slovenia | … | … | … |
| Bulgaria | 872 | 15.8 | 32.3 |
| Romania | … | … | … |
| Turkey | 12831 | 15.5 | 27.0 |
| Albania | 260 | 12.4 | 37.9 |
| Bosnia | 884 | 46.1 | 88.0 |
| Croatia | 8118 | 56.8 | 83.7 |
| Kosovo | 708 | 100.0 | 100.0 |
| Macedonia(FYR) | 400 | 55.1 | 85.5 |
| Montenegro | 170 | 82.9 | 82.9 |
| Serbia | 663 | 81.2 | 88.9 |
| Moldova | 19 | 6.4 | 12.4 |
| Ukraine | 159 | 2.3 | 7.2 |
| Egypt | 1059 | 1.4 | 5.1 |
| Israel | 7354 | 6.0 | 19.5 |
| Jordon | 24 | 0.5 | 2.3 |
| Lebanon | 1650 | 3.8 | 5.5 |
| Morocco | 93 | 0.4 | 38.8 |
| Saudi Arabia | 1186 | 1.2 | 6.9 |
| South Africa | 540 | 0.6 | 13.3 |

Source: *European Central Bank*

According to all indications there is a little change in the role of the euro as an anchor currency in third countries outside the euro area. Still the share of the euro in global foreign exchange reserves has marginally increased from 16.4 per cent in 2001 to 18.7 per cent in 2002[30]

**Dimensions of India EU Economic Relations and Euro impact**

While looking at the research studies on the establishment of EMU and creation of euro by different organisations like the *European Commission, European Central Bank, International Monetary Fund* as well as by academic institutions in Europe, it is clear that euro has mainly been analyzed from the European point of view (see e.g. euro website). This is quite understandable because the participating countries themselves have been going through a learning experience. Till recently euro awareness was low even within EU and in neighboring Central and Eastern Europe. At the first sight, the implications of euro may appear to be greater mainly for participating countries and to some extent for the neighboring countries. In reality, however, it has implications for any country, which wants to have trade and other economic relations with Europe and euro zone countries. As we have seen in the earlier section, its impact on the economic, commercial and financial environment is growing much beyond the euro zone and EU countries. It has also started making its influence felt even in remote countries like India.

India's relations with the EU countries are multidimensional. EU is India's leading and strategic commercial partner. Along with the United States, EU is also a leading source for investments. It is also an important partner in development cooperation. EU is a major source of supplies for critical imports including important raw materials and investment goods. While addressing the fourth annual EU-India Business Summit in 2003, the then Indian Prime Minister Mr Atal Bihari Vajpayee also emphasized these points when he said that "I do not need to emphasise the importance that India attaches to trade and economic cooperation with the European Union. It is our largest trading partner, accounting for nearly a quarter of India's total foreign trade. It is also our largest investment partner, an important source of technology in critical sectors and a major destination for our service providers"[31] Recognising these trends, recently the European Commission has also proposed a new strategic partnership between India and the EU. It has proposed a "series of concrete steps to strengthen co-operation in five key areas: International cooperation through ultilateralism with a focus on conflict prevention, the fight against terrorism, non-proliferation and human rights; Strengthening of economic partnerships through sectoral and regulatory policy dialogues; Cooperation in development policies in order to help India meets the Millennium Development Goals; Fostering intellectual and cultural exchanges; Improvement of the institutional architecture of EU India relations.[32]

