BRICS: transactions in national currencies, cross border payment systems and a new reserve currency

Paulo Nogueira Batista Jr.[1]

Paper that served as the basis for a presentation made in the session "Society of Equal Opportunities: What Does This Mean in the 21st Century?" in the 21st Annual Meeting of the Valdai Discussion Club in Sochi, Russia, November 5th, 2024.

The goal of a society of equal opportunities has many sides to it. This paper will address international economic dimensions, and more specifically the issue of how BRICS and other developing countries can deal with the glaring inequities and deficiencies of the current monetary and financial system.

These inequities and deficiencies are well-know and there is no need to discuss them at length. Suffice to recall that we live in a world where a national currency, the US dollar, and a national central bank, the Federal Reserve, function as the international reserve currency and international lender of last resort. To use an expression coined as far back as the 1960s, the dollar's role gives the United States the longstanding "exorbitant privilege" of settling its debts and acquiring real resources by money creation. And the absence of a true global lender of last resort allows the Federal Reserve to provide liquidity in times of stress only to a circle of close allies or satellites, leaving the rest of the world no alternative but to hold on to high and costly precautionary international reserves or else run the risk of having to resort to the International Monetary Fund when facing balance-of-payments difficulties.

The IMF, as is well known, is tightly controlled by the West, i.e., the high-income nations led by the US, and routinely imposes harsh macroeconomic adjustment measures on unfriendly or unruly countries or even excludes them altogether from emergency balance-of -payment support. On the other hand, countries seen as geopolitically close to the West obtain generous support with soft conditionality. Lack of even handedness is the prevailing mode of operation and the normal state of affairs. This has always been the case but became more pronounced with the deterioration of geopolitics since the second decade of this century.

No fundamental reform of the Bretton Woods institutions can realistically be expected. Incremental adjustments are possible and may improve their working but nothing will be contemplated that alters the prevailing concentration of decision-making power in the hands of the US, the Europe Union and a few other high-income nations. Thus, the IMF is not and will not become a global

[1] [1] *Paulo Nogueira Batista Jr., a Brazilian economist, is a former Vice President of the New Development Bank (NDB), from 2015 to 2017, and a former Executive Director for Brazil and other countries in the International Monetary Fund (IMF), from 2007 to 2015. E-mail: paulonbjr@hotmail.com*

lender of last resort. The quota and voting power distribution and the other rules that provide the West with full control of the Fund have remained frozen in the last 14 years and there is no prospect of change in the foreseeable future. *Mutatis mutandi*, the same holds true for the World Bank.

Similarly, there is no prospect of a major reform in the Special Drawing Rights of the IMF, the SDRs, created in 1969 as a potential international currency. They have become and will remain a limited unit of account and reserve currency, confined by US decade-long resistance to a secondary role within the IMF.

The SWIFT system of international payments has also become a geopolitical instrument to sanction, punish and exclude countries and entities seen as unfriendly by the West. Even official international reserves are no longer respected. Several countries, including Russia, Iran, Libya, Syria, Venezuela and Afghanistan, have been the victims of unilateral decisions that froze or confiscated their dollar or euro assets, as well as gold deposits held abroad. The rule of law is basically gone. Piracy prevails.

One thing seems evident: the current international monetary and financial system is fundamentally unreformable. Piecemeal and partial adjustments can still be made, but the basic inequitable features of this system will not be changed anytime soon.

How should developing countries respond to this? To begin with, it is incumbent upon us to be realistic and to stop hoping that fundamental reform of the existing international system (or non-system) will somehow occur. Although political politeness may lead us to talk and behave as though there is still a residual belief in reform, we should brace ourselves and prepare to build equitable and independent alternatives. The BRICS can have a special role here. Given their size and increasing relative importance in the world, they are uniquely positioned to bring a measure of order and fairness into international relations. This is an undoubtedly difficult goal to achieve, especially in the short and even medium term. However, the challenge is inescapable if we are really serious about constructing a multipolar world in the 21st century and ridding ourselves from the blemishes and distortions of the Western-dominated institutions. In this paper, I will try to sketch out how these independent monetary and financial alternatives might look like, building on what the BRICS have already done in these fields.

