

# **Geopolitics and International Money – A Path to a New Reserve Currency**

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## Abstract

The reform of the international monetary system has been a subject of constant debate, reflecting widespread dissatisfaction with the dollar-based and US-controlled arrangements that have prevailed since World War II. The United States is very much attached to its privileged and dominant position, and is unwilling to seriously contemplate any changes to it. The rest of the world, even (more recently) some developed nations, is increasingly uneasy with the way the US handles its dominance. Heavy-handed weaponization of finance and, since 2025, of trade policy have weakened confidence in the dollar and US Treasuries. Moreover, the weak spots of the American economy, including severe fiscal and financial fragilities, sow suspicion about the trustworthiness of dollar assets. There is, therefore, an undeniable need for alternatives – a need that may become urgent if a new financial crisis erupts in the United States. This is the background for the present paper.

Most of the alternatives to the dollar system that have been proposed are couched in general terms and often seem unrealistic and impractical. This appears to be the case of proposals for a global solution, normally SDR-based, and of regressive reforms that seek to establish gold and/or other commodities as the anchor of a non-fiduciary monetary framework. A global solution cannot be seen as feasible, given the current and probably long-lasting geopolitical fragmentation of the world. And the assumed safety and neutrality of Keynes' "barbarous relic" provides at best a volatile international reserve asset.

A different approach is presented here, one that seems more consistent with contemporary monetary and financial realities. Its main purpose is to provide a comprehensive explanation of how a new plurilateral BRICS-centric reserve currency could be constructed. This currency would have its specificities, but would share some basic traits with contemporary currencies that are normally fiduciary, floating, and managed by relatively autonomous monetary authorities.

The paper starts off with a survey of the current geopolitical and monetary landscapes and argues that the lack of acceptable alternatives to the dollar opens the way for a new transnational currency. The only other major alternative, the renminbi, appears not to be a feasible or desirable alternative for reasons that will be set out in some detail. The case is then made for a new reserve currency, restricted to international transactions and reserve holdings and playing no domestic roles. It is argued that it could potentially do a better job as an international currency than the US dollar and other national or regional currencies, especially from the point of view of emerging market and developing countries.

The second and most important part of the paper addresses the main reasons for and the distinctive features of such an initiative. Is a new reserve currency really needed? Could its issuance and management be entrusted to an existing institution? Or would the creation of a new one be required? Which countries could be involved in the establishment of a new institution? How would it compare to unified or single currencies such as the euro?

The approach envisaged here would begin with the creation of a new unit of account by a group of BRICS (not necessarily all) and other Global South nations. It could take the form of a basket of the currencies of these countries, with weights based on GDP PPP shares. At one point, the unit of account would be converted into a new currency, preserving the same weights. A set of rules would be defined to ensure confidence in this currency, including an anchoring

mechanism, limits on issuance, and stabilization criteria. The currency's anchor could not be gold and/or other commodities, given their price instability. In the suggested framework, the issuing authority, protected by a degree of autonomy with respect to the political authorities of the member countries, would issue not only currency but also bonds. The currency would be convertible into bonds, and these in turn would be convertible into a basket of bonds of the participating countries. The new currency would thus be fiduciary, i.e., back-stopped by the Treasuries of these countries. It would also float, in line with the fluctuations of the currencies included in its basket.

The third part of paper dives into the governance framework of the new bank, especially governing bodies and voting modalities. It is largely based on the author's hands-on knowledge of the IMF, BRICS negotiations, and the New Development Bank. Most such issues are invariably thorny, but the dilemmas that usually arise can be dealt with by a tailored combination of the mechanisms and decision rules of other multilateral financial organizations.

The fourth and final part addresses the vulnerabilities of the proposed framework – lack of confidence in the sponsoring countries, the challenges associated to China's large relative size, and the risk of a Western, US-led backlash. While relevant, these obstacles can be overcome or at least mitigated. The paper concludes that the proposed initiative, although a tall order, is feasible and can be implemented successfully by a coalition of BRICS and other Global South nations.

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# Geopolitics and International Money – A Path to a New Reserve Currency<sup>1</sup>

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## Introduction

It is often said that money is politics, in the sense that it is always and everywhere a political phenomenon. In the same vein, one can say that international money is geopolitics since international monetary arrangements are always and everywhere a geopolitical phenomenon.

This paper will first address the present geopolitical and international monetary landscapes with the purpose of laying the ground for a thorough explanation of how a new reserve currency could be created as an alternative to the US dollar and other international currencies. The discussion begins with a brief portrayal of the geopolitical landscape, and then moves on to show that the world's monetary landscape is in fact a mirror of the geopolitical one. The lack of confidence in the dollar system, weaponized and economically fragile, creates the need for alternatives. This initial discussion sets the stage for the most important parts of the paper, dedicated to the reasons for and the features of a new reserve currency, issued by a new international bank. This new currency, it is argued, could better serve the needs of countries of the BRICS and the Global South and, at a later phase, perhaps of all countries of the world.

It will be shown that the matter is much more complicated, from a technical and political point of view, than it may perhaps seem. The possibility of international monetary reform, even if not global in reach, has been under discussion in recent years among economists and in policy circles of major countries of the developing world. Those that are taking part in this debate are not driving at a euro-like full currency but at something essentially different, which might well begin as a new international unit of account – a basket of the currencies of a number of Global South nations. A second and obviously more important step would be the conversion of the new unit of account into a new international currency, restricted, however, to cross border transactions and international reserve holding. In other words, the new transnational currency would not replace the national currencies of the participating countries.

If these plans were to be successful, they would constitute a major departure from the world as it is and has been. Up to now, we have had national currencies playing, rather poorly, an international role. In the approach discussed in this paper, we could have, for the first time, an international currency playing no domestic role, making it better suited to the needs of the world economy and, in particular, to those of developing countries.<sup>3</sup> To my knowledge, this is so far the only existing detailed proposal for a plurilateral or multilateral alternative to the dollar

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<sup>1</sup> Views expressed in this paper are of exclusive responsibility of its author. It is based on information available as of April 2026. Luciana Acioly, Hector Torres, Yaroslav Lissovlik and, especially, Marina Zucker-Marques and Jonnas Vasconcellos made useful comments and suggestions. Lavínia Lima assisted in the preparation of the balance sheet and the profit and loss statement of the issuing bank. Conversations and debates with Chinese and Russian experts, in October and November 2025, helped refine some ideas presented here.

<sup>2</sup> Economist, former Executive Director of the IMF for Brazil and ten other countries from 2007 to 2015. From 2015 to 2017, he was Vice President and one of the founders of the New Development Bank established by the BRICS in Shanghai.

<sup>3</sup> This approach was first presented, in rough outline, in Nogueira Batista Jr., Paulo (2023a).

and other international currencies.<sup>4</sup> It is offered here in full knowledge that it probably has deficiencies and weak spots that have escaped the author's attention. Its development can certainly benefit from suggestions and criticisms beyond those that were made to preliminary versions.

Setting out how the ambitious goal of creating a new international reserve currency could be achieved is the main purpose of the present paper. It is divided into four parts. The first one deals with the world's current geopolitical and monetary circumstances, arguing that they create the conditions for the introduction of a new currency. In this part, as well as in subsequent parts of the paper, it will be shown that for a number of reasons the renminbi cannot or should not become a global currency, but that China would inevitably play a decisive role in any alternative monetary framework.

The second part discusses the steps and institutional arrangements needed to construct an effective BRICS-centric international currency, issued and managed by a newly created institution, and sponsored by a group of BRICS and other Global South nations. It explains that a new currency would not be a unified currency such as the euro, but a parallel digital currency circulating alongside the existing ones. The specific features of the new arrangement, including how to build confidence in the new institution and its currency, how to ensure its stability, and how to create positive network effects, are presented here in some detail.

The third part, based mostly on the author's first-hand experience in international negotiations and institutions, proposes a comprehensive governance and voting system for the new issuing bank. It highlights the thorny issues that arise in the construction of a multilateral or plurilateral financial organization, and suggests methods to handle them.

The fourth and last part addresses head-on a few weak spots of the new monetary architecture, including lack of confidence in the sponsoring countries, the unbalancing effects of China's relative size, and the risk of a Western, US-led back-lash. These problems cannot be ignored, but it is shown that there are ways of dealing with them. The paper concludes that the obstacles to the initiative proposed here, while far from trivial, can be overcome by the joint action of a group of BRICS and other Global South nations.<sup>5</sup>

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<sup>4</sup> With the exception perhaps of the Unit, a payment tool devised by Russian economists and think-tanks. The Unit would be tied to a basket composed of 40% gold and 60% of currencies of BRICS countries, thus seeming to suffer from the downsides of commodity currencies, to be discussed below. It was announced late 2025 by the Institute for Economic Strategies at the Russian Academy of Sciences. Aris, Ben (2025).

<sup>5</sup> A concise version of the suggestions made here, which may serve as an executive summary, can be found in Nogueira Batista Jr., Paulo (2026).

## I – The international landscape in the 21<sup>st</sup> century

### The geopolitical landscape – decline of the West and rise of a multipolar world

As a first and simplified approximation, the 195 countries of the world can be subdivided into two groups: the political or collective West and the Global South. The West is defined here, consistent with common usage, as including nearly all high-income countries – the United States, Canada, the European Union and most other European nations, Japan, South Korea, Australia, New Zealand, Singapore, and Israel.<sup>6</sup> The Global South includes all the other countries of the world, around 140 of them, sometimes referred to as “the Rest”.<sup>7</sup> This term is improper, however, given that the Global South accounts for something like 85% or more of the planet’s population, with the rest residing in the high-income nations of the West. So, we should perhaps more aptly speak of the Global South and the Rest. But that would be an impolite understatement of the remaining large power and influence of the West.

Admittedly, these two groupings are clumsy from a geographic standpoint. Most of the “Global South” lies to the North of the equator, and some important countries of the “West” are located in the East, notably Japan, South Korea, and Australia. Nevertheless, these terms have come into common usage and reflect not geography but political circumstances. This paper will employ them in their usual geopolitical sense.

The West is in relative decline, as is well known. This decline goes back to the North Atlantic crisis that hit the financial sectors on both sides of the Ocean in 2008 and 2009. In recent years, however, this trend has accelerated. The US and Europe are in fact in the throes of a protracted multifaceted crisis – economic, political, moral and demographic – and things seem to be taking a turn for the worse.

The acceleration of the West’s decline is due to a number of factors. Five of them may be highlighted. First, the probable defeat of the West in its long-term endeavor to use Ukraine to weaken and break apart Russia. Even if the war and the issues that led to it remain undecided for a long time, it seems clear that the West’s original goal is not going to be attained. Russia has learned to live with Western economic sanctions and is winning on the battlefield. The whole world is watching closely and the West’s unsuccessful strategy inevitably undermines its global prestige.

A second factor is the genocide practiced by Israel in Gaza. The worst humanitarian crisis in the 21<sup>st</sup> century, provoked by an Israeli aggression that is supported by the US and Europe, has destroyed the West’s traditional claim of moral superiority. A belated and unsuccessful attempt to sponsor a cease-fire and stop the mass murder of Palestinians in Gaza will hardly be enough to restore the West’s moral standing in the world.

The same holds for a third factor – the aggression against Iran initiated by the United States and Israel. The violence unleashed by these two countries in its so far failed attempt to defeat and break up Iran has brought them further moral and political costs – nor to speak of

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<sup>6</sup> Although this is debatable, a few high-income nations, notably oil-rich Gulf countries, are normally not considered part of the political West.

<sup>7</sup> The Global South overlaps to a large extent with what the IMF calls “emerging market and developing countries” (EMDCs). International Monetary Fund (2025b).

the economic damage done to most countries in the world, including notably the West's allies in the Gulf.