While aware of multi-dimensional nature of the India-EU relations, the Reserve Bank of India (RBI) took several steps to prepare the Indian banking sector for the arrival of euro much before the official arrival of Euro. Indian forex dealers and traders were also quite aware of the fact that Euro could give a major challenge to dollar.[33] The then deputy Governor of the RBI Mr Y V Reddy had detailed discussion with the representative from Foreign Exchange Dealers' Association of India (FEDAI) on 30 December 1998. FEDAI also brought out a booklet on euro which among others contained full set of instructions on the subject issued by RBI and FEDAI. All the banks who participated in the meeting confirmed that the various issues relating to the transition such as setting up correspondent arrangements, opening of euro deposit accounts, training of staff, settlement instructions and changes in Swift messaging standards were already addressed.[34] RBI also constituted a Working Group in 1998 under the Chairmanship of RBI Executive Director Mr V. Subrahmanyam. The Group comprised of officials of Reserve Bank of India, a few Indian and foreign banks and Government of India. This group reported and analysed all major operational aspects resulting from the advent of euro. It also commented on the positive aspects of euro because of transparency, low transaction costs etc. The group analysed India's growing trade with the EU. It however noted that despite India's large share of trade with EU, invoicing in EU currencies accounted for only 7.2 per cent of the trade. It noted that to the extent trade is with the euro countries or countries whose currencies move closely in alignment with euro, invoicing in euro is likely to minimise risk, given the expectations of a strong euro. The working group concluded that the “introduction of euro cannot be a sufficiently strong stimulus to alter the fundamental forces driving European – India trade. Factors such as the development of exchange rates, the cyclical performance in the two regions as well as the remaining barriers to trade and trade relations with the rest of the world certainly play a more significant role overall than EMU could conceivably do. In the long run, however, the euro will leave its mark on European Indian economic relations by paving the way for more stable relations and facilitating financing of trade and investment activities. But this will also require a response from Indian traders and investors to reconsider their business strategies in Europe in order to compete in a more dynamic environment.”[35]

Another study by the Indian Institute of Foreign Trade declared that “the impact (of euro) is expected to be essentially negative.” It also found that “ most probably, the textiles sector will get affected” . Further the study asserted that “ Indian firms can expect intensified competition from the East European countries” This the study argued because” most of these will get anchored to euro or will switch to euro-invoicing. This will eliminate currency-risks for the EMU-based importers. In case the Indian exporters continue to use US dollar, this can result in trade diversion from India to the East European suppliers. India exports a range of products to EMU in competition with these countries. These products may get adversely impacted”. The study found that “large business opportunities are, however, emerging in the computer software field”.[36]

Immediately after the launch the euro, the RBI took a number of important measures such as notifying euro as a permissible transaction currency, advising banks to extend facilities to residents to convert balances in legacy currencies to euro balances, advising banks to accept FCNR deposits in euro, providing all information on euro on RBI website, announcing reference rate for euro (in addition to US dollar) etc.[37] In a significant development the

Government of India issued a notification on 27 February 2002, providing RBI with the option to use euro as an additional currency for operation / intervention (in addition to US dollar).[38] This obviously reflects that Indian monetary authorities would like to give more important role to euro. This particular development further strengthened euro image in India.

For companies doing business in Europe, the arrival of euro is not simply a matter of issuing invoices in euro. It is rather a question of positioning vis-a-vis a new market. While it will be less difficult for them to cope with the technical issues, the low degree of awareness of most Indian companies about the strategic impacts of the Euro on the single market is the main issue. The process of strategic reorientation and market restructuring in the euro-zone and neighbouring countries will create an asymmetry between European companies, who are going through a collective learning process to adapt their strategy to the new environment. This means that Indian companies are bound to face a business environment with stronger competition, more cross-border co-operation or even mergers etc. than has previously been the case in the single market.

In general, the impact of the euro on third countries is expected to be positive for many reasons. First, exporters and imports from third countries will benefit from a reduction in transaction costs, as far as foreign exchange transactions are concerned, because their payments will be denominated in the one single currency. Secondly, companies will also benefit from greater competition and more efficient financial markets. Thirdly, some third countries may also come to regard the euro as their reference currency and therefore the euro-zone may have stabilising effect in the long run. Fourthly, European financial markets may become more stable and cost of borrowing may come down. The areas, which are immediately going to be influenced, are Central and Eastern Europe, the Mediterranean basin and sub Saharan Africa. In the long run however, other developing countries, which are strongly influenced by the dollar, the presence of Euro may bring some simplification in trade activities.