De-dollarization and alternatives to SWIFT

Let us begin with the alternatives to the dollar and the Western crossborder interbank messaging and payment system. Two points work in favor of building alternatives. First, de-dollarization has one powerful ally – the US itself. The dollar and the SWIFT system have been systematically misused as geopolitical weapons. Not only primary sanctions but also secondary ones have been imposed unilaterally, the latter affecting countries that transact or seek to transact with sanctioned entities and countries. This malpractice has pushed countries into seeking ways to replace the dollar and the SWIFT network.

Second point, deriving from the first: when discussing and engaging in de-dollarization, we are by no means starting from scratch. De-dollarization is an ongoing process and has indeed been going on for some time now. It happens gradually, since there is considerable inertia in monetary arrangements, but the trend seems clear and is probably irreversible. It is driven not only by the weaponization of the currency and of the cross border payment system but also by the perceived fiscal and financial problems of the American economy. Trust in a currency depends after all in confidence that the economy of the issuing country is managed in a responsible and sustainable manner. There are legitimate doubts as to whether the US still meets this requirement, plagued as it is by fiscal problems, an ever-increasing public debt and recurring instability and crises in its financial system.

Reflecting these uncertainties, the share of the dollar in official reserves has been declining gradually over the last two decades, from more than 70% to less than 60%, according to data reported to the IMF. The relative decline in the dollar share corresponds not to a rise in the shares of the euro, the yen or the pound sterling, but to an increase in the holdings of non-traditional currencies, notably the renminbi. Note also that data reported to the IMF may understate the dollar's decline, since diversifying central banks would tend to underreport their shift to alternative reserve currencies.

Symptomatic of de-dollarization is also the rise in gold prices, reflecting in part defensive movements of central banks, alarmed as they are by the weaponization of the dollar and suspicious of the fragilities of the US economy. Not only the dollar, but also the euro and other traditional reserve currencies have suffered a loss of confidence as a result of the tendency of most developed nations to accompany the US in the imposition of unilateral sanctions. With such actions becoming more frequent, an increase in the demand for gold is only natural, since it is a reserve asset that can be safely warehoused in the home country.

The Federal Reserve's traditional near monopoly as an international lender of last resort has in turn been increasingly challenged by competition from the People's Bank of China. Bilateral swap agreements between the PBoC and dozens of central banks of developing countries, carried out in dollars but also in renminbi, have led to some erosion of the bargaining power of the Fed and the IMF vis-à-vis countries facing balance-of-payments crises. In the case of Argentina, for example, the PBoC stepped in to offer financial support in the midst of complicated negotiations between Buenos Aires and Washington. Without actually confronting Washington, the PBoC activated bilateral swap lines with the central bank of Argentina and made its influence felt, bringing a discreet but welcome change in the balance of power between an important debtor country and the IMF. The bilateral swaps with China may not have had a decisive influence on the outcome of Argentina's negotiations with the IMF but should be seen as a harbinger of things to come.

More importantly, there has been a striking increase in bilateral transactions conducted in national currencies. Not only between BRICS countries and between them and other developing nations, but also outside BRICS, notably in Southeast Asia. This is clearly the area where de-dollarization is advancing more rapidly. Dealing directly in national currencies and by-passing the dollar has the advantages of reducing transaction costs and political risks. Not surprisingly, countries such as Russia, China, and Iran have shifted most of their bilateral trade to national currencies. For instance, more than 90% of bilateral transactions between China and Russia are now carried out in national currencies. More than half of China's overall crossborder transactions are now settled in renminbi.

