AMERICAN JOURNALS
Open Access, Peer Reviewed Journals
American Journal of Business Management, Economics and Banking
ISSN (E): 2832-8078 Volume 37, June - 2025

THE FORMATION OF THE EURODOLLAR MARKET (EUROMARKET) AND ITS IMPACT ON FINANCIAL INTEGRATION PROCESSES IN THE EU

Alimardonov Elshod Dilshodovich
Professor of the "International Finance"
Department at Tashkent State University of Economics

A B S T R A C T	K E Y W O R D S
This article describes main current trends and features of the Eurodollar market, the basic terms and principles providing the formation of a single market and the financial sector in the European Union, in addition, on the basis of result of research in this market given practical recommendations and scientific proposals for the sustainable development of the national financial market.	Money and loan market, euromarket, eurocurrency, euroloan, financial innovation, securities, eurosheet, International Capital Market Association.

Introduction

In the international loan capital market, the Euro-market plays a significant role due to its size, scale, freedom, favorable conditions for the emergence of financial innovations, and the wide range of conveniences it offers to market participants. It enables the effective redistribution of financial resources across the globe, provides new ways to address problems that arise during imbalances in external payments, offers important tools for economic agents to hedge against risks, enhances competition in the global financial market, and stimulates improvements in the quality and reduction in the cost of services provided by financial and credit institutions.

The development of the Euro-market and global financial integration are among the key elements that positively contribute to the progress of the world economy. Today, the main centers of the global Euro-market are London, Zurich, Frankfurt am Main, and Paris.

In the Presidential Decree No. PF-158 dated September 11, 2023, on the Strategy "Uzbekistan – 2030," goal 92, to be achieved by 2030, sets as a key performance indicator: "Development of trade-economic, financial, investment, and technological cooperation with European countries and further strengthening of the legal framework for broad partnerships and practical collaboration" [1]. This, in turn, necessitates the study of modern trends in the development of European financial markets.

Literature Review

Marsel Fratzscher has conducted an in-depth study on financial market integration in Europe, particularly focusing on the impact of the Economic and Monetary Union (EMU) on securities markets.

Analyzing the integration process of European securities markets since the 1980s, Fratzscher emphasized the influence of exchange rate volatility on financial integration. Utilizing a GARCH model based on the interest rate parity condition, the study identifies three major findings: First, European securities markets only became highly integrated after 1996; second, the Eurozone has gained dominance in global financial markets, overtaking the U.S.; and third, integration was largely driven by the elimination of uncertainties related to exchange rate fluctuations and monetary unification. [2]

Afzal Hussain, Sitora Karim, and Ahmet Sensoy investigated financial harmony by exploring the integration of Islamic and green investments in European stock markets. Their research, considering the distinct characteristics of Islamic and green financial instruments compared to conventional finance, revealed that under increasing uncertainty, the interconnectedness between green and Islamic finance and the broader European financial market has grown. [3]

Giuliana Birindelli, Helen Chiappini, and Raja Nabil-ud-Din Jalal examined the Sustainable Finance Disclosure Regulation (SFDR), investor attention, and the condition of European financial markets. Focusing on 2019–2022, the study analyzed whether investor attention to the SFDR drives the European financial markets and concluded that investors show strong predictive behavior, particularly under declining or stable market conditions. [4]

Krina Pungulesku attempted to measure financial market integration in the European Union (EU), comparing EU-15 countries with new member states and emerging markets. Using indicators from credit and bond markets, equity markets, and household and firm-level decisions, the study quantified financial integration and compared developments before and after the EU's eastern enlargement. [5]

Marisica Moscalu, Claudia Girardone, and Raffaella Calabrese analyzed banking market integration in the Euro area and its impact on SME growth under financial constraints. Their findings indicate that while financing constraints limit SME growth, greater banking integration in the Euro area fosters the development of these enterprises. [6]

Sonia Kumari Selvarajan and Rossazana Ab-Rahim explored whether Asia should follow Europe's model in financial integration and economic growth. They concluded that the Asian financial crisis (1997–1998) acted as a catalyst for regional cooperation. The study assessed financial integration during pre- and post-crisis periods (1980–1995 and 1998–2015), suggesting that each Asian country should develop its financial integration strategy by learning from the EU's experience. [7]