The West's military, political and moral failures in Ukraine, Gaza and Iran are intimately tied to a fourth factor that explains and reflects the West's decline – the astonishingly low quality of leadership on both sides of the North Atlantic. Donald Trump is the most shocking example of this phenomenon, but there are many others. For instance, Joe Biden and Kamala Harris in the US; Macron in France; Merz and Scholz in Germany; and Ursula von der Leyen in the European Commission. This weak leadership explains in part the repeated blunders committed by the West in Ukraine, Gaza, Iran, and elsewhere. With few exceptions, American and European leaders are clearly not qualified for the positions they hold.

Donald Trump is a fifth factor in his own right in the acceleration of Western decline, if only because he has brought about an unprecedented disruption in the relations between the US and most of its traditional allies. Not since World War II has the split between the major developed countries been so severe. In what seems to be a desperate attempt to reestablish the United States' fading global hegemony, the Trump administration does not shy away from fracturing ties with Europe, Canada, and other members of the collective or political West – to the point of threatening military aggression over Greenland. Although relations can perhaps be patched up going forward, a legacy of distrust is bound to remain. The expression collective West itself has lost some of its meaning. Whether this fracture helps the US to recover its preeminence in the world is doubtful. The jury is still out, but Donald Trump does not seem to be the second coming of Ronald Reagan.<sup>8</sup>

Be as it may, this crisis of the West is bound to have global consequences, given the large size of their economies, as well as the fact that the international order in place since World War II was conceived, established and run by the United States and other Western countries. Paradoxically, under Trump the US is leading a veritable destruction of this old order. Most principles and international agreements have been thrown overboard. Multilateral institutions are being undermined like never before – even those under control of the West. Military force is being used more frequently and unabashedly.

Few could have predicted such an evolution, say, 20 years ago. The world was taken mostly by surprise by the negative developments in the West, as well as by the rapid progress in China and other parts of Asia. Accordingly, nothing is on the table to replace the downgoing Western order.

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<sup>8</sup> The possibility of a reestablishment of American global hegemony, although unlikely, cannot be discarded. There is at least one precedent. In the 1980s, under Ronald Reagan, the US managed to reverse the weakening of its international status that had been happening since the late 1960s. US decline and skepticism about the dollar were so pronounced in this period that, in 1976, the celebrated economist Charles Kindleberger went so far as to say that “the dollar is finished as international money”, a somewhat premature statement. Quoted in Wade, Robert H. (2024, p. 12). For an early assessment of how the US managed to recover its world hegemony, see Tavares, Maria da Conceição (1985). However, the internal and external circumstances that the US now faces are considerably more adverse. The macroeconomic weaknesses (deindustrialization, fiscal imbalances, growing public debt, and financial sector instability) are more severe than they were in the 1960s and 1970s. And the geopolitical landscape presents a far greater challenge to the United States. The Soviet Union was a military but not an economic rival; Japan was an economic but not a military rival; China is now both a military and an economic rival.

This situation is fraught with perils. As Gramsci once wrote back in 1930, the old world is dying, and the new world struggles to be born: now is the time for monsters.<sup>9</sup> Like in his time, variants of fascisms or quasi-fascisms are the forms that monsters currently take.

One key thing to keep in mind is that China is still not ready or capable of stepping into the United States' shoes. US world hegemony is unlikely to be replaced by Chinese world hegemony. It is true, of course, that China has not only been growing rapidly, but is also becoming increasingly sophisticated in various areas of technology, production, and organization. Long gone is the time when its rise could be plausibly attributed to a systematic copying of Western production methods, marketing techniques, and brands. The Chinese are also learning quickly how to increase their soft power and project cultural influence across the world. Even so, China does not seem to have the will or the means to become a new global hegemon. One needs only point out that China, in contrast to the US, is not really capable of becoming a hegemon even in its own region. In East and South Asia, China deals with countries that seem hostile or fearful of Chinese power. Some of them are more or less heavily influenced by the United States. Think of Japan, South Korea, Vietnam or India, for instance. While this may change, these neighbors would hardly accept Chinese leadership and, if forced to choose, might prefer the leadership of a distant US.

China's power is sometimes overestimated. It is now undeniably one of the world's superpowers, capable of acting independently and fiercely defending its interests against encroachments from the West, as witnessed by its successful reactions to Donald Trump's threats and hostile economic measures. At the same time, in per capita terms, it is still a middle-income country that has a long way to go to catch up with the high-income nations of the world. China has deep pockets and has been assisting the development of many other developing nations, but runs the risk of overstretching if it reaches out for world or even regional hegemony.

So, it looks premature to expect China to provide a viable alternative global order. It can supply elements of a new order, it can cooperate with other countries to achieve this goal, but will probably not be able or willing to construct a new system on its own in the foreseeable future. This applies, as we will try to show, specifically to the monetary field, where the Chinese still seem hesitant to attempt to displace the dollar by allowing a large scale internationalization of the renminbi.

Thus, the disappearance of the West's global hegemony is likely to be followed by the emergence of a multipolar or polycentric world,<sup>10</sup> characterized by the coexistence of several competing poles. One of them could be the North Atlantic pole led by the United States (to which would continue to be closely linked the remaining countries of the collective West, such as Japan, South Korea, Australia, and Israel) – provided the damage done by the Trump administration to the credibility of the United States can be fixed somehow or, alternatively, if coercion were to durably replace persuasion in intra-West relations. A second pole would be China plus those nations that have established or will establish strong economic and political ties with Beijing. A third one would be Russia plus some of its immediate neighboring nations. India could be the centerpiece of a fourth pole in South Asia. Brazil could be the centerpiece of a fifth pole in South America or part of it.

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<sup>9</sup> Gramsci, Antonio (1948).

<sup>10</sup> Bordachev, Timofei ed. (2025).

The BRICS nations, especially China and Russia, are a central feature of this multipolar world, and the four founding members of the group, given their size, can be expected to lead the non-Western international centers of power. The centrality of the BRICS could of course be even greater in the unlikely event that Sub-Saharan Africa, led by countries such as South Africa and Nigeria, were to show greater cohesion and become an independent center of power. Sub-Saharan Africa, taken as whole, certainly has the size and the economic potential to play this role. However, this is counterbalanced by the heterogeneity of the countries of the region, as well as the heavy colonial legacy that goes a long way in explaining the continent's economic backwardness. On balance, it is hard to believe that Sub-Saharan Africa will form a separate independent pole in the foreseeable future. Finally, if they overcome their many differences, the Arab nations, maybe together with other Muslim countries such as Iran and Pakistan, might constitute a Middle Eastern/North African pole. But this seems also an unlikely prospect, given not only deep-seated disagreements between the countries of this part of the world, but also the vulnerability of many of them to Western influence.

### **A tripolar world?**

As an aside, departing briefly from the main purpose of this paper, one might discuss another possibility – the replacement of US hegemony not by a multipolar world but by a bipolar or tripolar world, with the superpowers – US and China, or US, China, and Russia – reaching a strategic understanding to divide the planet, or a large part of it, into spheres of influence. In a tripolar world, the US reinforces its preeminence in the Western Hemisphere or most of it, China dominates most of East Asia, and Russia leads a substantial part of its neighborhood, including notably Ukraine. A repeat of Yalta, so to speak, with China replacing the United Kingdom.<sup>11</sup>

At first sight, this scenario might look feasible and attractive to the three countries. It does not seem, however, to be the most likely outcome of the West's decline. First and foremost because it will represent a comedown for the United States that would have to abandon its claim to world dominance, and recognize spheres of influence for China and Russia in exchange of a recognition, that it probably feels it can do without, of its hegemony in the Western Hemisphere.<sup>12</sup> The US looks far too attached to its long lasting number 1 position in the world to accept a bipolar or tripolar understanding. China in turn might tend to see this as a bad deal. Given the above-mentioned challenges to its influence in the greater part of East and South Asia, it would not be really capable of benefiting in its region from the free hand given in a bipolar or tripolar agreement. Only if Taiwan were to be part of the deal could China be inclined to accept it. Russia is perhaps the only superpower that could be truly interested in a tripolar approach, provided of course a neutral Ukraine be part of the package. In light of Russia's hard-won success

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<sup>11</sup> Long, Zhao (2025) makes the historical comparison and argues that China would not take part in such a Yalta-like carve-up of the world in spheres of influence.

<sup>12</sup> Official documents of the US government on the country's national security and defense strategies present a new aggressive focus on the Western Hemisphere, from Greenland to Patagonia, seeming to confirm the scenario of a division in spheres of influence among two or three superpowers. But a close reading of these documents shows that the focus on the Western Hemisphere is not seen as a retreat from global dominance. In particular, the containment of China, the opposition to its hegemony in East Asia, and the protection of Taiwan are main features of these security and defense frameworks. Moreover, the reassertion of US dominance in the Western Hemisphere is clearly directed at excluding or reducing the role of China in Latin America. The White House (2025, p. 5, 10, 15-24); and Department of War (2026, p. 3, 4, 9, 18). The focus on China is justified, among other arguments, by pointing out that it is "already the second most powerful country in the world – behind only the United States – and the most powerful state relative to us since the 19<sup>th</sup> century." Ibid., p. 9.

in the battlefield, and although Europe is still loath to recognize this, a neutral Ukraine with loss of territory to Russia, might be acceptable to the US. However, Taiwan's incorporation into China seems too bitter a pill for the US to swallow.

If a tripolar world were to arise anyway, the BRICS would of course lose all practical relevance. The other large or mid-sized countries of the Global South, such as Brazil, India, Indonesia, and South Africa, might then be led to try to breathe new life into the Non-Aligned Movement that had its peak influence during the Cold War, when a large part of the developing world coalesced to mark independence with respect to the Western and the Soviet blocs of the then existing bipolar world.<sup>13</sup> For these countries, needless to say, a multipolar world is a much more attractive prospect. But left out of a "new Yalta", they may decide to revive non-alignment. Fortunately for them, a multipolar is the most likely scenario as far as the eye can see.

### **The monetary landscape – the dollar's reign is no longer uncontested**

But let us now come back to the main purposes of this paper which are to discuss the international monetary system and, in particular, to present a path to a new international reserve currency. Examining the monetary landscape will set the stage for the presentation of a new currency as an alternative to the dollar.

As indicated at the outset, international money tends to mirror geopolitics. The US dollar, while still dominant, is suffering a steady erosion in a number of respects. This erosion can be attributed to two main causes that have been at play over the past 15 to 20 years. First, the weakening trust in the dollar that results from the severe financial and fiscal fragilities of the US economy.<sup>14</sup> Since these fragilities are structural in nature and measures to correct them are not forthcoming, negative confidence effects are far from negligible.<sup>15</sup> Second, the systematic use, or rather misuse, of the dollar and the Western financial system as weapons against countries that are seen as hostile or non-cooperative by the US and its allies.

Since Donald Trump took office in January 2025, weaponization acquired a new dimension – the erratic and indiscriminate use of import tariffs to blackmail and intimidate other countries, including traditional allies. To this unprecedented use of tariffs, the Trump administration added other factors of instability, such as public threats to the Federal Reserve's autonomy, large tax cuts and the resulting impact on the fiscal deficit and, more importantly, new wars and military adventures with heavy fiscal and financial implications. The war on Iran, in particular, has led to another major challenge – the weakening of the so-called petrodollar system based on the pricing, selling and buying of crude oil in US dollars. As a result, periods of flight from the dollar have occurred time and again.

Weakened by its use as a geopolitical weapon and undermined by the economic vulnerabilities of the US and, more recently, by the destabilizing behavior of the Trump administration, the dollar is no longer as safe as it used to be, and will probably continue to lose relevance as an international currency.

Who will take up the slack? Gold has emerged as a safer alternative, leading to large-scale purchases by central banks and a sharp rise in its price. However, the volatility of gold prices

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<sup>13</sup> Fernandes, Marco et al. (2025, p. 3-9).

<sup>14</sup> For a scathing review of the fiscal and public debt problems of the US and the risk that they may lead to a global crisis, see Rogoff, Kenneth S. (2025).