Moreover, China, Russia and Iran, as well as other countries, have set up their own interbank messaging and payment systems as alternatives to the traditional Western-controlled SWIFT infrastructure. During its chairmanship of the BRICS in 2024, Russia took a step further by working out a detailed proposal for a new plurilateral and independent infrastructure, denominated the BRICS Cross-Border Payment Initiative (BCBPI,) that would be based on national currencies and interactions between central banks. In their summit in Kazan, Russia, BRICS leaders encouraged further work in this area and tasked their Finance Ministers and Central Bank governors to continue consideration of local currencies, payment instruments and platforms and report back to them by the next Presidency.

One task ahead for the BRICS is, therefore, to deepen the discussion initiated by Russia and reach an agreement on further steps. Hopefully, this will be done in the Brazilian presidency in 2025.

On the Russian proposal, two brief observations. As noted by Jeffrey Sachs, the BCBPI may not be invulnerable to Western pressure, given that it still relies on commercial banks as intermediaries. Commercial banks would have no incentive to participate in the BCPI as this could create the risk of exclusion from SWIFT. It might therefore be necessary to create special purpose vehicles or special banks, non-SWIFT dependent, designed specifically to operate as intermediaries in the BCBPI.

Another difficulty, perhaps more serious. The rather vague statements on this topic made by BRICS leaders in Kazan probably reflect lack of consensus on the Russian initiative. The truth is that some countries may hesitate to endorse a new system in such a sensitive area. Now, this is a considerable hurdle. Consensus is an entrenched tradition in the BRICS process. Countries are normally averse to depart from this tradition since it ensures that everyone's concerns and sensitivities are reflected in the group's deliberations.

The downside to this is that consensus, especially if understood as unanimity, may be a recipe for paralysis. At best, is slows down action considerably. When the group was composed of five countries, decision-making by consensus was already a considerable challenge – witness the limited progress in the development of the financing mechanisms the BRICS created.

In January 2024, four more countries joined BRICS as full members and consensus will now be even harder to achieve. Further expansion of membership could make consensus unworkable. The BRICS would become probably incapable of going beyond vague communiqués and statements of general principles in Leaders' declarations. In fact, the BRICS already are at this stage of relative ineffectiveness and risks turning more and more into a forum of symbolic political value. This may sound overly negative, given the intense media attention that BRICS meetings have been receiving all over the world. But if practical realities are taken into account, it seems difficult to avoid the unpleasant conclusion that the group may not live up to expectations if it continues expanding membership and working on the basis of strict adherence to consensus.

One solution would be to present any initiative, the BRICS payment initiative as well as others, as strictly voluntary, without assuming that they would need support from all BRICS countries to be set in motion. This would mean avoiding the use of the BRICS or BRICS+ acronyms. The BRICS payment initiative, for example, could be called New International Payment System (NIPS). Countries willing to participate would jointly launch the NIPS; others would be welcome to join later. The NIPS could be open to the 13 partner countries of the BRICS that were admitted in Kazan, as well as to others – a further reason not to call it a BRICS initiative.

A reserve currency is ultimately indispensable

Transactions in national currencies and new payment platforms are undoubtedly welcome steps in the process of ensuring independence from the US dollar and Western systems. But they do not provide a complete solution. Full-fledged de-dollarization ultimately requires an alternative reserve currency.

The limitations of cross border transactions in national currencies are often overlooked. For instance, in a recent interview, India's distinguished Foreign Minister, Subrahmanyam Jaishankar, remarked that bilateral currency deals work well enough and appear satisfactory to most BRICS countries, adding that a common currency would require a substantial legal architecture and reduce national sovereignty.

Mr. Jaishankar's remarks seem to be based on a misunderstanding of what is required and is being proposed in recent discussions. First, an alternative means of payment would by no means imply replacing national currencies. The currencies and central banks of the participating countries would continue to exist as before. A "common currency" would not be a euro-like currency issued by a common central bank. Thus, there would be no loss of sovereignty, no common monetary policy and not even the need to coordinate national monetary policies. I will back to these points below.

