

# BRICS Financial Settlements

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The background to the recent discussions between BRICS countries on international monetary and financial matters and, in particular, on possible joint initiatives is well-known in general outline. There is, in the first place, an increasingly widespread perception that the current US dollar-centered international monetary system is becoming dysfunctional. Second, the increasing multipolarization of the world in economic and political terms seems inconsistent with the indefinite continuation of a basically unipolar world monetary system.

Let me address these points in turn. It should be kept in mind that they are both international political economy issues, i.e., problems that are at the same time political and economic.

## **A dysfunctional international monetary system**

The perception of the increasing dysfunctionality of the current monetary order (disorder is perhaps a better word) is a consequence of both economic and political factors in the United States that are eroding confidence in the system and its main currency.

On the economic terrain, we witness a relative loss of power and effectiveness of the US economy as a whole and, in particular, the growing and intractable fiscal problems the government faces. A very rapid accumulation of public debt since the financial crisis of 2008-2009 has no precedent in peace times. Experts tend to agree that there is no real prospect of bringing down these debt levels in the foreseeable future.<sup>2</sup> Now, enjoying the privilege of being the main provider of international liquidity does give the US considerable extra leeway. But is this leeway unlimited? Probably not. Economists that profess the so-called modern monetary theory may disagree, but most of us will agree that, at some point, a price will have to be paid in terms of instability. As the perception of this risk increases, confidence in the US dollar declines.

On the political terrain, the US dollar suffers from its misuse by the US government, the so-called weaponization of the currency. Russia has been the major and most recent target of this misuse, so I need not go any deeper into the matter. I only stress a curious paradox: the US dollar has one main enemy – the US government itself. Nothing undermines confidence in the dollar more than the violent unilateral measures the US and its allies have taken against a number of countries seen as hostile. “Rogue states”, in arrogant Western parlance, had their rights abused on a large scale. Among others, Afghanistan, Venezuela, Iran, and now, Russia. The methods used against these countries were so uncivilized, to say the least, so disrespectful of basic property rights, that the US and its allies, perhaps more than anyone else, are actually the ones that deserve to be called “rogue states”.

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<sup>2</sup> See, for instance, Serkan Arslanalp and Barry Eichengreen, “Living with High Public Debt”, Federal Reserve Bank of Kansas City, August 2023

## **Inconsistency between a multipolar world and a unipolar monetary system**

The second background point, equally momentous, is the tectonic geopolitical and geoeconomic shift taking place in the world. This is often referred to as multipolarization. Long gone is the world that emerged after the collapse of the Soviet bloc and of the Soviet Union itself and lasted for about 20 years. This unipolar moment of history, when the North Atlantic pole under US leadership dominated the entire planet, has passed, and will not return. Americans have trouble accepting this, as Russians know better than anyone else, but they will have to come to terms with this new reality.

Now, how can we reconcile a multipolar world with a unipolar monetary system, based essentially on the US dollar and on the reserve currencies of the main allies of the United States? A multipolar economy is probably not consistent with a unipolar international currency and payment system. Mind you that, strictly speaking, this means that the US dollar cannot be replaced by another national currency. An international system based on the renminbi or any other national currency will suffer from some of the same structural problems that have plagued the US dollar centered system.

### **Can the BRICS offer alternatives?**

The challenge before us is truly daunting. Can the BRICS offer acceptable alternatives to the current monetary and financial disorder? There is plenty of inertia in monetary and financial arrangements. The decline of the US dollar is slow. Granted. The current international system will not come crashing down and disappear from day to night. Probably true as well. But the decline is steady and more and more visible. The problems of the present system are increasingly difficult to deal with.

I turn to what we can do as BRICS. Make no mistake about this: the whole world is watching us and trying to gauge whether we, as a group, are really serious about dedollarization. And everyone is trying to surmise whether we are technically and politically capable of developing alternatives to the US dollar and the current system.

To tell you the truth, I think it is too early to say whether we can indeed make a difference. There is, as you know, a lot of hype around BRICS initiatives in this area but much remains to be discussed and done if we are to move at some point from hype to practical and effective measures of our own.

This is one of the critical challenges for the Russian presidency of the BRICS in 2024. And this challenge will be carried over to the Brazilian presidency of the BRICS in 2025. It so happens that presidents Putin and Lula have been the most outspoken among our leaders in these matters. Last August, president Lula, in his final remarks at the BRICS Summit in Johannesburg, spoke of the need to address the issue, stating that the BRICS leaders had “approved the creation of a working group to study the adoption of a reference currency of the BRICS. This will increase our payment options and reduce our vulnerabilities”.