K. Smimou and V. Hallouli investigated the dynamic relationship between stock market liquidity and business cycles under the influence of the Euro. Based on data from 10 Eurozone countries and the UK, the study found that post-Euro adoption, liquidity significantly improved across most countries, aligning with periods of high economic growth. [8]

Mihai Nişoi and Maria Miruna Pochea analyzed financial market convergence in Central and Eastern Europe using a nonlinear single-factor model (Phillips and Sul, 2007). Their findings suggest significant divergence among CEE countries' financial markets, and highlight the need for structural reforms to achieve convergence. [9]

Nikolay Apergis, Kristina Christou, and Iason Kynigakis studied the link between financial market instability in the U.S. and Europe during the global financial crisis using credit default swap (CDS) data. Using correlation, coskewness, cokurtosis, and covolatility measures, they evaluated systemic risk transmission across banks, sovereigns, and equity indices. [10]

Jussi Nikkinen, Vanja Piljak, and Timo Rothovius explored the effects of the 2008–2009 financial crisis on the internal and external linkages of frontier European stock markets (e.g., Croatia, Estonia, Romania, Slovakia, and Slovenia). Their results indicate strengthened external linkages during the crisis and identify limited internal linkages, suggesting potential for diversification within these markets. [11]

Wojciech Grabowski, Jakub Janus, and Ewa Stawasz-Grabowska examined the impact of macroeconomic policies and international policy spillovers on financial markets in Central Europe (Czech Republic, Hungary, and Poland) during the COVID-19 pandemic. Their research revealed that unconventional monetary policies and fiscal stimulus played a key role in stabilizing financial markets, especially long-term sovereign bond yields. [12]

Shihong Zeng, Jingmin Jia, Bin Su, Chunxia Jiang, and Guowang Zeng studied volatility spillovers in the European Union carbon finance markets. Their findings offer deeper insights for investors and carbon market operators into the transmission of information and risks between the EU Allowance (EUA) and Certified Emission Reduction (CER) markets, thereby supporting investment decisions and policymaking. [13]

Research Methodology

In the process of scientifically studying, analyzing, and researching the topic, methods such as induction and deduction, systematic analysis, statistical analysis, and scientific abstraction were thoroughly employed. In particular, based on the method of scientific abstraction, conclusions were drawn regarding the formation of the Euro-market under the conditions of financial integration within the European Union. In accordance with these conclusions, scientific proposals and practical recommendations were developed aimed at ensuring the sustainable development of the financial market in our country.

Analysis and Results

According to our research, the global loan capital market is represented by the Euro-market, which includes Eurocurrencies and medium- and long-term Eurocredit markets (see figure).

The first Eurodollars appeared in the late 1950s, based on interbank correspondent relations, when the holder of a deposit in US dollars transferred their deposit from an American bank to a foreign bank. In practice, this gave rise to Eurodollars. The transformation of US dollars into Eurodollars is characterized by the fact that deposits denominated in US dollars placed in foreign banks can be used as credit resources in all countries except the United States.

From the 1960s onwards, the Eurocurrency market began to include not only the US dollar, but also the currencies of other leading countries in the global economy.

In our opinion, the Eurocurrency market has developed due to the following factors:

– The provision of large-scale international loans by the United States after World War II to restore economic conditions and stimulate the development of national economies in Europe and other regions of the world, which led to an increase in the positive balance of payments in European countries and the accumulation of Eurodollars in the region;