It is doubtful, moreover, that bilateral deals in national currencies are working well enough. They work poorly in fact and, as time goes by, the limitations of these bilateral arrangements will be felt more and more. The reason is that cross border transactions cannot be expected to balance over time and a reserve currency is required to allow countries to incur surpluses and deficits.

India herself provides an illustration of why this is so. Her trade with Russia is done mainly by means of rubles and rupees. Since India runs a substantial deficit, Russia is accumulating large stocks of Indian currency. Now, the Russian central bank may be reluctant to hold rupees, a currency that is inconvertible and perhaps prone to instability. So, Russia will seek to dispose of the unwanted excess supply of Indian currency.

What can Russia do? The options are far from ideal. It could perhaps seek investment opportunities in India. However, this may be difficult and slow. It could well stumble on Indian restrictions to foreign investments in certain areas and sectors of its economy. Additional efforts to import goods and services from India might in turn run up against Russia's own concerns with excessive external competition from abroad in certain markets. These limitations may perhaps be circumvented by triangular operations in which excess rupees would be used by Russia to acquire goods and services and undertake investments in countries that have a demand for rupees due to economic ties with India. This resort to third countries can provide an escape valve but would hardly be sufficient to solve the problem, especially if the imbalance in the bilateral relation with India is large and persistent. As a result, the excess supply of rupees could lead Russia to sell rupees to third countries at a discount.

In short, these alternatives smack of a barter system in which participants either balance their mutual transactions or seek third parties to dispose of unwanted stocks and obtain desired merchandise. It is precisely to avoid these cumbersome and inefficient methods that money was introduced in the first place – not only to provide a common unit of account and means of payment but also a store of value.

To judge from President Lula's statements in Kazan, Brazil has already taken these points on board. In his speech during the plenary session of the summit, the Brazilian president was spot on when stating that "now is the time to move forward with creating alternative means of payment for transactions among our countries. It's not about replacing our currencies. But we need to work to ensure that the multipolar order we desire is reflected in the international financial system." Let us hope that Brazil, as chair of the BRICS in 2025, will be capable of guiding the group's discussion in this direction.

Could the renminbi be the solution?

Before going into the creation of a new means of payment, we may want to inquire whether an alternative does not exist already. Why not simply rely on the Chinese renminbi as an international reserve currency? This option may look attractive and pragmatic but does not really solve the problem.

From the point of view of countries other than China, substituting the dollar for the renminbi would in a sense amount to exchanging six for half of a dozen.

We would in the end remain in the same position that we are in now in – with an international system relying on a national currency and a national central bank.

From the point of view of China herself, this solution could also be problematic. One should not lose sight of the fact that China, for all the progress it has made in the last four decades, is still a middle-income country and, as such, faces problems and constraints that are essentially different from those of high-income countries, the traditional suppliers of international reserve currencies. In contrast to other developing countries, China has successfully relied on strict exchange controls and restrictions on capital movements to protect its economy from the chronic instability of international finance. Would it be willing to abandon this protection for the sake of promoting a greater international role for its currency? Would it be willing to run large external deficits in order to supply the world economy with an alternative to the dollar? The increased demand for renminbi as an international currency would lead to its appreciation relatively to other currencies. This would generate the required external deficits but only by weakening the competitiveness of China's export sector, the country's long-time engine of economic growth. For these reasons, it seems reasonable to assume that China will be reluctant to offer its currency as a global rival to the US dollar.

Central elements of a new international monetary and financial system

Thus, we would need to establish a new international reserve currency, let us call it the NRC, that would be the linchpin of what could become a new international monetary and financial system (NIFMS). This NIFMS would need to include the main elements of the current international monetary and financial system (IMFS). However, as highlighted above, the IMFS works poorly and unfairly, downgraded as it has been to the role of a geopolitical instrument, a weapon used to blackmail the rest of the world into complying with the West's interests and priorities. This means that the NIFMS would have to be fully independent and obey principles of fairness and inclusiveness. It would work alongside the IMFS and could even cooperate with and learn from the positive sides of existing institutions but would have to be crafted as immune from Western interference and political meddling.