Along with these implications which are more or less common for all third countries, the euro could also have other attractions for Indian companies.. The creation of single currency market will facilitate easier access to a single market because they have to penetrate only one market not 12. It also means that Indian companies will have to modify their strategies. Those companies, which have focussed their exports mainly on one EU country, may wish to extend their market to other countries which are part of the euro-zone.

The idea of Euro pricing could also become attractive at a later stage. At present however, Indian businesses selling into the euro-zone will be concerned of real trading conditions in the particular countries and localities in which they are selling their goods and services. There is still variety of differences with regard to labour costs, welfare costs, property costs, sales taxes and VAT other local costs of doing business. Indian exporters could still maintain their pricing differentials to boost their margins. This could be done by changing the product features or bundling into the contract prices the costs of providing different services. Despite a single currency EU market has remained fragmented in character, with member states speaking different languages and having different cultures. The single currency is also useful in facilitating a pan-European approach for marketing in the EU. Reduced transaction costs and greater price transparency stemming from the euro will make it easy for the EU companies to expand distribution and retail networks across borders. It means larger retail groups and chain store operators are going to be major beneficiaries. These companies should be targetted by Indian exporters as pan European customers.

One of the direct major impact of the euro on the Indian economy would be growth rates in the euro zone economies. It was argued that euro will have very positive impact on the euro zone economies. Since European market is a big market for Indian products, it will have a positive influence on our economy. Unfortunately after the introduction of the single currency, the twelve countries in the euro-zone taken together have seen their economies grow slowly compared to those in the EU ( particularly the UK) but outside the euro– have grown relatively better.

**Table 31: Changes in Real GDP in the European Union Economies, 2001-2004**
**(percentage change over previous year)**

| | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| France | 2.1 | 1.2 | 0.8 | 2.3 |
| Germany | 0.8 | 0.2 | 0.1 | 1.6 |
| Italy | 1.8 | 0.4 | 0.3 | 1.2 |
| Austria | 0.8 | 1.0 | 1.4 | 2.4 |
| Belgium | 0.7 | 0.9 | 1.3 | 2.9 |
| Finland | 1.0 | 2.2 | 2.4 | 3.6 |
| Greece | 4.3 | 3.8 | 4.7 | 4.2 |
| Ireland | 6.0 | 6.1 | 3.7 | 5.4 |
| Luxembourg | 1.5 | 2.5 | 2.9 | 4.5 |
| Netherlands | 1.4 | 0.6 | -0.9 | 1.4 |
| Portugal | 1.7 | 0.4 | -1.1 | 1.0 |
| Spain | 3.5 | 2.7 | 2.9 | 3.1 |
| **Euro Area** | **1.9** | **1.0** | **0.8** | **2.1** |
| UK | 2.2 | 2.0 | 2.5 | 3.2 |
| Denmark | 1.3 | 0.5 | 0.7 | 2.4 |
| Sweden | 1.0 | 2.0 | 1.5 | 3.6 |
| **European Union-15** | **1.9** | **1.2** | **1.1** | **2.3** |

Source: *UNECE database.*

According to the United Nations Economic Commission of Europe (UNECE), the euro area remained the principal "weak spot" of the global economy in 2003, mainly because of sluggish activity in the three largest economies (France, Germany and Italy). Real GDP in the euro area as a whole rose by only 0.8 per cent in 2003. In Comparison, real GDP in the European Union as a whole rose by 1.1 per cent in 2003. The recovery gained some momentum in the course of 2004 but, for the year as a whole, real GDP rose by only 2.1 per cent. Among the three major economies of the euro area, real GDP in

France increased above the euro area average in 2004. In Germany, real GDP increased by only 1.6 per. The Italian economy also grew at about 1.2 per cent in 2004. Euro per se may not be the cause of this performance of different economies. But this also does not lead us to conclude that euro definitely will be very helpful in improving Indo-European economic relations because of extra growth as a result of euro in euro zone economies.