<sup>15</sup> The reasons of the relative decline of the US economy and the dollar have been extensively discussed in previous works. For example, by Lissovlik, Yaroslav (2023b) and Mozhin, Aleksei (2025).

makes it an imperfect asset for reserve-holding purposes by central banks and other institutions or investors.

Could other currencies of high-income countries replace the dollar? This is happening to a limited extent, but most of them are too small to be a full-fledged alternative. The exception to this is the euro, a currency that when created a quarter of a century ago seemed to be a promising competitor to the greenback. These expectations were largely dashed, however. The new currency did become the second most important one, but never came close to challenging the dollar's preeminence, and has apparently ceased to gain ground in recent years. The euro is hampered by the short-comings of the monetary union and macroeconomic weak spots of the main economies of the bloc, often more serious than those of the US. Moreover, the euro has been weaponized in the same manner as the dollar and applications in euros are also no longer safe from seizure. When Russian dollar holdings were frozen after war broke out in Ukraine, European authorities followed suit and assets held in euros were also frozen. It can be said that the euro has become a satellite of the dollar, in the same way that Europe has become a geopolitical satellite of the United States.

Could we look to the renminbi instead? Although the international role of the RMB is still modest, the Chinese alternative may seem more viable, given the size and dynamism of the country's economy. Moreover, China is an independent power, and will not align itself automatically with the US or anyone else. The renminbi became one of the five currencies of the IMF's Special Drawing Rights (SDR) basket in 2016<sup>16</sup>, and experienced greater international acceptance after that. The share of the renminbi in official foreign exchange reserves is still small, as well in global trade and finance,<sup>17</sup> but its usage in China's cross border transactions has grown at a rapid pace, especially with Russia.<sup>18</sup> Furthermore, the extensive and actively used bilateral swap network of the People's Bank of China (PBOC) with more than 40 central banks is

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<sup>16</sup> International Monetary Fund (2016). The renminbi's weight in the SDR basket was initially defined as 10.91%. It rose to 12.28% in the latest quinquennial update of the SDR basket. International Monetary Fund (2022).

<sup>17</sup> According to IMF data, the RMB's share of allocated reserves rose gradually in the first two decades of this century, reaching 2.8% in the first quarter of 2022. Since then, the currency's reserve share has declined somewhat. In the second quarter of 2025, it was down to 2.1%. Arslanalp, Serkan; Eichengreen, Barry & Simpson-Bell, Chima (2025, p. 10). Possible explanations for this reduction, provided by these authors, include China's continued maintenance of capital controls, higher interest rates on dollar or other alternative reserve assets, rising tensions between China and the West, and slower growth of the Chinese economy. *Ibid.*, p. 10-12. The RMB's use in offshore banking, offshore bonds, and derivative markets is also still small, less than 5%, far below China's share in international trade and world GDP. Zhang, Shu & Chiang, Yile (2025, p. 3). In its most recent Article IV report on the Chinese economy, the IMF also highlights the rising but so far limited international presence of the renminbi, indicating that, on a global scale, the share of RMB-denominated trade is less than 3% and only about 8% of trade finance. The IMF mentions as impediments to the widespread adoption of the RMB the restrictions on foreign participation in domestic markets and on residents' investments abroad, the lack of depth and liquidity of offshore RMB markets, as well as the shortage of globally accessible and safe RMB assets. International Monetary Fund (2026b, Box 6, p. 51). Other indicators confirm that the RMB's role remains modest. According to Bank for International Settlements (BIS) data for April 2025, for instance, the Chinese currency accounted for only 8.5% of the turnover in foreign exchange markets, about 1/10 of the US dollar's share. Cunha, André Moreira & Peruffo, Luiza (2025, p. 1, 2).

<sup>18</sup> Bilateral trade between China and Russia is now conducted almost entirely in renminbi and rubles. The Russian Finance Minister, Anton Siluanov, informed that as much as 99.1% of bilateral trade transactions between the two countries are currently settled in their national currencies. Aktas, Alperen (2025). In the case of China-ASEAN trade, to mention another example, the share of the renminbi rose to 28% in 2024. Standard Chartered Bank (2025).

overwhelmingly denominated in renminbi, expanding the currency's role in trade settlement and balance of payments support operations.<sup>19</sup>

Nevertheless, China has reasons of its own to hesitate. Allowing the renminbi to play a greater role abroad has attractions for China, including lower borrowing costs and providing protection against Western sanctions, as well as prestige considerations. But it also entails risks that a middle-income country with the characteristics of China may not yet be ready and willing to run.

There are a number of reasons for this hesitation. For one, the renminbi is not fully convertible internationally, limiting its external use. China's reluctance to allow full convertibility is understandable. At the current stage of its development, convertibility will expose the exchange rate, the balance of payments, interest rates, and domestic financial markets to the vagaries of international capital markets. Their largely unpredictable and often sharp upswings and downswings could undermine the stability of the Chinese economy and of its financial system, as suggested by the experience of many economies, including large ones.<sup>20</sup>

Moreover, China's economic dynamism might suffer from a large-scale internationalization of the renminbi. Higher foreign demand for the renminbi will entail an appreciation of the exchange rate, hurting the competitiveness of China's tradeable sector. Given the long-standing dependence of economic growth on exports, the effect would be to lower rates of economic expansion significantly, unless alternative source of growth are forthcoming. Furthermore, since China has already been experiencing deflation (in wholesale prices) and inflation close to zero (in consumer prices)<sup>21</sup>, a sharp and sustained appreciation of the renminbi might land the economy into a deflation trap with the associated risk of recession.<sup>22</sup>

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<sup>19</sup> Beschwitz, Bastian von (2024).

<sup>20</sup> Chinese economists are, of course, aware of these risks. Ding Yifan, for instance, wrote that "(...) the US wants to force China to accept RMB appreciation and open its financial market, thereby creating an imported financial asset bubble. Thus far, these efforts have been wasted, as China has not yielded to US pressure." Ding, Yifan (2024, p. 36, 37). See also Gao, Bai (2024, p. 12, 13, 20-22).

<sup>21</sup> The average yearly inflation in consumer prices was 0.2% in 2023 and 2024, and zero in 2025. International Monetary Fund (2026b, p. 4). Wholesale prices, measured by the Producer Price Index, have been in deflation since 2023, falling by around 2 to 3% per year. *Ibid.*, Box 2, p. 47. By the way, this is why the exchange rate has been depreciating in real terms despite relative stability of the nominal exchange rate.

<sup>22</sup> The pros and cons of exchange rate appreciation have been, for some time, a subject of intense debate in China, as well as in international circles. One line of thought points to the fact that appreciation of the renminbi increases the purchasing power of wages and fosters consumption. Furthermore, the continuation of rapid technological progress, especially in information technology, robotics, and artificial intelligence, is expected to lead to an increase in productivity, a reduction in the overall capital-output ratio, and an improvement of the quality of aggregate investment. Taken together, these results could compensate for the loss of export dynamism. It remains to be seen, however, if they are indeed achievable and sufficiently strong to compensate for a sizeable appreciation of the renminbi. For a brief overview of this debate, see Nogueira Batista Jr., Paulo (2025c). Although with varying intensity and arguments, the IMF has often argued in favor of an appreciation of the Chinese currency and highlighted the views of experts that see it as undervalued. See, for instance, International Monetary Fund (2025b, p. 28-30). In its most recent report on China's economy, however, the IMF does not recommend an appreciation of the RMB despite estimating a real effective depreciation of about 14% since 2021 and undervaluation of the RMB in the range of 12 to 21%. On the contrary, it endorses the PBOC's accommodative monetary policy that tends to cause depreciation of the RMB. International Monetary Fund (2026b, paragraphs 9, 10, 35, Box 4, and Appendix II). In contrast, American economists are prone to point out the need for a sharp appreciation of the renminbi. For a recent example, see Setser, Brad & Sobel, Mark (2025).

Concerns about the economy's stability and dynamism are, therefore, likely to delay indefinitely a move to an extensive international role for China's currency.<sup>23</sup> Indeed, why would the country endanger its successful long-term performance? It will probably not take the risk, at least not in the medium term. One particular circumstance needs to be kept in mind: popular support for the Chinese political regime derives in part from the economy's long lasting strong performance. China can thus be expected to follow in this area its habitual pragmatism, testing the temperature of the waters by cautiously allowing a gradual increase in the international presence of the renminbi. However, not to the extent of challenging the dollar in a major way.<sup>24</sup> In any case, the RMB has a long way to go before it becomes a full-fledged rival to the dollar.

In sum, one can foresee that the dollar's decline will not be matched by a rise of the euro or other currencies of the West, and that the renminbi will only be able to partly pick up the slack. Needless to say, none of the other currencies of the Global South can play an international role, except in neighboring countries.

Even more unrealistic is the hope for a grand agreement on a global reserve currency, since the US and its allies are not remotely willing to accept this anytime soon. Even if the Global South countries or a majority of them could come together for this purpose, a tall order in itself, the West is still much too large to be left outside of anything truly global in nature.

Several interesting proposals aimed at global monetary reform have appeared over the years. They seem, however, impractical and are framed in very general terms. In 2009, Governor Zhou Xiaochuan of the PBOC published an influential and well-argued but short essay suggesting the transformation of the SDR into a super-sovereign currency, disconnected from individual nations and managed by the IMF, without specifying, however, the rules that would govern the new currency.<sup>25</sup> This proposal presupposes that the Western countries, and the United States in

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<sup>23</sup> A unusually strong 2024 statement by President Xi Jinping, only made public in January 2026, seems to belie the view that China could be inclined to delay a major move. "A strong financial nation", he said, "(...) should have a powerful currency, widely used in international trade, investment, and foreign exchange markets, holding the status of a global reserve currency." He, Huifeng (2026). However, the pace and timeline were left implicit, and no explanations were provided on how this goal could be achieved and the associated risks dealt with. The search for a global role for the renminbi will face important macroeconomic constraints, such as the ones outlined in the text, and may force China to think twice before embarking on this journey. If these constraints do prove binding, China's hard-headed pragmatism can be expected to prevail over considerations of status and prestige.

<sup>24</sup> Robert Wade also expects China to promote "RMB internationalization only at the margins." Wade, Robert H. (2024, p. 15, 16). One route that China is testing is to permit some expansion of offshore RMB markets. In these offshore areas, full convertibility can be allowed without, presumably, noticeable effects on the mainland currency. Zhang, Chun & Jiang, Yile (2025).

<sup>25</sup> Zhou, Xiaochuan (2009). In line with Governor Zhou's proposal, it was more recently suggested that the SDR could become the main international reserve asset by issuing it according to currency board rules and basing its valuation on a basket of goods (and not as currently on a basket of currencies). Di, Dongsheng; Coats, Warren & Zhao, Yuxuan (2017, p. 567-569). The introduction of currency board rules requires, however, an amendment to the Articles of Agreement and could be vetoed by the United States, given that any amendment requires an 85% supermajority and the US holds more than 15% of voting power. *Ibid.*, p. 568, 569. Switching to a basket of goods does not require an amendment to the Articles, but also depends on US support since changes in the principle of valuation of the SDR require an 85% supermajority. International Monetary Fund (2020, Article XV, section 2). The authors believe that the US could be persuaded to see the dollar's international role more as a burden than as a privilege, but there is no evidence that this sort of argument has any chance of flying with American authorities, be they Democratic or Republican. On the United States' attachment to the global role of the dollar, see below p. 17 and 18. On the influence of the US in IMF decision-making, see footnotes 33, 88 and 89. Even if the US

particular, would agree to a large-scale enhancement of the SDR's role since they control the IMF and, more specifically, since no major reform of the SDR can be implemented without a supermajority of 85% of voting power. But it is highly improbable that these countries, especially the US, would support such a reform. Anyway, one could ask whether it would be convenient, from the point of view of Global South countries, to entrust the management of a super-sovereign currency to an unreformed IMF, suffering from severe governance imbalances that will not be corrected anytime soon.<sup>26</sup>

Where does all this leave us? Gramsci's above-quoted dictum is as relevant to the international monetary system as it is to geopolitics: the old Western-dominated monetary system is dying, but a new post-Western system is not in sight, and a time of "monsters" will follow. Weaponization of the Western-controlled system will persist and may even become more severe. "Monsters" might also take the form of recurrent crises and bouts of instability in the multimonetary and multipolar world. The vacuum of power could make it more difficult to deal with these episodes and contain the resulting damage to the global economy.

