

A BRICS currency?

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I would, first of all, wish to thank the organizers of this seminar for the kind invitation to briefly present views on issues before the BRICS grouping. I am honored to be here and, in particular, to be sharing this panel with important authorities of our countries.

The theme of our event is wide-ranging – “Implementing the Global Civilization Initiative and Joining Hands in the March Toward Modernization”. Given limited time, I chose to address only one of the areas for cooperation among our five countries – de-dollarization and the possible creation of a currency by the BRICS. The matter has been frequently mentioned in the international media and, in general terms, in the declarations of some leaders of the group's countries, especially Presidents Putin and Lula.

Steps have been taken in the recent past to replace the dollar by resorting to national currencies in bilateral trading arrangements between BRICS countries. These arrangements reduce transaction costs and eliminate political risks. In parallel, central banks, notably the People's Bank of China, have established bilateral swap lines in national currencies, serving increasingly as a source of external liquidity and balance-of-payments support, including for non-BRICS countries, Argentina being a case in point. One possible way forward would be to gradually increase the number and scope of these bilateral arrangements. Another would be to multilateralize these initiatives among our five countries.

These initiatives are relatively straight forward. My focus will be on the more ambitious idea of a common currency, without which, by the way, bilateral or multilateral BRICS trading schemes will remain constrained in their scope. Trading in national currencies cannot become barter-like, implying bilateral equilibrium between the countries involved. There will inevitably be surplus and deficit countries in any given period. The surplus countries will accumulate monetary assets in the currencies of the deficit countries, inconvertible and often prone to depreciation. This will make surplus countries wary of entering into such bilateral arrangements beyond certain limits. To go beyond these limits, a new reserve currency would need to be

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created in order to permit surplus countries to accumulate secure reserve assets and to allow debtor countries the assurance that the stocks of their currencies in the hands of the surplus countries will not be simply dumped in international currency markets in the search of safe havens.

Historical background of the discussion

On the initiative of Russia, this idea of a new currency to be established by the BRICS has been under discussion since 2022 but is still in its infancy. The background of this possible currency is the growing dysfunctionality of the international monetary system which, since the Second World War, revolves around a hegemonic currency – the US dollar. The fundamental contradiction, as is well known, lies in the fact that the *international* system depends predominantly on a single *national* currency, managed according to the interests of the State that created it. I note in passing that this contradiction would not be eliminated if the dollar-based international system were to be replaced by a renminbi-based system or, a more likely scenario, by a multicurrency international system, where the dollar would continue to gradually lose ground to the renminbi and other internationally liquid currencies.

In the last 70 years or so, has been the world's dominant currency, fulfilling international functions, as a unit of account, currency of denomination of contracts and prices, reserve currency, and means of payment. However, it has always remained a national currency managed by a national central bank. Nothing guarantees that US priorities coincide with the broader interests of the international system that depends on the US dollar.

This problem has always existed and has been the object of severe criticism, including from countries allied with the US. In the 1960s, Charles de Gaulle and his Minister of Finance, Valéry Giscard d'Estaing, complained about the “exorbitant privilege” of the dollar and proposed, with great repercussion, but with no success, a return to a gold-based system.

The US has always tenaciously resisted any attempt to reduce its currency's international role. They never allowed, to remember just one example, that the special drawing right (SDR), the currency created within the International Monetary Fund in 1969 to grow and consolidate itself as a full currency. They always resorted to their veto right in the institution to prevent the DES from threatening, even remotely, the dollar as the hegemonic currency. Over the years I served on the IMF Executive Board, from 2007 to 2015, our attempts to increase somewhat the role of the SDR invariably met with US resistance. And we achieved little. The IMF currency is mentioned here because, as will be argued, it may give some clues as to how to go about constructing an eventual BRICS currency.

The dollar's biggest enemy

The above-mentioned problems of the current international monetary system are well known. The novelty in recent years is that the US has been using its currency more and more aggressively to pursue political and geopolitical goals. A weaponization of the dollar took place, that is, the use of the national/international currency and of the Western financial system to target hostile countries or countries seen as such. Among

others, Venezuela, Iran, Afghanistan and, on a vast scale, Russia were targets of sanctions and punitive measures that could only be enforced because the dollar and the US financial system occupy the position they do in the world. Reluctant, since the traumatic experience in Vietnam, to “put boots on the ground” and risk their soldiers in actual wars, the US and its allies have put their currencies to work as proxy warriors and intended weapons of mass economic and financial destruction.

Russia's case is unprecedented. After the invasion of Ukraine, the USA and its European allies decreed the freezing of Russian official reserves invested in dollars and euros, to the amount of around US\$ 300 billion, roughly half of Russia's liquid international assets! If this can happen, anything can happen. Evidently, the use and abuse of the dollar's privileged position leads to a loss of legitimacy of the prevailing international monetary system. It has caused an erosion of confidence in the dollar – and confidence is an indispensable requirement for any currency. In one sentence: the United States is today the main enemy of the dollar as a world currency.