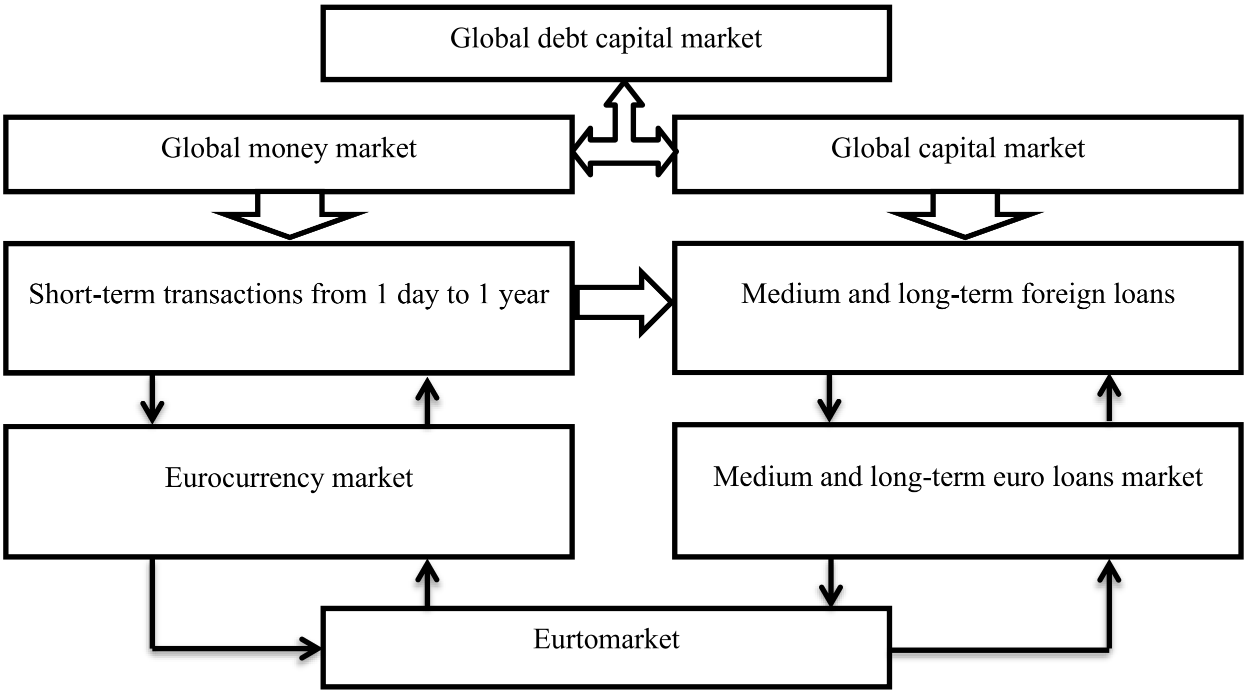
– As a result of the decline in interest rates in the United States in 1957 and the suspension of interest payments on demand and 30-day deposits, many investors preferred to place their US dollar funds in banks abroad. In addition, the United Kingdom imposed strict controls on lending in pounds sterling to non-residents to improve its balance of payments, which led British banks to intensify their financing operations in US dollars;

– In the 1950s–1960s, the introduction of free convertibility of leading global currencies and the liberalization of national legislation in various countries encouraged local banks and firms to deposit their funds in foreign banks for profit-making purposes;

– In the 1970s, due to the rise in oil prices, oil-producing and exporting countries accumulated large amounts of US dollars, which were placed as deposits in the Euro-market;

– In 1981, the establishment of a free banking zone in New York—where the regulatory regime for banking operations with non-residents closely resembled the procedure for Eurocurrency transactions—led to the integration of the US into the Eurodollar market;

– The increasing need to expand international currency and credit services in foreign economic activity.



Picture 1. Forms of manifestation of the euro market in the world loan capital market

Today, the term "Eurocurrency" is also used to refer to US dollars circulating in Asia (Asian dollars), in Arab countries (Arab dollars), and in oil trade transactions (petrodollars).

Our research shows that the main modern trends in the development of the European financial market are manifested in the following areas (see table 1).

Table 1 **Volume of European financial market development (in billions of euros)**

Years	GDP (current prices)	Debt securities	Listed shares	Loans (not in the form of securities)	Financial account of the balance of payments			Gross external debt
					Assets	Liabilities	Net residue	
2015	10 534,20	16 518,80	6 814,40	11624,70	22 235,20	23 309,60	-1 074,40	13 003,10
2016	10 817,00	16 613,80	7 089,50	11791,70	23 982,90	24 780,00	-797,10	13 782,10
2017	11 216,70	16 593,20	7 950,70	11905,10	24 835,50	25 544,20	-708,70	13 898,70
2018	11 600,20	16 962,70	7 023,40	12130,00	25 399,70	25 891,30	-491,60	14 197,40
2019	11 986,30	17 598,10	8 586,60	12431,00	27 826,30	27 882,00	-55,70	14 759,20
2020	11 456,50	20 999,40	8 500,90	12913,70	28 366,30	28 991,00	-624,70	14 854,70
2021	12 577,50	21 327,50	10 357,60	13 334,80	32 242,90	32 211,00	31,90	15 928,90
2022	13 652,20	19 247,60	8 701,90	13 994,80	31 081,70	30 739,00	342,70	15 753,90
2023	14 499,90	21 067,60	9 675,20	14 031,70	32 517,90	31 962,80	555,10	16 156,20
2024 (semi-annual)	7456,4	22 142,30	10 413,80	14 115,40	34 349,20	33 170,40	1 178,80	16 520,40