The current international monetary scenario and especially the lack of convincing options pave the way for a new plurilateral currency that could be sponsored mainly by a not too numerous group of large and medium-sized countries of the Global South. For reasons that will be discussed in a moment, the new currency would probably not be a BRICS currency, but might well be BRICS-centric in the sense that most but not all BRICS members would join right way, whereas some non-BRICS countries may be expected to do so. Let us now turn to how this new currency could be established.

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were eventually to agree to such a fundamental reform of the SDR, one struggles to understand how it could be credibly managed by the strict (and anachronistic) rules of a currency board, or anchored on a basket of goods, the prices of which are normally very unstable.

<sup>26</sup> On the imbalances of IMF governance and decision-making and why they are unlikely to change in the foreseeable future, see for instance Wade, Robert H. (2024, p. 14, 15); and Nogueira Batista Jr., Paulo (2024a, p. 4-15),

## II – A new international reserve currency

### Is a new reserve currency advisable? Is it needed?

Could a BRICS-centered group of countries step up to provide a new reserve currency capable of inspiring confidence, better serving the needs of Global South countries, and helping to stabilize the international monetary landscape? How would this currency be constructed? Is it truly needed? These are the central questions that will be addressed in detail in the following sections of the paper.

The BRICS members, as well as a number of non-BRICS countries of the Global South, have taken some steps towards reducing their dependence on the dollar, including by increasing bilateral transactions in their national currencies and moving away from the dollar and US Treasuries in the composition of official reserves. Could and should they go beyond that and establish an alternative reserve currency, together with an alternative cross-border payment and messaging system?

Discussions of these alternatives have not progressed much within the BRICS as a group. Skepticism mixed with fear seems to have prevailed so far. The dominant view can be summarized in two arguments: a) transactions in national currencies of the BRICS and other countries, bypassing the dollar, are working well enough; so, b) why go to the technically complex and politically confrontational step of creating alternatives to the dollar and SWIFT?<sup>27</sup> Indian officials, for instance, have sometimes voiced these arguments, not only within BRICS but also publicly.<sup>28</sup>

The prevailing view is, however, only partly correct. It is true that a new cross-border payment and messaging system and, especially, a new reserve currency would be seen as confrontational by the US. The BRICS, or some of them, will probably think twice before moving in this direction. Only modest steps have been taken so far by the group. For instance, the Russian proposal, made in 2024, of a BRICS Cross-Border Payment Initiative (BCBPI), although endorsed as the basis for further work in the BRICS Summit in Kazan,<sup>29</sup> made very little, if any, progress since then.<sup>30</sup> SWIFT is a crucial element of the West's financial influence and power. Exclusions or threats of exclusion from this system have been repeatedly used to make rebellious or hostile countries either fall in line or suffer the costs of sanctions. Moreover, secondary sanctions are imposed on other countries if they transact with the sanctioned ones. There is no question that an attempt to build an alternative such as the BCBPI will encounter suspicion and resistance from the US and allies.<sup>31</sup>

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<sup>27</sup> SWIFT (Society for Worldwide Interbank Financial Telecommunication) was founded in 1973 as a network for financial institutions to exchange financial messages, enabling international transactions.

<sup>28</sup> Smith, Yves (2024).

<sup>29</sup> BRICS Russia 2024 (2024b, paragraphs 65-67).

<sup>30</sup> The Rio de Janeiro Declaration of BRICS Leaders in July 2025 bureaucratically repeated the call for further work on the BCBPI. BRICS Brasil 2025 (2025, paragraph 50). Progress is happening, however, as a result of national initiatives, notably with the development of China's Cross-Border Interbank Payment System (CIPS), and of a non-official or semi-official initiative called BRICS Pay that is sponsored by the BRICS Business Council. Montoya, Jennifer (2026).

<sup>31</sup> Nogueira Batista Jr., Paulo (2025b, p. 9-12).

A new reserve currency would face even more rejection. The US has a long-standing aversion to anything that risks weakening the dollar's international status. From the very beginning of the dollar's largely uncontested hegemony, the US refused any proposal that might undermine its global role. In the Bretton Woods negotiations, the American delegation buried Keynes' proposal for a multilateral currency, the famous bancor proposal, and imposed instead an international system centered on the dollar, convertible to gold at a fixed price. Subsequent attempts to come up with some kind of world currency came to nothing or almost nothing. The SDR, created as part of the IMF's framework, hardly made a dent on the dollar's position. Due mainly to US resistance, it has remained largely confined to internal operations of the Fund.<sup>32</sup>

That a BRICS or BRICS-centric currency will be received with great hostility has become abundantly clear under Donald Trump. The US president has made repeated threats and aggressive statements on the topic, including the wild claim that, for the US, losing the dollar's international reserve status would be "like losing a world war".<sup>33</sup> Resistance to any alternative to the dollar is unlikely to soften in future Administrations, given the existing bipartisan consensus in the US on the view that the dollar's centrality is vital, economically and politically. The basic stance will probably remain the same, even if Trump's more picturesque and truculent language is ditched.

There is, hence, no doubt that taking steps to construct alternatives to the dollar and the Western financial system will involve some confrontation with the US, especially under Trump, but even beyond his term. The BRICS might try to clothe any initiative in cautious and neutral language, as they usually do, but Americans and Europeans are bound to quickly see through that. It has been suggested,<sup>34</sup> for instance, that we start off by defining a basket of BRICS currencies, a simple and harmless step that would supposedly not generate controversy. This argument has failed to persuade and for good reason. The creation of such a basket would immediately spark the question: what purpose does it serve other than to function as a transitional mechanism to a new reserve currency?

It is useless to beat about the bush. If alternatives are to be seriously considered, political will and courage are indispensable requirements. Whether this is available in the BRICS or in other parts of the Global South is another matter. The record so far may not be encouraging. Nevertheless, the glaring and increasing deficiencies of the Western system can be expected, sooner or later, to force the BRICS, together with some other countries, to brace themselves and come forward with alternatives.

The more so that the second argument of the currently prevailing view is fundamentally flawed. This point must be stressed once again since misunderstandings abound. The truth of

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<sup>32</sup> The US has a veto on matters concerning the SDR. This was achieved in a roundabout manner by inscribing the SDR and its operations in the Articles of Agreement (AoA) of the IMF. Since the US holds 16% of voting powers and amendments to the AoA require a supermajority of 85%, more fundamental changes in the SDR, as well as any increases in the amount allocated, can be vetoed by the US. See the AoA of the institution in International Monetary Fund (2020, Articles XV to XXV and Article XXVIII). With few exceptions, any amendment to the AoA needs to be approved by a double majority of at least 85% of voting power and 3/5 of the members. International Monetary Fund (2020, Article XXVIII). The US veto doesn't even have to be actually exercised. The American Executive Director needs only to communicate that it opposes major decisions concerning the SDR or any other matter requiring 85% of votes.

<sup>33</sup> Business Today (2025).

<sup>34</sup> Mozhin, Aleksei (2025, p. 33).

the matter is that transactions in national currencies work well to a certain extent but have severe limitations.<sup>35</sup>

To fully understand this point, one needs to go back to first principles. Why do economic agents require a common monetary standard? Or, put more starkly, why has money always existed in recorded economic history? First, because it is impossible to match in time, quality and quantity the desired buying and selling decisions. The needs of a buyer of a certain good, service or asset will not coincide with the seller's supply. In other words, except in rare circumstances, the demands of economic agents will not exactly correspond the availability of suppliers. Second, in the absence of direct exchanges of products, a commonly accepted means of payment is always necessary. At the same time, even for barter, economic agents need a general equivalent of value, i.e., a unit of account in which all products can be expressed so as to make trade possible. Third, economic agents that have a surplus of sales over spending need to have an instrument to park these surpluses in. Without this, economic agents will not be able to register persistent trade imbalances over time, forcing them to seek to balance each and every one of their bilateral exchanges. *Reductio ad absurdum*.

In short, barter or barter-like arrangements do not work. There is no such thing as a moneyless economy. A common currency is required to serve as a means of payment, unit of account, and reserve asset.

These basic principles remain entirely valid in the field of international economics. For the very same reasons, a standard of value is needed for the smooth functioning of cross-border transactions. One could of course reply that this international standard already exists – the US dollar. But this is exactly the problem that we are trying to solve by creating a new reserve currency! The dollar no longer commands trust. Given that transactions in national currencies do not go very far, an alternative is required.

One example may further clarify the matter. Take the case of Russia and India. Transactions are currently done mostly in rubles and rupees. Russia runs a persistent bilateral surplus with India and has therefore been accumulating excess balances in rupees. These balances are undesired by Russia since the Indian currency is not convertible and is subject to depreciation risks. In other words, the rupee, like all other BRICS currencies (with the partial exception of the renminbi), is not an international reserve currency.

What options does Russia have? For obvious reasons, the dollar and the euro are out of the question. One possibility would be to use the rupee balances for additional purchases of goods and services from India or to acquire assets in the country. This route will not yield significant results. If profitable opportunities existed for additional imports from or investment in India, they would mostly already have been exploited by Russian and Indian economic agents. Another possibility, perhaps somewhat more promising, is to search for countries that have a need for Indian currency.<sup>36</sup> Middle Eastern countries, for instance, that host large number of Indian migrant workers will require rupees to effect transfers to the home country. The central banks of Middle Eastern Countries could be interested in acquiring rupees from Russia, probably with a discount, and sell them to their migrant workers for remittance to India. This possibility mitigates but does not solve the problem. Even if Russia is willing to sell rupees at a discount,

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<sup>35</sup> Galbraith, James Kenneth (2022).

<sup>36</sup> Wade, Robert H. (2024, p. 13).

there is no guarantee that demand for rupees from third countries would be readily available at all times in the desired quantities. Russia will be mired in a system akin to barter.<sup>37</sup>

For the many reasons given above, it seems advisable to search for a way to construct a new reserve currency. A possible path will be set out in the following sections of this paper.

### **A new reserve currency would not be a unified currency like the euro**

Before setting out on this path, a clarification should be made once again. The goal is not to establish a unified common currency issued by a common central bank, as is often claimed. Nothing like the euro is being envisaged since the BRICS or any BRICS-centric group are very far from minimally fulfilling the stringent criteria for a common monetary area. The constant repetition of this false claim is a sort of straw-man, attributable less to ignorance of monetary economics than to bad faith, i.e., an attempt to paralyze the discussion by offering a non-viable alternative to the status quo.<sup>38</sup> This distracting maneuver has worked, to some extent, if one is to judge from the frequency with which the straw-man appears in BRICS discussions.

The non-viability of a unified currency seems clear. The BRICS or any other conceivable group of relevant Global South countries do not fulfill any of the preconditions that have been met for monetary unification, such as strong trade and financial integration, reasonably synchronized business cycles, labor and capital mobility, fiscal risk-sharing and budgetary coordination, convergent inflation, and macroeconomic alignment.<sup>39</sup> None of these conditions are met or can be met in the foreseeable future by the BRICS or another group of Global South nations. And, to my knowledge, none of the economists that take part in this discussion have ever envisaged a unified currency, euro-like currency. Even the euro area, a region of the world that stands out for its level of economic integration, has struggled to guarantee the smooth functioning, sometimes even the survival of its unified currency.