Indian firms are also going to face increased competition from East European countries, since many of them have anchored to euro and switched to euro-invoicing, thereby eliminating currency-risks for EU importers.[39] This problem however could be solved with euro invoicing. Although there are no statistics available, there are indications that many Indian exporters have started euro invoicing.

After some initial quiet period, the euro has continued to strengthen against the dollar and some other currencies during the period between 2002 and 2004. In 2005, however, it has stared weakening against the dollar.

**Table 32: Bilateral Exchange Rates between Euro and USD/Yen**
(Period averages units of national currency per Euro)

| | USD | Japanese Yen |
|---|---|---|
| 2001 | 0.8956 | 108.68 |
| 2002 | 0.9456 | 118.06 |
| 2003 | 1.1312 | 130.97 |
| 2004 | 1.2439 | 134.44 |
| 2005 Q1 | 1.3113 | 137.01 |
| Q2 | 1.2594 | 135.42 |
| Q3 | 1.2199 | 135.62 |

Source: *European Central bank*

The strengthening of euro in the period between and 2002 and 2004 period might have a different effect on the euro zone economies, but it generated a lot of interest among the monetary authorities and ordinary citizens even in third countries. Although the IMF data on currency reserves in developing countries shows a very limited increase of euro in their reserves, the appreciation in the rates of euro may change the situation. Indian monetary authorities may also have increased some reserves in euro. This could be significant as Indian reserves are more than USD$ 140 billion.

One can also expect some indirect influences of euro on India and South Asian region. The formation of the euro is a first step towards worldwide tendency for fewer independent currencies. Other left out countries like Greece, the UK, Denmark may join at some date. Some of the East Europeans are surely interested in joining Euro. The same is to be expected in Latin America where the discussion of dollarization is in full swing after Argentina launched the debate.[40] In Asia some kind of Asian currency may be discussed at some later stage. In the South Asian Region, already the debate has begun on the South Asian common currency. This has happened after Indian Prime Minister Mr Atal Bihari Vajpayee called for a common South Asian Currency presumably on the pattern of the euro at the 12th meeting of the South Asian Association for Regional Cooperation (SAARC) countries in Islamabad.[41]

**Conclusions**

Since the successful launch of the euro, its international role has grown gradually. However, it is characterised by strong regional focus and driven by the economies within the euro zone itself. Its role is most prominent in the regions close to euro zone areas. Euro has grown very significantly in the international debt and loan markets. It is developing gradually in the international trade and foreign exchange markets. It has also inherited the role played by its legacy currencies, particularly the Deutsche Mark. It has also being used very significantly in the City of London. Latest indications are that its role as a reserve currency has also improved. On the basis of all these factors the euro is today the second most widely used currency internationally, after the US dollar and ahead of the Japanese yen. But still even the European Central Bank calls it an “international currency with strong regional focus”.

As a result of these characteristics, its role in the countries outside the euro zone is very prominent in the countries of Central and Eastern Europe. In Asia and other developing countries, US dollar continue to be used as a prominent international financing currency, a settlement and invoicing currency and a reserve currency. The continuous strengthening of euro has generated new interest in the currency in India and elsewhere. Reserve Bank of India has taken a very pro active approach to euro and it has been declared as an additional currency for operation / intervention (in addition to US dollar). Indian banking and financial sector was fully prepared for the euro at the time of its launch. As a result of these measures, there is possibility that there might have been some increase in euro reserves in India. However, latest IMF figures on global reserves do not indicate any major changes in developing countries and Asia. Since EU is India’s leading commercial partner and a major source of investment and technology transfer, performance of euro zone economies and the euro is bound to have a significant impact on Indo-European trade and other economic relations. Since euro has changed business and trading environment in Europe, Indian companies need to change their invoicing patterns and marketing strategy. Before the launch of the euro it was expected that the important impulse for closer trade links between Europe and India will result from positive economic forces set free by the euro. It was thought that Indian firms will be able to enter one unified market free from impediments to internal trade with an impressive growth potential. So far weak economic growth in the euro zone economies has affected more than some positive implications from the success of euro.