According to the statistical analysis results for the period 2015–2024, the scale of the financial market relative to GDP in the Eurozone reaches approximately 330%. Of this, over 150% corresponds to debt securities in circulation, around 70% to the turnover of listed shares, and more than 100% to loans (non-securitized credit). The gross external debt volume, on average, exceeds 120% of the Eurozone GDP during this period. According to the financial account analysis of the balance of payments in Eurozone countries, over the past three years, a positive balance averaging 3–4% of GDP has been observed, while the assets and liabilities of the financial account separately amount to an average of 230% relative to GDP.

Our research reveals the following distinct characteristics of the eurocurrency market that differentiate it from regional and national markets:

Large-scale financial flows are carried out in international units of account (particularly SDR, euro, and US dollar) and freely convertible currencies.

A universalization of foreign exchange and credit operations takes place.

In euro market transactions, the most advanced communication and information technologies are used.

The credibility of transactions is often based on the reputation, market position, or high international credit ratings (AAA) of counterparty banks.

The participation of small and medium-sized borrowers in this market is limited.

The institutional basis of the euro market consists of transnational banks (TNBs) that conduct various financial operations through their branches in multiple countries.

Eurocurrency transactions tend to be more profitable than those in national currencies. Specifically, eurodeposits generally offer higher interest rates, while euroloans come with lower rates compared to domestic markets. This is because the euro market functions as a global wholesale credit market, without reserve requirements at central banks for eurodeposits, and operates outside the jurisdiction of any specific country's tax or foreign exchange control systems.

Several types of euro market operations can be distinguished, such as loan issuance, short-term transactions, and eurobond issuance, among others.

A unified European capital market has gradually emerged in the European Union, primarily due to the following principles introduced by the EU:

Permission for the unification of banking activities;

Liberalization of information exchange and entrepreneurial activity;

Supervision of market participants based on country of origin;

Creation of a unified system for inter-exchange information exchange.

As a result, any company in the EU has gained the opportunity to freely buy or sell securities within the region, and brokers can operate freely across exchanges within the EU. Additionally, capitalization of stock exchanges in the region has increased, and competition in over-the-counter securities trading has intensified.

Our research shows that the following developments played a critical role in unifying stock markets across the EU:

The establishment of the Euroclear clearinghouse in 1968 for eurobond trading;

The creation of the Association of International Bond Dealers (AIBD) in 1969 to address technical and organizational challenges in the secondary market for eurobonds;

The founding of CEDEL (now CLEARSTREAM) in 1970, Euroclear's main competitor;

The launch of EuroList in 1990, which reflects prices of blue-chip securities listed on EU exchanges;

The formation of the Federation of European Securities Exchanges;

The transformation of AIBD into the International Securities Market Association (ISMA) in 1991 and later into the International Capital Market Association (ICMA) in 2005. [16]

In addition, to create a common financial environment, the EU has progressively eliminated key differences between national financial markets, including:

The regulation of exchange operations at the national level (e.g., listing requirements, disclosure obligations);

The volume of operations on exchanges and their role in the national economy;

Differences in institutional investors (such as insurance companies, pension funds, investment funds, and banks) and their participation in securities markets.

The unified EU capital market includes segments specializing in shares, bonds, government securities, and derivative financial instruments, as well as newly formed joint stock exchanges and other platforms.

We believe that the creation of a unified credit and securities market in Europe played a pivotal role in building European economic integration.

Currently, the following major changes are occurring in the infrastructure of global stock markets:

Firstly, dedicated trading platforms are being created for foreign participants;

Secondly, although the role of banks in global securities markets is shrinking in favor of other financial intermediaries, banks are establishing private electronic brokerage systems that enable continuous trading and anonymous pricing even after official exchange hours. They are also innovating new types of financial instruments.

Conclusion

Based on the results of the conducted economic analysis, we believe that the following priorities should be taken into account when developing strategic directions for the stable development of our country's financial market:

To enhance the country's international financial competitiveness, it is essential to unify the operations of financial exchanges, develop a methodology for assessing operational risks in the banking and financial sector, and introduce more instruments aimed at increasing the liquidity and capitalization of credit institutions.