The possibility of a NRC, under different denominations, has already been raised a few times in BRICS related discussions. I take up the matter once again to introduce new elements and expand the approach, while remaining conscious of the fact that the BRICS process is still at an early stage, historically speaking, and that most of what follows cannot be expected to happen in the short run and even in the medium run. Even so, in light of the acute problems and blatant unfairness of the current monetary and financial architecture, we should not shy away from imagining new paths.

It might be helpful to present a few diagrams that set out the main characteristics and components of a NIMFS. The new architecture would, as mentioned, function in parallel to but be independent of the existing one. It would mirror the institutions of the IMFS but would not be multilateral in nature. At an initial stage at least, it would be a plurilateral structure and would not include a very large number of countries (diagram 1).

For the reasons given above, we should avoid assuming that all BRICS would join the initiative right away. No one would be excluded but membership of the new system and of each of its components would be strictly voluntary. Countries could initially decide to stay away from some or all of the new institutions, The nine BRICS members and the recently admitted 13 partners countries can be expected to participate in the discussions and negotiations but no country would be obliged to be a part of the actual outcomes. Countries opting out would retain the right to become members at some later date, once they become confident that the NIMFS or at least part of its components are attractive and safe.

1. New International Monetary and Financial System (NIMFS): key features

Parallel System

Existing alongside the current IMFS

Plurilateral

Not a very large number of participating countries, especially in the beginning

Participants

BRICS+ or a subset of them, partner countries and possibly non-BRICS+ countries

Safety is indeed a paramount consideration. The BRICS are rightly seen all over the world as a counter-hegemonic force, a group of countries that have the economic, territorial and demographic clout to challenge the international status quo. It is also true, however, that there has been some reluctance to embrace initiatives that touch raw nerves in the West. One thing to remember is that the United States, although a declining hegemon, still holds considerable power and influence. It can exert pressures on all countries, backstage and front stage. Donald Trump, for instance, publicly stated that, if elected, he would punish countries seeking to replace the dollar as a reserve currency with punitive tariffs of 100% on everything they export to the United States. Trump is more outspoken and prone to bluffs and aggressive statements than other American leaders, but there should be no doubt that the US political establishment deeply resents any attempt to unseat the dollar from its longstanding role of dominant international currency. It will attempt to undermine any initiative that threatens or weakens the multilateral structures it controls with the help of allies and satellites.

It is precisely this geopolitical context that makes it very difficult, perhaps impossible, to advance discussions and take actual practical decisions if the

BRICS stick to consensus-based decision making, especially now that we have nine or more countries around the table. As previously suggested, we should therefore consider moving forward with a subset of BRICS countries in the construction of alternatives to the current monetary and financial system. Again, no country would be excluded from the discussions and new initiatives, but a coalition of willing and able countries could start the process on a strictly voluntary basis.

Experience has shown that even seemingly simple steps encounter resistance within the group. Nonetheless, if there is a minimum of clarity of purpose and determination, the Brazilian presidency of the BRICS next year could start with the initial steps set out in diagram 2. As previously indicated, a new international payment system (NIPS) would require completing the discussion initiated by Russia in 2024 and putting together a coalition of countries willing to move forward on this basis. The Russian proposal will of course need to be duly adjusted and improved to garner support. Ideally, this NIPS could be put together and announced as a building block of a NIMFS by the end of 2025.

In parallel, the BRICS could initiate the discussion of a new unit of account, let's call it the NUA, to serve as a transition mechanism to the NRC (diagram 2). This step is by now pretty familiar to those that follow BRICS-related discussions. Indeed, it dates back to a proposal made by the Valdai Club as far back as 2018 to establish an SDR-like unit of account, in the form of a basket of currencies. Again, not necessarily the currencies of all BRICS countries, but of those willing to participate, including perhaps some non-BRICS countries. Weights could correspond roughly to the share of each country's currency in the aggregate GDP of the participating countries.