On the basis of the above discussion, it could be concluded that in the short run euro implications for Indian economy and business are seems to be positive, albeit very limited. In the long run factors such as euro as a stable international currency and price stability in the euro area are going to open up many new opportunities for Indian economy and individual businesses. Euro may also help India in rejuvinating its trade economic relations with the countries of Central and Eastern Europe. The success story of euro may also lead to a single Asian/South Asian currency in the this part of the world.

## Endnotes

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[23] R Pringle and N Carver, " How Countries Mange Reserve Assets" in R Pringle and N Carver (eds) *How Countries Mange Reserve Assets*, London: Central banking Publication, 2003.

[24] *Reserve Bank of India Bulletin*, March 2004.

[25] Ibid.

[26] ibid

[27] A vehicle currency (B) is defined as a currency that is used in the foreign exchange markets as a means to exchange two other currencies, so that currencies A and C are not exchanged directly (AC) but via B in two transactions (AB and BC). For details see *Review of the International Role of the Euro*, Frankfurt:, European Central Bank, 2003.

[28] At the initiative of a group of major foreign exchange participants CLS was created in 1997. at In September 2003, 66 major financial institutions located in 17 countries had become CLS shareholders. CLS settles transactions in eleven major currencies. According to estimates the CLS covers about one third of global foreign exchange trading activity.

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[31] http://www.ciionline.org/ Common/282/Images/PM%20SPEECH%20in%20EU%20Summit%202003.pdf

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**Appendix**

## The History of the Euro

**April 18, 1951**
**Paris Treaty signed**
France, West Germany, Italy, Luxembourg, Belgium and The Netherlands agree on establishing the European Coal and Steel Community (ECSC)

**March 1957**
**Treaties of Rome signed**
The Treaties, signed by Belgium, France, West Germany, Italy, Luxembourg and The Netherlands, cover the establishment of the European Economic Community (EEC) and the European Atomic Energy Community (Euratom).

**December 1969**
**Summit meeting at The Hague**
Pierre Werner appointed to report on how to reduce exchange volatility

**October 1970**
**Publication of the Werner Report**
Named after Pierre Werner, the Luxembourg Prime Minister, the report did not recommend a single European currency or a European Central Bank, but called for the centralisation of member states' macroeconomic policies, entailing "the total and irreversible fixing of parity rates and the complete liberation of movements of capital."

**1971-1973**
**Breakdown of the Bretton Woods system of fixed exchange rates**
Beginning with President Nixon closing the gold window in 1971 and ultimately resulting in widespread currency floats and devaluations, the breakdown of the Bretton Woods system dealt a serious blow to hopes for a shift to a European monetary union

**March 1979**
**European Monetary System (EMS) created**
The European Monetary System (EMS) takes effect, based on a currency unit called the Ecu. The system is designed to stabilise the exchange rates of the national currencies and counter inflation

**February 1986**
**Single European Act signed**
The Single European Act modifying the Treaty of Rome is signed, formalising political co-operation between the member states and including six new areas of competence, including monetary co-operation.

**June 14, 1988**
EC leaders move nearer to monetary study plan
EC summit in Hanover tentatively agrees study into closer monetary co-operation

**February 7, 1992**
**The Maastricht Treaty signed**
The Treaty elevated the project of European integration to a new and far more ambitious level by setting a firm date - January 1999 at the latest - for the replacement of national currencies by a single, shared currency, the euro.

June 3, 1992
Danes say no to Maastricht Treaty

**September 17, 1992**
UK withdraws from ERM after sterling falls below its floor against the D-Mark.

**January 12, 1994**
**European Monetary Institute created**
European Monetary Institute, precursor for the future European Central Bank, meets for the first time.

**January 1, 1995**
**European Union expands**
Austria, Finland and Sweden join the EU

**December 1995**
**EU backs Euro as name for single currency**
EU leaders brace themselves for a tough three-year campaign to win support for the planned single currency.