Thus, an environment conducive to discussions on the reform of the monetary system and the de-dollarization of international transactions was created by the US itself. It was in this context that discussions began in the BRICS on the convenience of relying less on the dollar and moving perhaps towards a monetary association and eventually a common currency.

Possible paths towards a BRICS currency

What paths could be taken? The issue is complex, at the same time financial and political. The terrain is new for the BRICS, still unexplored by us. I will try to address just a few aspects here, without intending to exhaust the subject or even to formulate its general lines in a comprehensive way, not least because it is perhaps too early to present specific and detailed proposals, which would require careful consideration.

A curiosity: Aleksei Mozhin, the Russian Executive Director at the IMF, noticed the following happy coincidence – the currencies of the five BRICS countries all start with the letter “R” – real, ruble, rupee, renminbi, and rand. He then proposed that a possible BRICS currency be called R5.

The R5 would start as a unit of account, taking the form of a basket of the five currencies, constructed analogously to the SDR. The weights of the five currencies would roughly reflect the relative weights of the five economies. The renminbi would be more heavily weighted in the basket, followed by the rupee, then by the real and the ruble, with the rand having a lower weight. The Chinese currency could, to give an illustrative example, represent 40% of the basket; the Indian currency, 25%; the Russian and Brazilian currencies, 15% each; and South Africa, 5%. The R5 could begin at par with the SDR and fluctuate from there, reflecting changes in its currency basket relative to the SDR basket.

In this first stage, the R5 could be used as a unit of denomination for certain government transactions and official accounting records, in addition to being adopted to replace the dollar in the internal accounting of the financial mechanisms created by the BRICS – the New Development Bank (NDB) and the Contingent Reserve Arrangement

(CRA). This step is relatively simple and, if there is consensus among the five countries, could be implemented quickly, without significant costs.

These initial ideas have been under discussion in Russia and in other BRICS countries. The proposals from Russian officials and experts, in as far as I know, do not go much further than this first stage. From there, there is vague talk of subsequently backing the R5 with gold and/or other commodities.

As is well known, a currency has to perform not only the functions of a unit of account and denomination of prices and contracts, but also those of a store of value and a means of payment. How to ensure that the R5 can fulfill all these functions? And who would be responsible for issuing the R5 and putting it into circulation? Would the R5 have a physical existence or would it only be digital? Would it be necessary to create a BRICS Central Bank and unify monetary policy?

For a currency to perform all monetary functions satisfactorily, it is essential that it inspire confidence and thus be widely accepted. In order for it to arouse trust and have credibility, its issuance must be solidly regulated. And it needs to be put into circulation in an orderly way.

All these questions would, I repeat, require reflection and planning that have not yet begun. I offer, as a contribution to the debate, some preliminary observations.

First, it is not necessary for R5 to have a physical existence. It could be just a digital currency. Nor would it be necessary or recommendable to create a Central Bank of the BRICS, responsible for conducting monetary policy for the five countries – something impracticable for several reasons. In other words, the purpose is not to create a single currency that would replace the five national currencies.

It would be enough to create an Issuing Bank, in charge of issuing R5 according to predetermined rules without interfering with the actions of the five central banks, who would continue to perform all the typical functions of a monetary authority, that is, the definition of interest rates, the conduct of foreign exchange and open market operations, the management of international reserves, in addition to financial regulation and supervision tasks. There would be, therefore, no loss of monetary sovereignty for the BRICS countries.

The R5 would only be a virtual currency for international transactions, initially between central banks. It could, as indicated previously, serve as a store of value to allow surplus BRICS countries to maintain in R5 accumulated balances in transactions carried out with other BRICS countries in bilateral trade arrangements. As the R5 becomes more accepted, it could function more widely as a store of value and a means of applying international reserves. In this sense, it would be similar to the proposal for the creation of the Bancor, formulated by Keynes in the early 1940s, in an unsuccessful attempt to prevent the domination of the dollar in the post-war international monetary system. Conceptually, the R5 is also similar to a proposal for the creation of a common currency in South America that was made in 2022 by the current Brazilian Finance Minister, Fernando Haddad, and one of the directors of the Central Bank of Brazil, Gabriel Galípolo.

The new BRICS currency, it should be stressed, would not replace the five national currencies, not even in the long run. Our five countries are very far from meeting the minimum criteria, economic and political, required to make a monetary union conceivable. The R5 would be a parallel currency, co-existing with the five national currencies, being used primarily, if not exclusively, for international purposes.

The backing of the new currency

How to ensure wide acceptance of R5? Russian officials and experts, have mentioned, as indicated previously, the alternative of a gold backing or some other form of commodity-currency. It wouldn't work, in my opinion. Gold may seem an attractive option at first sight, but it is, in reality, a regressive idea – a return to what Keynes called “the barbarous relic”.