2. First steps

New International Payment System (NIPS)	**New Unit of Account (NUA)**
In national currencies	Basket of currencies of participating countries
By-passes the dollar, the euro and the Western-dominated payment system (SWIFT)	Weights based on shares in the participating countries' GDP
Based on CBDCs and on intra Central Bank transactions	Starts at parity with USD
New intermediaries not SWIFT-dependent (special banks or SPVs)	Fluctuates subsequently in line with changes in weighted average of bilateral dollar exchange rates
	Transitional device to a new reserve currency

A unit of account benefits from network effects, with users or potential users tending to rely on it more as its use becomes more widespread. To facilitate the dissemination of the NUA, one could construct the basket in such a manner as to have it begin on a one-to-one parity with the US dollar (diagram 2), allowing the NUA to piggy-back on the dollar's traditional role as an international standard value. This would not imply, however, any need to stabilize the NUA/dollar exchange rate, and much less to establish parity as a rule or legal requirement. On the contrary, the NUA would automatically float with respect to the dollar and other currencies, in line with the weighted fluctuations of the bilateral exchange rates of the currencies in the basket. Despite this, one could expect the NUA to display a relative measure of stability. For one, inflation rates in BRICS countries are reasonably low, working in favor of moderation in the changes in the external value of their currencies. Also working in favor of some stability of the NUA would be the fact that some of the major BRICS currencies stand on opposite sides of commodity price cycles, given that Brazil, Russia, and South Africa are commodity exporters while India and China are commodity importers.

Needless to say, a NUA would be meaningless unless it is conceived from the very start as a bridge to the more fundamental step of creating a NRC as an alternative to the dollar and other national reserve currencies that play the role of international assets (diagram 3). A number of routes to a new currency have been contemplated in recent discussions among economists of BRICS countries. One approach that has received some attention would be to back a new currency with

3. New Reserve Currency (NRC)

For international transactions and reserve holdings of central banks

Parallel currency - no monetary union

Fiat currency - not backed by gold or other commodities

Floating currency - not fixed or anchored to any other currency

Digital - no coins and paper money

No loss of sovereignty for participating countries - national central banks, currencies and monetary policies continue as before

Not even coordination of monetary and fiscal policies required

gold or a combination of gold and other commodities, drawing on the ample reserves of such assets held by some BRICS countries. However, "backing" a currency actually means making it freely convertible into the backing asset at a fixed or predictable rate. This would be hardly possible if, as is the case, the prices of the backing asset or assets are fundamentally unstable, dependent as they are on the numerous and unpredictable factors that affect the demand for and supply of these commodities.

To be successful, the NRC would have to be a 21st century currency. It could not be a throwback to a commodity standard, to the antiquated system of backing a currency by gold and/or other commodities. It could also not be anchored to any other currency or basket of currencies. The NRC would have to be a floating fiat currency.

To dispel a common misunderstanding, one should stress once again that the NRC would by no means replace the national currencies of the participating countries. Statements to the contrary are either based on misunderstandings or are perhaps attempts to hold up a straw man in order to discredit any such initiative. Thus, it bears repeating that the currencies of the participants would continue to exist exactly as before. Their central banks would continue as national monetary authorities in charge of conducting monetary and exchange-rate policies, managing international reserves, supervising domestic financial systems, and discharging any other functions specified in their national legal frameworks. In other words, the NRC would not be a euro-type currency issued and managed by a common central bank like the European Central Bank. Its creation would not involve any loss of economic sovereignty as there would be no unification of monetary policies. Not even coordination of these policies would be required (diagram 3).

The NRC would have a purely international role. It would be used only for cross border transactions and as a reserve asset, functioning in parallel to national currencies. It would not need to exist in physical form as paper money and coins. It could be a digital currency, similar to the Central Bank Digital Currencies (CBDCs) that are in the process of being created in a number of countries. Its existence would reconcile cross border transactions in national currencies with the need to allow for surpluses and deficits between countries, obviating the problems that arise out of the aforementioned limitations of dealing in national currencies without an international store of value.