What could be constructed is something fundamentally different from the European experience: a new standard for external transactions and international reserve holding. If created, it will not replace the currencies of the participating countries. Their currencies and central banks would continue to exist as before. National currencies would continue to be the only ones enjoying legal tenure status within the territories of the countries concerned. The new currency would circulate in parallel to the national ones and not alter the conduct of national monetary policies or other typical central bank functions. Moreover, no paper money will be needed. The new currency would be digital and could draw on the experience of some countries in constructing central bank digital currencies (CBDCs).<sup>40</sup>

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<sup>37</sup> Circumstances are different, not in essence but in degree, when the bilateral surplus is against China, as is the case of Brazil. Brazil has a persistent surplus and accumulates renminbi. Although there seems to be no official information on this, it is reported that about 40% of Sino Brazilian trade are currently settled in Chinese currency. Medeiros, Valdemar (2025). Differing from the other Global South currencies, however, the renminbi plays a considerable international role. So, the Brazilian central bank is ready to hold RMB as part of its external reserves. But only to a limited extent, given that the Chinese currency is inconvertible and less liquid than traditional reserve currencies. End of December 2024, the Central Bank had only 5.2% of its international reserves invested in RMB denominated assets. Banco Central do Brasil (2025, p. 16).

<sup>38</sup> Although often repeated in the debate on international monetary alternatives, this straw-man is rarely presented for what it is. For my own previous discussion of this, see Nogueira Batista Jr., Paulo (2025a, p. 20, 21).

<sup>39</sup> The classical work on this topic was done by Mundell, Robert (1961).

<sup>40</sup> A decision to create paper money in the new currency, if taken, could be only symbolic in nature since transactions and holdings in paper money would be minimal.

## **A new unit of account as a transitional mechanism**

The path to a new reserve currency may involve, in a first stage, the creation of a new unit of account as a transitional arrangement. This new unit of account, we could call it NUA, can take the form of a basket of the currencies of the sponsoring countries, an SDR-like construct.<sup>41</sup> The NUA would be a weighted average of the exchange rates of the currencies of the participating countries. The shares in the basket could be equivalent to shares of the countries in the group's GDP PPP.<sup>42</sup>

Initially, the NUA would stand on its own. In this transition, it could become known and increasingly used as a measure of value. There are at least two ways of ensuring this. First of all, the NUA could piggyback on the dollar's unit of account function. For this, it would suffice to construct the basket in such a manner as to make it begin at a one-to-one parity with the US dollar. Parity would only be a starting point: the dollar/NUA exchange rate would fluctuate over time, in line with the average weighted fluctuations of the exchange rates of its constituent currencies with respect to the dollar, but can be expected not to depart too much from the initial parity. As we will presently see, a certain stability arises from endogenous features of the NUA and could be enhanced by including some specific stabilizing criteria in its calculation.

In the second place, participating countries could actively encourage the use of the NUA to prepare for the subsequent transition to a new reserve currency. The NDB and the CRA, for example, could use the NUA in its accounts *in lieu* of the dollar or, alternatively, combine both units of accounts, as the IMF does by publishing accounts and other financial information in dollars and SDRs. And governments could consider denominating their own balance of payments accounts not only in dollars but also in NUA.

At one point, the NUA would be converted into the new reserve currency, maintaining the exact same distribution of weights. Weights would be adjusted if new countries decide to join the initiative. They could also be redefined periodically to reflect changes in the relative weight of the countries involved, say, every five or 10 years.

A simple conversion of the NUA into a new currency is, of course, far from enough. For a currency to be successfully launched, a number of requirements need to be met. We will address them one by one.

### **Would we need a new institution?**

First, a credible institution needs to be in charge of the issuance. Could it be a preexisting institution or should a new one be created?

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<sup>41</sup> This possibility has been discussed by Russian economists since 2018. See, for instance, Lissovlik, Yaroslav (2023, p. 2) and Mozhin, Aleksei (2025, p. 32-34).

<sup>42</sup> GDP PPP, rather than nominal GDP based on market exchange rates, is better suited for international comparisons of economic size of countries, the basic reason being that there often are major differences across countries between the prices of non-tradeable goods and services. Callen, Tim (2007). The GDP of a country is measured in its currency, requiring adjustment when trying to compare it to the value of GDP in another country that uses a different currency. Currency conversion can be done either using market exchange rates—those that prevail in the foreign exchange market—or purchasing-power-parity (PPP) exchange rates. The PPP exchange rate is the rate at which the currency of one country has to be converted into that of another to purchase the same amount of goods and services in each country. Callen, Tim (2008).

It is possible, in theory, to encharge an existing financial institution with the issuance and management of the new currency. However, none of the institutions in place could efficiently take on the task under their current rules and legal frameworks. The New Development Bank (NDB), established by the BRICS in Shanghai, is often mentioned as a possibility.<sup>43</sup> Although the NDB has the advantage of being the sole significant institution created by the group, one can doubt that it can serve this new purpose. By its Articles of Agreement, the bank's mandate is limited to financing infrastructure and sustainable development in emerging market and developing countries.<sup>44</sup> It is a multilateral development bank, established according to the general model inaugurated by the World Bank. The Articles would therefore have to be amended extensively to establish a completely different mandate. Moreover, the NDB is a relatively new institution that began operating in 2016, and is still struggling to become an effective global lender. Adding new and totally different tasks to the NDB's mandate is not a promising route.

Similar difficulties appear with other institutions. For instance, the BRICS Contingent Reserve Arrangement (CRA), the other institution created by the group, is even less suited. It is, by treaty, a virtual reserve pool designed to provide support to member countries in case of balance of payments difficulties. Tasking the CRA with the issuance and management of a new reserve currency also requires extensive amendments to the Treaty signed in 2014 and ratified in 2015.<sup>45</sup> Furthermore, the CRA's track record is much weaker than that of the NDB. It remains largely frozen and non-operational, having conducted no operations, only test runs.<sup>46</sup> The CRA would therefore be an even less promising route.

The traditional multilateral financial institutions could hardly be contemplated. It makes no sense at all to task the IMF and the World Bank, controlled as they are by the West, with the creation and management of a new reserve currency the purpose of which is to serve as alternative to the dollar and the euro. Western central banks should be out ruled on the same grounds.

Could any non-Western central bank take up the task? Highly unlikely. It is true that nearly all central banks are entrusted with currency issuance, among other functions. However, currencies issued by non-Western central banks are almost always national,<sup>47</sup> and their legal mandates would also have to be amended in a major and unprecedented way to allow any of them to issue an international currency. A central bank that is national, in origin and essence, would struggle to fulfill this entirely new function.

It follows that a new institution has to be established. Let us call it the Global South Bank (GSB). Who would establish the GSB? As previously indicated, it would be a plurilateral undertaking of a group of emerging market and developing countries. Would it be a BRICS initiative? Not necessarily. Not all of the 10 full members of the BRICS would be willing and prepared to join right away. India, for instance, although capable of participating, may not desire to do so immediately. The same holds for the United Arab Emirates, given its close links to the US and Israel. Other BRICS members, Egypt and Ethiopia, for example, may not yet be able to participate in the creation of a trustworthy and independent institution. Both are under IMF

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<sup>43</sup> By Yanis Varoufakis, for instance. Varoufakis, Yanis (2025, p. 3).

<sup>44</sup> New Development Bank (2014, Article 1).

<sup>45</sup> BRICS Contingent Reserve Arrangement (2014).

<sup>46</sup> Fernandes, Marco (2024); Vasconcelos, Jonnas & Acioly, Luciana (2025).

<sup>47</sup> The exceptions are the currencies of small regional or subregional monetary unions in the Caribbean and Africa, as well as a number of bilateral or plurilateral monetary arrangements in other areas of the Global South.

programs and vulnerable to Western pressure.<sup>48</sup> Some non-BRICS nations, however, might be suitable candidates for participation in the GSB.

For these reasons, the GSB should not carry the BRICS acronym in its name, and the new currency would not be a “BRICS currency”. We could call it, for instance, New Reserve Currency (NRC). The GSB and the NRC would, in any case, be BRICS-centric since one could not bring together a meaningful group of sponsoring countries without the participation of most of the BRICS. Given China’s size and financial strength, its participation may be seen as indispensable, the same not holding for the other BRICS.

The GSB should not be a closed institution, remaining always open to the accession of other BRICS and non-BRICS at a later date.<sup>49</sup> Could the GSB be open to the West? Why not? The initiative should not be characterized as anti-Western but as post-Western. Needless to say, it is not advisable to have Western countries participate in the actual creation of the GSB since this could open the risk of distortions and undue interference in the budding institution. Or, to put it more starkly, Western nations could easily become Trojan horses in the construction phase of the GSB.

Be as it may, very few, if any, Western countries can be expected to join. Their ingrained arrogance would probably impede them from taking part in an initiative originating in emerging market and developing countries. Also, many Global South nations would not be able or willing to join. The NRC could therefore not be conceived as a global currency. If it proves successful, it will be one reserve currency in a multipolar and multicurrency world, alongside the dollar, the euro, the renminbi, the yen and a few other currencies.

#### **An example of how the new institution’s (GSB) membership could look like**

Let us give an example of what the initial formation of the GSB’s membership might look like. A group of, say, 20 countries could initiate the bank and the new plurilateral reserve currency: China, India, Russia, Brazil, Indonesia, South Africa, United Arab Emirates, Algeria, Morocco, Nigeria, Kenya, Tanzania, Pakistan, Malaysia, Thailand, Vietnam, Peru, Colombia, Uzbekistan, and Bangladesh. These 20 countries would be legally responsible for the GSB, and it would fall on them to provide the backing required for the NRC. Although larger than the BRICS and although it does not include all BRICS, a group thus constituted would be BRICS-centric. Seven of these countries are BRICS members and account for a dominant share of the group’s GDP. The other 13 countries are not full members of the BRICS, but five of them are partner countries of the group.<sup>50</sup> The last three are (or are in the process of becoming) members of the NDB.

Needless to say, this example is merely illustrative of what the group of countries sponsoring the GSB could be, namely, a significant subgroup of the BRICS formation plus other Global South countries. The same type of group can be constructed replacing some of the above mentioned by other emerging market nations.<sup>51</sup>

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<sup>48</sup> Curtis, John (2024, p. 34-37).

<sup>49</sup> One could at most introduce somewhat less favorable conditions of access for countries joining later. In other words, latecomers could perhaps be penalized compared to the early birds, as suggested by Chinese economist Di Dongsheng in conversation with the author.

<sup>50</sup> BRICS Brasil 2025 (2025, paragraph 3).

<sup>51</sup> India and United Arab Emirates, for reasons given above, are unlikely to join in a first stage.

Having by far the largest economy, China accounts for about 44% of this group's GDP on a PPP basis. India for 19%. Russia for 8%. Indonesia and Brazil for about 5.5% each. The other 15 countries considered together account for around 18% of the group's GDP PPP, with the individual shares varying from 0.3% to 2% of the total.<sup>52</sup> These GDP PPP shares can form the basis for the NUA and the NRC. The voting shares, however, could be based on compressed GDP PPP shares and also include basic votes in order to mitigate Indian and especially Chinese dominance over the new currency and the new institution. We will come back to voting and decision-making in a subsequent section of this paper.

For now, note further that if India is excluded, China's share rises to about 55%. The exclusion of India arguably makes the example somewhat more realistic, given the country's repeatedly demonstrated resistance to such proposals. India enjoys (or believed it enjoyed) a special relationship with the United States, highly valued as a counterpoint to a perceived Chinese threat. Apparently, this is why India often objects to BRICS initiatives that could touch a raw nerve in the US by threatening, or seeming to threaten, the dollar's preeminence. While India's stance may change after Trump's surprising decision to slap high tariffs on the country's exports to the US in 2025, it is too early to tell whether this incident will have a lasting effect on US/India relations.<sup>53</sup> In any case, a larger share for China helps build confidence in the GSB – at the cost, however, of potentially provoking a serious imbalance in the institution's governance. To counter this, one would need to resort, in case India stays out, to a more substantial use of voting rules other than simple majority, as well as of variables other than GDP to moderate China's share of votes and decision-making power.

