

IMPORTANCE OF THE EURO TO AUSTRALIA

The euro was launched onto the world's financial markets in January 1999, allowing banks and stock exchanges to carry out transactions in euro. Actual notes and coins came into circulation in January 2002, and the withdrawal of national notes and coins in the euro-zone was completed by the end of February 2002 for the 12 Member States of the euro zone (Austria, Belgium, France, Finland, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain).

Together the euro-zone represents:

- 304mn inhabitants (cf. 284mn for the US and 127mn for Japan);
- 21% of world gross national income (cf. 31% for the US and 14% for Japan);
- the second largest economy and financial market after the US.

Not surprisingly given the size of the euro zone, the euro quickly became the second most traded currency globally.

But what is the importance of the euro to Australia - for commercial operators, for individual citizens and travellers, for official reserves and how much notice should they take of movements in the euro vis-à-vis the Australian dollar?

Partial answers are given by looking at some relevant indicators such as the weightings used in the Trade Weighted Index of the Australian dollar, the results of the triennial survey of foreign exchange and derivatives markets by the Bank for International Settlements; temporary departures from Australia; and Australia's holdings in international reserves.

The Trade Weighted Index of the Australian dollar reflects the composition of Australia's exports during the previous financial year. The current weights indicate that the Yen is the most important currency accounting for 17.2% of the weighting, followed by the \$US (15.1%) and the euro (12.4%).

An indication of the extent of foreign exchange transactions by currency pairs is given in the results of an international survey undertaken by the Bank for International Settlements in association with national central banks. In the case of Australia, the survey was in cooperation with Reserve Bank of Australia (RBA) and was last undertaken in April 2001. The survey showed that currency pairs traded in Australia were dominated by the \$A/\$US which accounted for 53.3% of all transactions, with the next most important being the cross-rates for the \$US/Yen (13.8%), euro/\$US (10.1%), \$NZ/\$US (8.1%) and £/\$US (5.6%).

When considering overseas short-term departures by Australian residents, their predominant destination for the calendar year 2002 was New Zealand accounting for 17.3% of all journeys, followed by a close group of three - the UK (9.2%), US (8.6%) and the 12 euro zone countries (8.3%).

In terms of Australian International Reserves, RBA statistics show that the euro quickly established itself as a currency as important as the \$US. Indeed, reserves in euro exceeded those in \$US for the first time in April 2002 and subsequently for 10 of the 15 months to July 2003. During this 15 month period the euro on average accounted for 39.3% of reserves, the \$US for 38.7%, the Yen for 9.4% and others (including gold and special drawing rights) for the remaining 12.7%.

Considering these indicators in aggregate, while not attempting to weight their relative importance, suggests that the \$US remains the most important currency for Australian interests, closely followed by the euro, then the \$NZ, the Yen and the UK pound (see table below).

Ranking of key currency areas for Australia by indicator

	US	euro zone	New Zealand	Japan	United Kingdom
Trade Weighted Index	2	3	6	1	7
Foreign Exchange Turnover	1	3	4	2	5
Short-term departures	3	4	1	12	2
International Reserves	2	1	n/a	3	n/a
Average	2.0	2.8	3.8	4.5	4.8