A basic questions remains, however. How would confidence in the NRC be ensured? Or, to put it differently, how would this new fiat currency be "backed"? Confidence would depend on the institutional structure underpinning the NRC.

4. New Reserve Monetary Authority (NRMA)

NRMA - issuing bank responsible for creating NRCs

Participation in capital of NRMA mirrors shares in NUA/NRC

NRMA also responsible for issuing New Reserve Bonds (NRBs) into which NRCs are convertible

NRBs backed by the Treasuries of participating countries

One possibility would be to create an issuing bank, let's call it the New Reserve Monetary Authority (NRMA), responsible for creating NRCs, according to predetermined rules (diagram 4). Participation of countries in the NRMA would mirror their shares in the NUA/NRC. The NRMA would also be responsible for issuing bonds, let's call them the New Reserve Bonds (NRBs), into which NRCs would be freely convertible. The NRBs would in turn be fully guaranteed by the Treasuries of the participating countries.

The financing mechanisms established by the BRICS – the New Development Bank NDB) and the Contingent Reserve Arrangement (CRA) – would be natural channels through which the NUA and subsequently the NRC could be launched (diagram 5). The original purpose of the NDB and the CRA when they were created back in 2014 was to provide alternatives to the World Bank and the IMF, signaling the BRICS' discontent with the Bretton Woods institutions.

5. International Financial Organizations of the NIMFS

5.1 New Development Bank (NDB)

Alternative to World Bank and other MDBs

NAU/NRC as unit of account

Expansion of membership to include BRICS+ countries, strategic partners and other countries

To operate mostly in national currencies and NRCs (de-dollarization of assets and liabilities)

Expansion of the bank's capital base

High quality administration and staff

Greater efficiency in supporting infrastructure and sustainable development in borrowing members and other developing countries

5.2 Contingent Reserve Arrangement (CRA)

Alternative to IMF

Transregional reserve pooling arrangement

Unit of account - NUA/NRC

To operate mostly in eligible national currencies and NRCs

Expansion of membership to include BRICS+ countries, strategic partners and other countries

Expansion of lending capacity

Establishment of surveillance unit in Shanghai (to act in coordination with the NDB)

Reduction of IMF-link (currently at 70%)

Thus, it would only be logical to build on the NDB and the CRA when constructing the envisaged NIMFS. The NDB and the CRA could in effect become the international financial organizations of the new architecture. To play such a role, however, they would have to be revamped and reenergized.

To begin with, the NDB and the CRA could use the NAU and subsequently the NRC as units of account in lieu of the dollar. This is a relatively simple step. More importantly, the NDB, which is still largely dollarized in its assets and liabilities, should move towards operating mostly in national currencies and in NRCs, de-dollarizing gradually its loans and bond issuances. The CRA, a reserve pooling arrangement, would need to move towards swaps in eligible national currencies and NRCs.

Both the NDB and the CRA, especially the latter, are still small and at an incipient stage of development. The NDB has yet to expand its membership so as to allow it to lend on a global scale. It currently has only ten members (or eight, if one considers that Uruguay has yet to complete the parliamentary procedures required for membership and that Algeria´s entry to the bank has only recently been approved). By contrast, the Asian Infrastructure Investment Bank (AIIB), led by China and established at the same time as the NDB, has 109 member countries. The CRA, that is still limited to the five founding members, should also incorporate new countries, beginning with those that joined the BRICS as full members or partners.

This expansion of membership would bring in new capital and, together with additional capital resources from the five founding members, would allow the BRICS financing mechanisms to operate on a larger scale. To become efficient institutions of the NIMFS they would also need high quality administration and staff. The CRA has yet to establish a surveillance unit, foreseen since its creation ten years ago. This unit could be headquartered in Shanghai to facilitate coordination with the NDB. The creation of a solid, professional and independent macroeconomic surveillance system would allow the reduction of the IMF-link, still at 70%, increasing the size of CRA swaps that can be activated without the precondition of a program with the IMF (diagram 5).