Note, finally, that enlarging the number of sponsoring countries to include several smaller countries diminishes China's share to some extent. A smaller number of initial participants may be preferable, however, since this simplifies negotiations at no great loss in terms of increasing China's dominance. For instance, if we reduce the group from the above 20 to 13 countries, keeping India in and excluding those countries that account for less than 1% of the group's GDP PPP, China's share would be 49%, compared to 44% in the group of 20 nations. On balance, therefore, one could well start off with a group not exceeding 15 countries and rely on other mechanisms, to be discussed below, to ensure some equilibrium in the bank's governance.

### **How to build confidence in the new reserve currency (NRC)? How would it be backed?**

There is more than one way to build confidence in the new currency. For instance, in order to establish a contrast with the dollar and the euro, a clear commitment could be included in the legal structure of the GSB ruling out any weaponization of the NRC. Property rights and free flows in and out of the NRC and NRBs would be explicitly ensured under the new system. One could also specify a limit to the issuance of NRCs expressed in nominal terms and adopt rules that preserve the stability of its value.

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<sup>52</sup> The more widely used estimates of GDP PPP are those produced by the IMF and the World Bank. The country shares given in the text are calculations based on estimates published by International Monetary Fund (2025c).

<sup>53</sup> Nogueira Batista Jr., Paulo (2025a, p. 9, 20). US/India relations seem to have been patched up by an interim trade agreement reached in the beginning of February 2026 that includes a partial reversion of the 2025 tariff increase. A short and vague joint statement on this deal was published by the US government. The White House (2026).

But such guarantees are probably not sufficient. Confidence in a currency arises from what is often referred to as “backing” or “anchoring”. How could backing work in practice? It cannot be some monetary trick or symbolic assurance. In monetary theory and practice, to back a currency means, strictly speaking, to ensure its convertibility at a fixed rate into something valuable that can be trusted.

What are the alternatives for the GSB? To resort to convertibility in dollars or euros would of course defeat the whole purpose of the exercise. And other currencies (with the partial exception of the renminbi) could hardly do the job, as explained previously.

Could the new currency be backed by gold? That means going back to the long deceased gold-exchange standard. This regression to past practices, even if feasible, would not be advisable.<sup>54</sup> One should keep in mind that a currency must maintain a stable relation to the asset that backs it. Now, gold is highly unstable in price, making the new currency as unstable as gold. The same holds for any other commodity or basket of commodities that might be considered as backing for the currency since price volatility is a feature of all commodities without exception. The countries participating in the initiative would, moreover, not be in a position to, even jointly, stabilize international commodity prices.

Thus, the NRC could not be a commodity currency. It would probably have to be a fiduciary currency, as is the case of the currencies of almost all countries.<sup>55</sup> As is well known, not all fiduciary currencies enjoy *fiducia*, only those that are backed by sound monetary and fiscal policies in the issuing country.<sup>56</sup> Confidence in the NRC would depend basically on the policies of the sponsoring countries. Given the reasonable macroeconomic track record of many BRICS and non-BRICS countries that might be part of the initiative, this precondition could be largely met, provided of course that the GSB’s institutional design be well thought through.

How would the backing of the NRC be operationalized in the model envisaged in this paper? A first approximation to this issue can be formulated as follows. The new reserve currency could be backed, in the first instance, by bonds issued by the GSB, let us call them New Reserve Bonds (NRBs). NRBs would be short-term, with maturities of up to six months, and automatically renewable unless the holder demands redemption. They would take the form of a basket of bonds of sponsoring countries with weights assigned according to GDP PPP shares, as in the NUA and NRC baskets. NRC balances would be fully and immediately convertible into NRBs at a fixed price. They would in turn be convertible into the bonds issued by the Treasuries of the participating countries. More precisely, NRBs would be convertible into a basket of bonds of the sponsoring countries, with the same composition and weights as the NUA and the NRC.

In other words, the NRC would have two backstops: the bonds of the GSB and the basket of bonds provided by member countries (BoB). This mechanism would be the main vehicle through which the GSB receives support from the sponsoring countries. The solidity of the new monetary arrangement will therefore ultimately depend on the solidity of the finances of these countries, a point to which we will need to come back later.

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<sup>54</sup> The experience of some countries seems to indicate that monetary regressions are not successful, often ending up in the dead alley of anachronisms that do not work at all. The adoption of a currency board by Argentina in the early 1990s is a case in point. See, for instance, Nogueira Batista Jr., Paulo (1993, p. 153-160).

<sup>55</sup> With exception of countries and monetary unions that tie their currencies to the dollar or the euro in a currency board arrangement.

<sup>56</sup> As indicated above, the US itself no longer meets this requirement comfortably.

As NRCs and NRBs enter into circulation, the proceeds from these sales, obtained in the form of currencies readily traded in foreign exchange markets, have to be entirely converted into a basket of bonds of the participating countries. The total amount of bonds and currency issued by the GSB will therefore always be 100% backed by the BoB.

The creation of a new currency would not in itself require sponsoring countries to pay-in capital. Countries would supply capital to the GSB for the sole purpose of constituting an initial precautionary reserve by transferring to the bank a certain amount of bonds issued by them. In this approach, the demands on the budgets of the countries would be limited, much lighter than the ones implied by participation in the construction of a multilateral lending bank such as the NDB or the Asian Infrastructure Investment Bank (AIIB).

The asset side of the GSB's balance of sheet would therefore be constituted mainly by bonds of the participating governments and the bank's precautionary reserve invested in safe and liquid assets. On the debit side, there would be the NRCs and NRBs held by the public and the bank's capital.

The interest rates on NRBs would be slightly lower than the weighted average of the interest rates on the bonds of the participating countries, allowing the GSB to have a net financial profit to cover operational costs. The spread would be very low, given that the GSB could and should be a lean institution. It would be fixed at a certain level and reviewed periodically.

Any excess of financial gains over operational and other costs would become a profit either to be shared with the sponsoring countries or, alternatively, retained to expand the precautionary reserve. Countries backing the GSB might well earn a profit, although profit earning would not be a goal or a major consideration for them. The objective of the GSB would be to maximize issuance, subject to preestablished constraints, and not to maximize profits.

In a subsequent section of the paper, the GSB's balance sheet and profit and loss statement will be presented in more detail to facilitate the understanding of the bank's mode of operation.

### **Rules versus discretion. What types of rules are needed?**

The GSB should be constrained, to the extent possible, by clearly specified rules such as the ones described in the preceding section. In the design of the bank one needs to deal with the traditional dilemma between credibility and flexibility by taking a middle ground between rigid rules and pure discretion. This is normally the way this issue is addressed in the design of institutions and macroeconomic policies. Some intermediary point is always chosen since pure discretion and inflexible rules are problematic in practice.

Given the paramount objective of generating confidence in the currency, the GSB's institutional design should rely more on rules than discretion. The bank could work in a nearly automatic fashion with hardly any discretionary power, while at the same time retaining enough flexibility to allow for short-term operational requirements and unforeseeable events.

What rules should be included in the GSB's Articles of Agreement to ensure that the bank and its currency remain trustworthy? At least three major types of rules can be considered: i) those that safeguard the currency's convertibility into the chosen anchor, already explained in general terms in the foregoing section; ii) those that guard against excessive creation of money; and iii) those that ensure stability in the NRC's value. A further confidence-building rule could be to grant a measure of autonomy to the GSB's Administration by establishing fixed mandates for

the President and Vice Presidents, another feature that the NRC and GSB could share with contemporary currencies and central banks, as well as with most multilateral financial organizations. This topic will be addressed when we come to the section on the bank's governance.

Excess issuance could be avoided by establishing an upper limit to the supply of the currency, i.e., a ceiling for the total amount of NRCs and NRBs circulated by the bank expressed in nominal terms. Predefining a maximum issue helps to generate confidence in the currency. The NRC would have something that the US dollar and other currencies lack: a brake on issuance. The presently dominant currencies are created without any formal restraint, reflecting the priorities of the governments and central banks of the issuing countries.

Some flexibility should be built into the system. If the ceiling proves too low, the GSB needs to be able to quickly increase it by an amount sufficient to allow the required additional issuance of currency and bonds. If, on the contrary, the ceiling proves too high, the participating countries should be able to reduce it. The bank's legal structure can specify the indicators and criteria to be considered when expanding or reducing the overall limit.

The ceiling on issuance is of secondary importance, however. The main anchor of the currency would be the previously mentioned fiduciary backing of the currency, namely the rules that ensure full backing of the NRCs and NRBs by the predefined basket of bonds. Let us discuss these back-stopping rules in a little more detail.

The proceeds from each sale of NRCs or NRBs would have to be, as indicated, fully converted into the BoB. Thus, for each amount of liabilities in the form of currency or bonds the GSB would have on the asset side of its balance sheet the exact same amount of bonds of the participating nations. This ensures that the bank is capable of fully redeeming its liabilities in NRC or NRB on a one-to-one basis.

Under these rules, the size of the outstanding balances of NRCs and NRBs would be driven by demand, and not by decisions of the GSB. In other words, supply of the currency would be passive. If economic agents respond to a need for international currency by buying NRCs or NRBs, the GSB would supply automatically the assets demanded while using the proceeds to buy bonds. The sponsoring countries would be obligated in turn to readily supply the required amounts of bonds to the GSB, in line with the composition of the BoB.

The exact opposite happens, of course, if NRB and NRC holders demand redemption. In this case, they immediately receive, as explained earlier, a basket of bonds of the participating countries, at a fixed price and in amounts strictly corresponding to the weights of the basket. The digital records of the formerly outstanding NRBs or NRCs would be simply deleted on redemption. The balance sheet of the GSB would shrink: a reduction in NRBs or NRCs in the hands of the public<sup>57</sup> on the liability side would be matched by corresponding reduction of the

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<sup>57</sup> Normally, one distinguishes currency and bonds in the hands of the public (or in circulation) from currency and bonds issued. The latter is usually larger since some currency and bonds remain in the hands of the central banks. The currency and bonds in circulation plus those held by the issuing authority equal the total amount issued. In the case of the GSB, however, such a distinction is meaningless. As mentioned, NRCs and NRBs would be fully digital, requiring no physical form. Paper currency or paper bonds would only be issued symbolically, if at all. If a bond or a currency is redeemed, the corresponding digital entries would be simply deleted on the debit side of the balance sheet and part of the BoB would leave the bank, being deleted from the asset side and transferred to the sellers of NRBs and NRCs.

BoB in the hands of the GSB on the asset side. The remaining balances of NRCs in circulation and the outstanding NRBs would still be fully covered by the backstop in the form of a BoB, at a lower level. The exiting investors would be free to use the bonds as desired. Massive redemptions would of course signal a failure of the institution, given that its purpose is to maximize the amount of NRCs and NRBs held by the public.

One fundamental point needs to be highlighted: like all issuing banks the GSB would create currency “out of thin air” – a part of what Friedman in his later years called “the mystery of money”.<sup>58</sup> This is why capital budget resources are not needed for anchoring purposes. The cost of creating the NRC, digital credits for its holders and digital debits for the GSB, would be modest and limited to the indirect cost incurred in building and maintaining the new monetary system.

Actual holdings of currency by the public would be small compared to holdings of bonds, given that NRBs would be short-term and carry moderate, but still attractive interest rates,<sup>59</sup> slightly lower than the average rates on the basket of bonds of the sponsoring countries. As previously explained, the interest rate differential would be fixed but subject to periodic revision.