An expert group has indeed been created by the Russian presidency of the BRICS and has begun to work. I hope this work can produce some concrete results in 2024. A relatively simple step, proposed by Russian economists, could be the creation of an SDR-like basket. It could be called the R5, to reflect the fact that the currencies of the five original BRICS members all begin with the letter “R”. Why not create this unit of account, with weights based on the size of the participating countries’ economies? This monetary initiative could be taken further during

the Brazilian presidency in 2025, and steps be envisaged to transform the unit of account into a full-fledged reference currency.

### **Three dimensions of the issue of financial settlements**

The issue we are discussing today has, in fact, at least three dimensions to it: a) the creation of a common reference currency by the BRICS; b) the development of an international payment and transaction system to replace SWIFT; and c) increasing the use of national currencies in trade and financial transactions between the BRICS and with other non-BRICS nations.

The last point is the one in which more progress has been made by the BRICS. The US dollar is being replaced to a large extent by the use of national currencies in bilateral transactions between our countries. In this respect, dedollarization is moving at a fast pace, reducing transaction costs and political risks. Few people notice, however, that this progress has limitations that can only be overcome by creating a common reference currency.

Why is this so? If there are bilateral surpluses and deficits, as is normal, the surplus countries will accumulate currency of the deficit countries. This accumulation may not be desirable if there are doubts about the stability of the currencies of deficit countries. This might then lead the surplus countries to dispose of their holding of currencies of the deficit countries in international markets, causing depreciations and possible instability. Now, if a BRICS reference country were in existence and commanded confidence, surplus countries could accumulate reserves in our reference currency. If a trustworthy currency is not there, the use of national currencies would be inevitably limited.

Please notice that I am not speaking of a euro-like unified currency. That would not be thinkable among the BRICS. National currencies and national central banks will continue to exist and perform their usual functions. A BRICS reference currency would be used for international transactions and as a reserve currency *in lieu* of the US dollar and the other currently existing reserve currencies.

### **Requirements for success**

This objective may sound easy but is definitely not easy at all. I addressed some of the difficulties in two papers that I wrote last year – one of them for the Annual Meeting of the Valdai Discussion Group held in Sochi, in October;<sup>3</sup> the other for an event held on the sidelines of the BRICS Summit in Johannesburg, in August.<sup>4</sup> To conclude this note, I would highlight three main requirements for the success of BRICS Financial Settlements initiatives.

First requirement: we as BRICS need to demonstrate professional and technical competence to handle the inevitably complex matters involved in these initiatives. It is not a Gordian knot kind of problem.

It does require, however, and this is the second hurdle, political courage. The reorganization of international monetary and financial arrangements is a critical world political economy issue. The US and its allies can be fully expected to resist until the bitter end any

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<sup>3</sup> Paulo Nogueira Batista Jr., “BRICS financial and monetary initiatives – the New Development Bank, the Contingent Reserve Arrangement, and a possible new currency”, paper presented at the 20<sup>th</sup> Annual Meeting of the Valdai Discussion Club in Sochi, Russia, October 2<sup>nd</sup>, 2023.

<sup>4</sup> Paulo Nogueira Batista Jr., “A BRICS currency?”, paper presented at the BRICS Seminar on Governance & Cultural Exchange Forum 2023, in Johannesburg, South Africa, August 19, 2023.

initiatives that challenge their privileged position. Americans, so it seems, would like to reserve for themselves, ironically, the task of undermining the dollar! They do not appreciate foreign interference in this matter.

Third and last requirement: a high degree of cohesion among the BRICS is a *sine qua non* condition for success. All our countries have to be convinced of the feasibility of these initiatives and put some of their best specialists and officials to work on their formulation and implementation.

Are these requirements present today? It remains to be seen. In so far as courage is concerned, we could take inspiration from our Russian partners and in the way they have faced up to the military confrontation with NATO in Ukraine. Cohesion, however, has always been a challenge for the BRICS, even when we had only five countries around the table. To achieve cohesion and a minimum of coordination a whole lot of discussion and persuasion will be needed.

But we should not allow these difficulties to discourage us. The realization of grand projects always implies imagination and persistence in overcoming all sorts of barriers and all kinds of resistance. Let us hope that the BRICS will confirm expectations entertained by the rest of the Global South and rise to the challenge of providing constructive alternatives for all.