A complete NIFMS would need to include other elements not discussed in this paper. For instance, the establishment of credit card or digital payment systems that would allow individuals and companies to make payments outside the network of Western credit card institutions that cease to function when sanctions are applied. Also, credit rating agencies would have to be created or strengthened to make our countries independent of the Western agencies – Moody´s, S&P, and Fitch – that, despite repeated failures and poor performance, continue to monopolize the market for credit ratings.

Concluding remarks

Is all this too much to expect from the BRICS? It may well be. Nothing like a new international monetary and financial system is likely to emerge soon. Certainly not in the short-run, probably not even in the medium-term. The BRICS are a heterogeneous group, not immune to Western pressure and blackmail. To set out on such a complex journey, strong leadership and strong political preconditions would be necessary.

This should not discourage us, I believe, from imagining long-term solutions to the intractable problems and chronic arbitrariness of the current Western-dominated international architecture. Attempts to reform it in fundamental ways, even gradually, have failed repeatedly and will, in all probability, continue to fail. Our countries are thus confronted with the choice of either passively accepting the inequities of Western financial arrangements or either of mustering the intelligence and courage to begin building something different in the 21st century, to the benefit not only of BRICS but of developing countries as a whole.

References

Arsanalp, Serkan; Eichengreen, Barry & Simpson-Bell, Chirna. “The Stealth Erosion of Dollar Dominance: Active Diversifiers and the Rise of Nontraditional Reserve Currencies”, International Monetary Fund, Working Paper WP/22/58, March 2022.

Arsanalp, Serkan; Eichengreen, Barry & Simpson-Bell, Chirna. “Dollar Dominance in the International Reserve System: An Update”, IMF Blog, June 11, 2024.

BRICS Chairmanship Research. *Improvement of the International Monetary and Financial System: Strengthening Multilateralism for Just Global Development and Security*, BRICS Russia 2024, Report presented by the Ministry of Finance of the Russian Federation, the Bank of Russia, and Yakov and Partners.

BRICS Russia 2024. *XVI BRICS Summit Kazan Declaration: Strengthening Multilateralism for Just Global Development and Security*, Kazan, October 23, 2024.

Galbraith, James Kenneth. “The Dollar System in a Multipolar Word”, The Institute for New Economic Thinking, May 5, 2022.

Giambruno, Nick. “The REPO Act: A Precursor to the Dollar’s Downfall”, International Man, July 2024.

Kern, Michael. “The Start of De-Dollarization: China’s Move Away from the USD”, Oilprice, August 6, 2024.

Lissovolik, Yaroslav. “Boosting the use of national currencies among BRICS”, Russia in Global Affairs, September 14, 2018.

Lissovolik, Yaroslav. “A BRICS Reserve Currency: Exploring the Pathways”, BRICS+ Analytics, December 21, 2022.

Nogueira Batista Jr., Paulo. “A BRICS currency?”, *Contemporary World Economy Journal*, Vol 3, No 1, 2023, School of World Economy, Faculty of World Economy and International Affairs, HSE University.

Nogueira Batista Jr., Paulo. “BRICS: Geopolitics and monetary initiatives in a multipolar world – how could a new international reserve currency look like?”, paper presented at the BRICS Seminar on Governance & Cultural Exchange Forum 2024, Moscow, September 23, 2024.

Silva, Luiz Inácio Lula da. Discurso do presidente Lula em Sessão Plenária Aberta da XVI Cúpula do BRICS, Kazan (Rússia), 23 de outubro de 2024.

Smith, Yves. “Indian Foreign Minister Throws Cold Water on the Idea of a BRICS Currency”, Naked Capitalism, September 26, 2024.