The outstanding balances of NRCs and NRBs at face value would be equal to the face value of the amount of bonds that constitute the monetary anchor, as indicated above. However, since the value of the bonds would fluctuate in secondary markets, the ratio of NRCs plus NRBs to the basket of bonds would rise or fall on a mark-to-market basis, with effective interest rates fluctuating accordingly. At secondary market values, the sum of NRCs and NRBs could thus conceivably rise above the value of the basket of bonds. This does not run counter to the GSB’s commitment, which is to be able redeem fully the short-term NRBs at face value on maturity. Gains and losses would be for those operating in the secondary markets, not for the GSB.

What is the operational role of sponsoring countries? While not called upon to supply capital for anchoring purposes, they need to commit to stand ready to provide their bonds to the GSB at the required maturities, with market-based interest rates. All these features should be spelled out unambiguously in the operational rules of the bank.

Countries would also be required, as mentioned, to provide a limited amount of capital in the form of bonds, at least in the initial phase of the GSB, in order to constitute a precautionary reserve. Later, as the bank generates and retains profits, this initial capital could be returned to the sponsoring countries. The GSB’s reserve can be expected to be small, given that its only purpose would be to compensate for cost overruns, i.e., for losses arising from an excess of operational and other expenditures over net interest income. This is because, by design, the GSB would not be exposed to capital losses (nor benefit from capital gains), and its net interest income, also by design, would always be positive. To begin with, the precautionary reserve could therefore be simply defined as a fraction of operational costs. In a lean institution such as the GSB, operational costs would be small and easy to predict. Reserves would be drawn upon when the bank’s net financial income should fall short of operational and other expenses.

### **Stability of the NRC**

Equally important is to guard against the instability in the value of the new currency. Since it would not be a currency for domestic transactions, but only an alternative currency for

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<sup>58</sup> Friedman, Milton (1992, p. 8-50).

<sup>59</sup> There would of course be a range of interest rates on NRBs with rates rising slightly for higher maturities.

international purposes, it makes little sense to speak of inflation in NRCs. The relevant measure of instability would be the fluctuation of the currency's exchange rate. Variations with respect to other currencies would reflect the weighted average exchange rate changes of its constituent currencies. The NRC would be a fluctuating fiduciary currency, like all major currencies since the last decades of the 20<sup>th</sup> century.

The question is whether there would be an excessive fluctuation that could undermine the NRC's credibility as a reserve asset and usefulness as a unit of account. There are reasons to downplay this concern. Some are endogenous. First of all, China's large weight in the basket of the NUA and the NRC has by itself a sizeable stabilizing influence, given the sustained stability of the renminbi. Moreover, some of the currencies and bonds included in the NRC and the NRB are of commodity exporting countries, others of commodity importers. In the example provided above, Brazil, Russia, South Africa and others are commodity exporters. China and India, with the largest weights in the basket, are commodity importing countries, at the opposite side of the commodity price cycle. In times of rising prices, the currencies of Brazil, Russia, South Africa and other countries tend to appreciate, while those of China and India tend to depreciate. In times of falling prices, conversely, the currencies of the first group would fall, and those of the second group would rise.<sup>60</sup> These movements partly cancel each other out, favoring the stability of the NRC and the NRB.

If these endogenous stabilizing factors are not sufficient, as may be the case, one could generate additional stability by construction, i.e., by specifying exogenous stabilizing factors. To this end, the currencies experiencing excess volatility, i.e., depreciation or appreciation beyond certain predefined limits, could be temporarily excluded from the NRC. The relevant average would therefore be a symmetrical trimmed average. It might be preferable to specify this trimmed average as a geometric average, providing an additional factor of stability, since the variance of geometric averages is typically lower than that of arithmetic ones. If the difference in dispersion turns out to be small, we might as well do without this slight complication.

These factors taken together seem sufficient to ensure the required measure of stability. In any case, no specific nominal level for the exchange rate should be targeted for the NRC.<sup>61</sup> Its value relative to that of other currencies would be automatically determined by the application of the formula. In other words, the GSB would not be running an exchange rate policy. Note, by the way, that the same stabilizing factors, endogenous and exogenous, would have already been incorporated into the calculation of the NUA, making it reasonably stable and thereby paving the way for some measure of stability for the NRC.

The same approach could be followed with respect to interest rates. The interest rates on NRBs should be, as explained, slightly lower than the average interest rate on the bonds held by the bank. The spread would be fixed and the rates on NBRs would fluctuate in line with the rates on the national bonds. Could this bring excessive instability? Again, not necessarily. The above-mentioned endogenous factors for exchange rate stability also hold for interest rates. The weight of renminbi in the basket would automatically help stabilize the interest rates on NRBs, given that Chinese rates are not prone to fluctuate much. Furthermore, in times of rising commodity prices, interest rates in commodity exporting countries tend to fall and to rise in commodity importing ones; in times of falling prices, the opposite tends to occur.

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<sup>60</sup> Lissovnikov, Yaroslav (2022, p. 2).

<sup>61</sup> Nor would any nominal exchange rate band be defined. Exchange rate targets in real terms are meaningless in the case of the NRC since measurements of inflation in NRC have no practical purpose.

If these endogenous factors look insufficient, one could define stabilizing criteria, analogous to the ones used for exchange rates. The currencies and bonds of countries undergoing at any time extremes variations of their interest rates, in excess of predefined upper and lower bounds,<sup>62</sup> could be temporarily excluded from the calculation of the average interest rate, protecting the GSB from unwanted instability in interest rates. As in the case of the specification of the average exchange rate, this second symmetrical trimmed average may also be calculated as a geometric average, potentially providing an additional factor of stability.<sup>63</sup>

Would the GSB have its own interest rate and exchange rate policies? The question may be somewhat redundant in light of the points made just now. In any case, addressing it directly can help form a better understanding of the bank's mode of operation. Basing the NRC's exchange rate on a basket of the currencies of members means that the exchange rate would in a sense be fixed or, more precisely, determined exogenously by a preestablished rule. The same applies, as we saw, to the interest rates on NRBs.

This means that an excessive or insufficient demand for NRC relatively to supply would not translate into appreciation or depreciation of the NRC, nor would it alter the interest paid on NRBs. The excess or lack of demand would be accommodated by fluctuations in the secondary value of the NRBs in international markets. As usually happens, fixing the exchange rate implies loss of control over interest rates, in this case over interest rates on NRBs in secondary markets. In other words, since the GSB is obligated by design to passively accept the bilateral exchange rates that arise from the defined basket, it has to renounce the control of interest rates in secondary markets. Constrained by the operating rules of the bank, these secondary market fluctuations would, however, be under some control, even if imperfect.

If there is excess demand, the value of the NRBs would rise relatively to its face value and interest rates would fall in secondary markets. If demand is insufficient, NRBs would trade at a discount relative to face value and interest rates would rise. These fluctuations in interest rates tend normally to make prices of bonds converge back to face value, given the interplay between demand and supply. In any case, the GSB would be committed to redeem NRBs at face value on maturity with no restrictions. Thus, bond prices in secondary markets will only depart temporarily from face value. Since maturities would be very short, at most six months, these departures would only last for a short while.

In short, with the rules established for the GSB, fluctuations in interest and exchange rates can be expected to be modest. In the case of exchange rates of the NRC, stability is given by the predefined formula, reinforced by exogenous factors. In the case of interest rates on NRBs, the same holds and rates would be fixed for redemption at maturity; secondary market rates would probably show little volatility.

In a situation of persistently rising demand for NRCs and NRBs, the GSB would respond by automatically supplying currencies and bonds, while applying the proceeds of these sales to

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<sup>62</sup> One could establish, for instance, the premium over Chinese bonds as the relevant benchmark. Technically, one could use US Treasuries as the reference, but this runs counter to the overall approach of constructing an alternative to the dollar system.

<sup>63</sup> Temporary suspension from the NRC and NRB baskets could also apply to the BoB and capital baskets, and could, therefore, not only stabilize exchange and interest rates, but reinforce confidence in the NRC and the GSB, a point to which we will return to in a subsequent section of this paper.

the acquisition of bonds from participating countries in the amount required to preserve the 100% backstop. Sponsoring countries are to be legally responsible, as indicated previously, for providing the required Treasury bonds in the specified amounts and maturities. The absolute limit for the NRC and the NRB would be given by the above mentioned ceiling to issuance. Conversely, if there is excess supply, the GSB would buy back some of its bonds and return the corresponding amount of bonds to the participating countries.

### **A few words on the broader picture of international monetary and financial reform**

Before proceeding to further examine the monetary architecture that is being proposed here, we will step aside and take a quick look at the broader picture. It may be clear by now that the NRC and the GSB could be the monetary fundamentals of a new Post-Western or Non-Western International Monetary and Financial System, to adopt an expression used by Chinese scholars.<sup>64</sup> They would be the linchpin of a number of initiatives, including ones that the BRICS have already taken and new ones that may be contemplated. As mentioned, the NRC and the GSB, although built by a group of BRICS and Global South countries, could be a system open to all countries of the world, including those of the West at a later stage.

The GSB should not be, however, in the business of trying to solve too many problems at the same time. Putting together a new monetary architecture is challenging enough, as can be seen from the discussion so far and will be seen in the subsequent sections of the paper. As a practical matter, one should not overburden the GSB with issues it would not be able to address. For instance, the liberalization or not of capital movements and the definition of exchange-rate regimes and policies would remain in the hands of the participating countries without any interference on the part of the bank. It would adapt its rules and operations, as needed, to the realities of the international financial system, notably flexible or floating currencies, widespread financialization, and massive movements of portfolio investment and short-term speculative capital. After the GSB is up and running, it could at most contribute to the ongoing international debate on such matters.

The assumption here is that the new monetary arrangement does not presuppose a broader reform of the international financial system. The latter requires more time and would involve, for instance, a revamping of the NDB and of the CRA, reputable credit rating agencies independent of the US-based ones, alternative messaging and payment systems independent from the West, among other aspects.

A blueprint of such a new International Monetary and Financial System (IMFS) was presented in a previous paper,<sup>65</sup> so I will not deal with the rest of the system now and remain focused on the monetary fundamentals of the new IMFS. In the following sections, a number of other operational and institutional aspects of the GSB will be addressed.

### **Size of the GSB and network effects**

The acceptance of the NRC will also depend, as is the case of all currencies, on network effects. A currency is accepted if it is accepted – a virtuous circle –, it is rejected if it is rejected – a vicious circle. How could we ensure a virtuous circle for the NRC?

In the first place, the above-mentioned monetary ceiling, defined in NRCs, would need to be sufficient to allow the GSB to accommodate a potentially large demand for its currency and

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<sup>64</sup> Long, Zhao et al (2025, p. 1-9).

<sup>65</sup> Nogueira Batista Jr., Paulo (2024b, p. 7-14).

become a relevant player. While not creating the incentive for an over-issuance that could harm confidence in the new currency, the participating countries would have to keep in mind the need for an ambitious starting point, one that would allow the NRC to avoid the trap of negative network effects and turn into a major international currency.

Beyond this, and more importantly, the multilateral institutions and governments of the participating countries could be proactive and help create positive network effects. There are several ways of doing this. The NDB, for instance, could be guided to make loans and issue bonds in NRCs. The NRC could be defined as one of the eligible currencies for swaps undertaken by the CRA. Public banks of the sponsoring countries could use NRCs in their international lending and funding operations. Governments and central banks, as well as the NDB and other public banks of member countries, could also buy NRBs for reserve holding purposes. Governments could, in addition, allow for NRC-settlement or denomination of part of their cross border expenditures. A government-led push along these lines could rapidly generate positive network effects for the new currency.

How would the issuance of NRCs and NRBs be determined? There would be the aforementioned ceiling for issuance, but the actual amounts issued, their greater or lesser proximity to the ceiling, would be demand-determined. Demand includes two components – voluntary demand and a government-led component. We could call the latter “autonomous demand”, and it would dominate, initially. As the NRC gains credibility and visibility, voluntary demand would become preponderant.