Technically, backing a currency means basing it on a solid, reliable, and relatively stable asset, which would allow the currency to achieve wide acceptance and circulation. For this backing to have real meaning, it is necessary, strictly speaking, that the backed currency be freely convertible into the backing asset at a fixed exchange rate. Throughout the 20th century, gold performed this backing function with increasing difficulty. This became more and more evident over time, so much so that its role was progressively reduced until it was completely abandoned by the suspension of convertibility of the dollar into gold, unilaterally decreed by the US in 1971.

Today, the gold-backed option would be even less defensible, not to say unfeasible. Adopting this path, the BRICS would be obliged to retain a high amount of gold reserves, the greater the greater the issuance of R5. The price of gold fluctuates sharply, which would cause unpredictable variations in the value of the BRICS countries' international reserves. The value of the R5 would depend on the countless circumstances that affect the world gold market. It would fluctuate along with gold and lose any ability to serve as a benchmark. Any other commodity or basket of commodities would present the same drawbacks as the basis for a new currency. In short, the R5 could not take the form of an old-fashioned commodity currency.

Not by chance, gold has no function in the IMF's currency. The SDR is backed not by gold or other precious metals, but by dollars and other major currencies, meaning that SDR holders have the right to convert them, freely and at any time, into dollars and other currencies with international liquidity. The IMF ensures this convertibility and relies on its reserves and, if necessary, on the commitment of countries issuing internationally liquid currencies to provide additional funds to back the SDR. Confidence in the SDR is high and countries do not hesitate to hold the IMF currency as an integral part of their official reserves.

Such a convertibility model would not, of course, be a solution for the R5. Theoretically, nothing would prevent making it convertible into internationally liquid currencies. The high international reserves of the BRICS would ensure the R5's conversion into dollars, euros, or yen. But, of course, that *would defeat the whole purpose of the exercise* – a currency created as an alternative to the dollar would have its acceptance assured by its free convertibility into...dollars, euros, yen.

How to proceed then? How to ensure trust in and widespread acceptance of the R5? One possibility would be to make the R5 convertible into bonds guaranteed by the five countries. The R5 Issuing Bank would also be in charge of issuing R5 bonds, at different maturities and interest rates. The R5 would be freely convertible into R5 bonds. “Backed” by assets created by the Issuing Bank itself, the R5 would actually be a fiduciary currency, of the same nature as the dollar and other internationally liquid currencies. The R5 bonds would be the concrete financial expression of the guarantee that the five countries would give to the new currency.

This approach harks back to historically important monetary reforms, notably the German hyperstabilization of 1923, the so-called Rentenmark miracle, in a situation where an alternative to gold and to the dollar had to be sought to credibly back a new currency for Germany. A more recent source of inspiration is the way modern currencies function in their relation to Treasury bonds and the financial system. Most modern currencies are purely fiduciary currencies freely convertible, if not in dollars or other internationally liquid currencies, into obligations issued by the government that are liquid, remunerated and carry little or no credit risk.

The entry into circulation of the R5

The entry into circulation of the new currency would occur through the actions of the five national States. Circulation could start between central banks and gradually extend to other government operations and also to transactions with extra-BRICS central banks. The New Development Bank (NDB), the group's main practical initiative so far, could play a role, as President Putin highlighted in a recent meeting with the bank's current president, Dilma Rousseff.

The NDB could contribute in at least three ways to the process of de-dollarization of the world economy. First, and most obviously, by accelerating the de-dollarization of its asset and liability operations, issuing bonds and making loans in the national currencies of the bank's member countries. Second, through its research department, by supporting studies and conferences on the reform of the international system and the eventual creation of the R5. Third, at a more advanced stage, by helping to bring the new currency into circulation, extending loans and issuing bonds denominated and payable in R5.

The 2023 summit and beyond

To advance this complex discussion, the leaders of the BRICS at their 2023 summit may ask their finance ministers and research institutes to study the matter in a coordinated way and present the results of this work at the next BRICS summit to be held in 2024, in Russia. A group of experts could be set up to assess the convenience and feasibility of creating a BRICS currency.

I don't know if the matter has advanced far enough and if there is consensus among the countries to deepen discussions on this subject. If the discussion does advance, the BRICS leaders could at their next summit, in 2024, take the decision to start formally discussing the viability of a new currency. The decision to create the R5 might then be taken at the 2025 summit, under the Brazilian presidency.

One final word: expectations have been created, by the BRICS themselves and by other countries. As dissatisfaction with the US dollar and the current international monetary system increases in countries of the Global South, including our own, people tend to look to the BRICS group in the hope that we will provide trustworthy alternatives to the dollar and the Western financial system. Let us not let them down by shying away from matters that are of global interest.