Further liberalization of the national financial market and expansion of conditions for encouraging digital and innovative activities in the sector are necessary to foster a dynamic and competitive financial environment.

To accelerate the inflow of foreign direct investment (FDI), it is crucial to improve the country's sovereign credit rating awarded by international rating agencies, thereby obtaining a higher international investment-grade rating.

The mechanisms of insuring against losses in international financial transactions and improving foreign exchange regulations should also be strengthened to enhance resilience and investor confidence.

In conclusion, the euro market plays a vital role in the global economy by ensuring the free movement of financial resources, promoting their efficient allocation, stimulating innovation, and contributing significantly to the development of the international financial system.

References

1. Decree of the President of the Republic of Uzbekistan No. PF-158 dated September 11, 2023, "On the Strategy ‘Uzbekistan – 2030’".
2. Marcel fratzscher. Financial market integration in Europe: on the effects of EMU on stock markets. Working paper No. 48. March 2001. https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp048.pdf
3. Afzol Husain, Sitara Karim, Ahmet Sensoy. Financial fusion: Bridging Islamic and Green investments in the European stock market. International Review of Financial Analysis. Volume 94, July 2024, 103341. https://www.sciencedirect.com
4. Giuliana Birindelli, Helen Chiappini, Raja Nabeel-Ud-Din Jalal. SFDR, investor attention, and European financial markets. Finance Research Letters. Volume 56, September 2023, 104135. https://www.sciencedirect.com
5. Crina Pungulescu. Measuring financial market integration in the European Union: EU15 vs. New Member States. Emerging Markets Review. Volume 17, December 2013, Pages 106-124. https://www.sciencedirect.com
6. Maricica Moscalu, Claudia Girardone, Raffaella Calabrese. SMEs’ growth under financing constraints and banking markets integration in the euro area. Journal of Small Business Management. Volume 58, 2020 - Issue 4. https://www.tandfonline.com/
7. Sonia Kumari Selvarajan, Rossazana Ab-Rahim. Financial Integration and Economic Growth: Should Asia Emulate Europe?. The Journal of Economic Integration 2020 March;35(1) :191-213. https://www.e-jei.org/journal/view.php?doi=10.11130/jei.2020.35.1.191
8. K. Smimou, W. Khallouli. Does the Euro affect the dynamic relation between stock market liquidity and the business cycle? Emerging Markets Review. Volume 25, December 2015, Pages 125-153. https://www.sciencedirect.com/science/article/abs/pii/S1566014115000436

9. Mihai Niţoi, Maria Miruna Pochea. Testing financial markets convergence in Central and Eastern Europe: A non-linear single factor model. Economic Systems. Volume 40, Issue 2, June 2016, Pages 323-334. https://www.sciencedirect.com/science/article/abs/pii/S0939362516300334
10. Nicholas Apergis, Christina Christou, Iason Kynigakis. Contagion across US and European financial markets: Evidence from the CDS markets. Journal of International Money and Finance. Volume 96, September 2019, Pages 1-12. https://www.sciencedirect.com/science/article/pii/S0261560619302384
11. Jussi Nikkinen, Vanja Piljak, Timo Rothovius. Impact of the 2008–2009 financial crisis on the external and internal linkages of European frontier stock markets. Global Finance Journal. Volume 46, November 2020, 100481. https://www.sciencedirect.com/science/article/pii/S1044028318302114
12. Wojciech Grabowski, Jakub Janus, Ewa Stawasz-Grabowska. The COVID-19 pandemic and financial markets in Central Europe: Macroeconomic measures and international policy spillovers. Emerging Markets Review. Volume 54, March 2023, 100991. https://www.sciencedirect.com/science/article/pii/S156601412200108X
13. Shihong Zeng, Jingmin Jia, Bin Su, Chunxia Jiang, Guowang Zeng. The volatility spillover effect of the European Union (EU) carbon financial market. Journal of Cleaner Production. Volume 282, 1 February 2021, 124394. https://www.sciencedirect.com/science/article/pii/S0959652620344395
14. https://www.sciencedirect.com
15. https://www.ecb.europa.eu/press/economic-bulletin/html/index.en.html -ECB Economic Bulletin, Issue 7-8 / 2016-2024 – Statistics
16. https://www.icmagroup.org/About-ICMA/history/