**June 1, 1998**
European Central Bank established

**January 5, 1999**
**Euro launched**
Euro climbs to $1.19 against the dollar on its first trading day with dealers quick to embrace new currency.

**December 3, 1999**
**Rift as euro falls below dollar parity**
Single currency falls below $1 for the first time

**September 29, 2000**
Denmark says "no" to single currency

**January 1, 2001**
Greece joins the eurozone

**January 1, 2002**
Euro notes and coins launched

**February 28, 2002**
Legacy currencies stop being legal tender

Source: *Financial Times, Special Reports.*

**Broad Data on Euro's International Position ( in per cent)**

## The Euro in Trade in Goods & Services

***Share of the euro in:***

| | | |
|---|---|---|
| Settlement/invoicing of exports of goods to non euro-area residents of a number of euro area countries | **47 to 63** | **2003** |
| settlement/invoicing of imports of goods from non-euro area residents of a number of euro area countries | **40 to 60** | **2003** |
| settlement/invoicing of exports of services to non-euro area residents of a number of euro area countries | **16 to 24** | **2003** |
| settlement/invoicing of imports of services from non-euro area residents of a number of euro area countries | **20 to 64** | **2003** |

## The Euro in Third countries

***Share of the euro in:***

| | | |
|---|---|---|
| number of countries or territories whose exchange rate regimes were linked to the euro | **50** | **Mid 2004** |
| share of the euro in global foreign exchange reserves | **19.7** | **End 2003** |
| cumulative net shipments of euro banknotes to destinations outside the euro area | **€ 46 billion** | **June 2004** |
| total stock of euro-denominated bank deposits in regions neighbouring the EU | **€ 51 billion** | **End 2003** |

## The Euro in International Loan & Deposit Markets

***Share of the euro in:***

| | | |
|---|---|---|
| Cross-border loans from euro area banks to non-bank borrowers outside the euro area 1) | **38.0** | **2004 Q1** |
| Cross-border loans from non-euro area banks to non-bank borrowers in the euro area 1) | **60.9** | **2004 Q1** |
| Cross-border loans from non-euro area banks to non-bank borrowers outside the euro area 1) | **5.9** | **2004 Q1** |
| Cross-border deposits of non-euro area non-banks in banks in the euro area 1) | **51.0** | **2004 Q1** |
| Cross-border deposis of euro area non-banks in banks outside the euro area 1) | **61.2** | **2004 Q1** |

1) At constant 1994 Q1 exchange rates

Source*: ECB Publications*

## Euro – Indian Rupee Exchange Rate

| | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| **January** | 58.44 | 56.38 | 49.39 | 43.04 | 41.88 | 43.83 |
| **February** | 57.15 | 57.38 | 51.53 | 41.79 | 43.03 | 42.94 |
| **March** | 57.29 | 56.83 | 51.47 | 42.38 | 42.10 | 43.72 |
| **April** | 56.70 | 53.99 | 50.89 | 42.86 | 41.41 | 41.78 |
| **May** | 56.86 | 52.32 | 51.88 | 43.50 | 42.43 | 41.01 |
| **June** | 54.86 | 54.31 | 54.76 | 45.00 | 40.29 | 41.20 |
| **July** | 52.82 | 55.23 | 53.90 | 47.39 | 40.15 | 41.83 |
| **August** | 52.51 | 56.23 | 52.90 | 48.23 | 40.98 | 41.84 |
| **September** | 53.86 | 57.00 | 49.82 | 47.31 | 42.92 | 41.25 |
| **October** | 52.96 | 56.44 | 52.45 | 47.45 | 43.87 | 40.28 |
| **November** | 54.08 | 58.47 | 53.21 | 47.40 | 42.87 | 39.23 |
| **December** | | 58.93 | 54.45 | 47.90 | 42.24 | 39.24 |

Source : http://www.delind.cec.eu.int/en/features/euro-inr_rates.htm

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