The stock of circulating NRCs and NRBs, expressed in NRCs, could be described in a simplified manner as follows:<sup>66</sup>

$$\text{NRC} + \text{NRB} = \text{AD} + \text{VD}$$

Where: NRC equals the stock of circulating currency; NRB the stock of circulating bonds; AD the amounts of NRCs and NRBs held autonomously as a result of government-sponsored demand; and VD bonds and currency held as a result of purely voluntary demand.

Voluntary demand, in turn, can be expressed as a function of international cross border flows in the following manner:

$$\text{VD}' = aW + bGS + c\text{BRICS}$$

Where: VD' represents the flow of voluntary demand for NRCs and NRBs in any given period; W the overall cross border flows within the West and between the West and the Global South; GS the flows between the non-BRICS Global South countries and between them and the BRICS; and BRICS the intra-BRICS international flows.

Coefficient  $a$  can be taken to approximate zero, reflecting Western resistance to the new currency. Coefficient  $c$  would be larger than coefficient  $b$ , reflecting the fact that usage of the NRC can be presumed to be higher inside than outside the BRICS since the group of sponsoring countries would be to a considerable extent coterminous with the BRICS, i.e., would include a majority of the group's members, as in the example previously given.

These coefficients are a direct function of confidence in the NRC-system. As time goes by, assuming that confidence is firmly established by the institutional arrangements put in place,

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<sup>66</sup> Since NRBs and bonds of sponsoring countries are to be accounted for at face value, there is no need to factor in valuation changes.

coefficients  $b$  and  $c$  can be expected to increase. Even coefficient  $a$  may rise modestly. Given these coefficients,  $VD'$  will rise in line with the overall international flows of goods, services, transfers, and capital movements (autonomous and compensatory).<sup>67</sup> These indicators would need to be monitored by the GSB on a regular basis in order to assess how confidence in the NRC system is evolving.

One additional observation may be in order here. The NRC would not be legal tender and governments could not simply force its adoption by the private sector and certain public institutions. For example, central banks are often autonomous, i.e., to a certain extent protected from interference in their allocation of international reserves. Similarly, governments could not simply order the NDB to lend and borrow in NRCs. Any such decisions have to go through the bank's legal process and administrative structure.

### **Balance sheet and profit and loss statement of the GSB**

How will the GSB's balance sheet and profit and loss statement look like? As indicated before, the main items of the balance sheet will be, on the asset side, the basket of bonds supplied by the participating countries and the precautionary reserve invested in safe and liquid bonds. To this we should add fixed assets, mainly the bank's offices, which can be donated by the host country. Due to its small size, the GSB would not require a building of its own. It might be advisable to locate the bank in China, in recognition of the country's special role in the new institution. One possibility would be to allow the GSB to occupy a few floors of the NDB's large and underutilized building in Shanghai, thereby cutting expenses.<sup>68</sup>

On the liability side, the main items will be the GSB's capital and the NRCs and NRBs in circulation. Capital would have two components: paid-in and donated capital. Donated capital would basically correspond to fixed assets. Paid-in capital and the precautionary reserve would be initially equal, by design. Also by design, the BoB will equal the outstanding NRBs and the NRCs. The key components of the GSB's balance sheet are presented in Figure 1.

The basic accounting identities would be as follows:

$$TA = TL + C$$

$$BoB + PR + FA = NRC + NRB + PC + DC$$

Where : TA total assets ; TL Total liabilities; C total capital ; PR precautionary reserve; FA fixed assets; PC paid-in capital; and DC donated capital.

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<sup>67</sup> Compensatory capital movements are those related to the financing of the balance of payments as a whole. Apart from valuation changes, they correspond to the variations in international reserves of a country plus below-the-line net official lending or borrowing. Autonomous or above-the line capital movements are those that occur independently of the overall balance of payments position.

<sup>68</sup> This would also facilitate the creation of synergies between the two institutions. Going by the experience of the NDB, the host country could be expected to provide the GSB's installations free of charge. In the case of the NDB, Shanghai municipality offered to take on the expenses of constructing a building for the bank, and this was the key part of its successful bid to headquarter the institution. Agreement on this was reached during the 2014 BRICS Summit in Fortaleza, Brazil. Shanghai followed through with its promise in full.

<b>Figure 1: Global South Bank - Balance Sheet (main items)</b>	
<b>Assets</b>	<b>Liabilities</b>
1. Basket of bonds – BoB	5. Currency in circulation – NRC
2. Precautionary reserve – PR	6. Bonds in circulation – NRB
3. Fixed assets – FA	7. Total liabilities – TL (5+6)
4. Total assets – TA (1+2+3)	8. Capital – C Paid-in Capital (PC) Donated Capital (DC) Retained profits (R)
	9. Total liabilities and capital (7 + 8)

**Note:** BoB = NRC + NRB; FA = DC; and PR = PC + R

As we have seen,

$$\text{BoB} = \text{NRC} + \text{NRB}$$

$$\text{FA} = \text{DC}$$

And, initially,

$$\text{PR} = \text{PC}$$

The (small) initial value of the precautionary reserve (PR) would be given by the capital supplied by participating countries and calculated as a fraction of operational expenses, as mentioned earlier. It would increase over time if the bank is profitable and profits are at least partly retained. In this case, the precautionary reserve would increase relative to the initial paid-in capital by the amount of profits retained:

$$\text{PR} = \text{PC} + \text{R}$$

$$\text{C} = \text{PC} + \text{DC} + \text{R}$$

Where: R is retained profits

Retained profits would be part of the precautionary reserve on the asset side and of capital on the liability side of the balance sheet.

The statement of profit and loss can also be set out by sticking to the essentials (Figure 2). The overall result in any given period would depend, as always, on financial and non-financial flows. The net financial profit would be determined by: a) the size of the basket of bonds on the asset side of its balance sheet multiplied by the average interest on these bonds, calculated in the way explained previously, plus b) the interest on the bonds maintained as a precautionary reserve; minus c) the size of NRBs in the hands of the public multiplied by the average interest rate on these bonds, as follows:

$$\text{FP} = \text{BoB}x + \text{PR}y - \text{NRB}z$$

Where: FP equals net financial profits; x is slightly higher than z by a fixed small margin; y is the average interest rate on reserves; and  $\text{NRB} < \text{BoB}$  since NRC can be expected to be larger than zero. FA are donated, and no depreciation needs to be accounted for.

Net profits would be:

$$\text{NP} = \text{FP} - \text{OE} - \text{PL}$$

Where NP is net profit; OE operational expenditures; and PL provision for losses

The greater the acceptance of the currency, the larger the GSB's profits. Net profits would also be a direct function of the interest differential,  $x - z$ , and of the ratio of NRBs to NRCs in circulation. Since NRCs carry no interest, amounting to a non-remunerated liability of the bank, the higher this ratio, the higher would profits be. OE would be small, given the small size of the GSB. Net profits could be either retained or distributed to sponsoring governments.

**Figure 2: Global South Bank - Profit and Loss Statement (main items)**

<b>1. Net financial profit (1.1 + 1.2 - 1.3)</b>
1.1 Interest earned on bonds of sponsoring countries
1.2 Interest earned on bonds held as precautionary reserve
1.3 Interest paid on the bank's bonds in circulation
<b>2. Non-Interest expenditures (2.1 + 2.2)</b>
2.1 Operational expenditures (personnel, administrative and other)
2.2 Provision for losses
<b>3. Net profit or loss (1 - 2)</b>

### III – The GSB’s governance and voting system

#### Governing bodies

Without presuming to exhaust the topic, the basic elements of the GSB’s governance will now be incorporated into the discussion. It was mentioned above that the new institution is expected to be lean, consistent with its rather limited functions. The higher administration could include, for example, only a President and two or three Vice Presidents. The President and Vice Presidents would have fixed, non-renewable mandates (or renewable only once), sufficiently long to grant them the independence required to devote themselves exclusively to the interests of the GSB.<sup>69</sup> They would be appointed by the participating countries on a rotating basis, say for every five years.<sup>70</sup> Technical staff of the bank, under the direction of the Administration, would be a small group of highly qualified individuals, with training and experience in monetary economics, selected under strict rules. A similar precondition could be established for the appointment of members of the Administration, adding the requirement of prior experience in international banks, public financial institutions and/or multilateral institutions.<sup>71</sup> Staff, like the Administration, would be owe their duty exclusively to the institution and to no other authority.<sup>72</sup>

Protection of the members of the Administration against dismissal *ad nutum* and undue political interference can help build confidence in the institution and the currency that it issues, complementing the above-discussed rules – full backing of the NRC, a ceiling on issuance, and stabilization of the currency’s value. It constitutes what is sometimes called the “institutional anchor” of many contemporary central banks since the 1990s. The failed attempts in the 1970s and 1980s to bind monetary policy by imposing either a growth ceiling for high-powered money or a fixed exchange rate (or exchange rate band) led to the conclusion that guaranteeing the central banks’ autonomy in this manner is the most appropriate anchor. This view, although controversial, prevails to this day.<sup>73</sup> In the GSB, the provision of a degree of autonomy with

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<sup>69</sup> The officials of the first Administration could have mandates of different length in order to avoid the simultaneous renewal of the entire team. Whether these mandates should be non-renewable or renewable once is a matter for debate. The possibility of renewing mandates carries the upside of continuity, and the downside of creating long-term inefficiencies and risks of the bank being captured by special interests and personal priorities. On balance, stipulating non-renewal might be a better option. A handover rule allowing incoming and outgoing members of the Administration to overlap for a short period could help to sustain continuity and institutional memory.

<sup>70</sup> The countries participating in the rotating right to nominate should exclude those with small financial contributions to the institution.

<sup>71</sup> That such meticulous requirements should be specified *ex ante* may sound strange. However, experience of the NDB has shown that governments often fail to appoint persons with the required experience and knowledge, leading to weak Administrations and a weak composition of staff. See Nogueira Batista Jr., Paulo (2022, p. 48-52).

<sup>72</sup> This requirement is a common feature of the Articles of Agreement of international financial organizations. For example, the NDB’s AoA includes a provision stating that “the President, Vice Presidents, officers and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority.” New Development Bank (2014, Article 13, paragraph f). We copied this provision, word by word, from the AoAs of other international financial organizations such as the IMF. See International Monetary Fund (2020, Article 12, Section 4, paragraph c).

<sup>73</sup> The critics of central bank autonomy, myself included, argue that it provides too much power to an unelected bureaucracy by insulating it from the goals and policies of the elected government. Crucial aspects of economic policy are thereby taken out of the reach of the political authorities. Autonomy may also favor, we argue, the capture of the central bank by the very financial institutions it is supposed to

respect to the political authorities, through fixed mandates, can be foreseen in the AoA, as is normally done in international financial organizations. To dismiss a President or a Vice President of the GSB, a case should necessarily be made that he or she violated the institution's code of conduct. If such a violation is proven by following appropriate procedures, a dismissal for cause would then occur. Also in this respect, the rules of the GSB would not differ essentially from the currently predominant institutional architecture of multilateral financial organizations.

Note in passing, however, that this institutional anchor does not fully protect a member of the Administration from being dismissed without cause. Nothing is foolproof. If the political authorities of one or more member countries are determined to topple a member of the Administration, they can try to force the bank to act upon unproven accusations or vitiated procedures, fabricating a case of violation of the code of conduct.<sup>74</sup> In any case, it seems clear that fixed and relatively long mandates and protection against undue political interference can play a role in building confidence in the institution.

To help ensure compatibility between the GSB's goals and those of the sponsoring countries, it may be advisable to establish that staff be composed mostly or even exclusively of nationals from these countries. Nationality matters, and the large-scale presence of staff from outside countries, especially Western, may endanger the fulfillment of the bank's strategic purposes. In the case of the Administration, *a fortiori*, only citizens of member countries should be appointed.

The Administration and staff would be, in any case, under the supervision and guidance of the Board of Directors (BoD) and the Board of Governors (BoG), following the structure common to international financial organizations.<sup>75</sup> These two bodies would be the channels for government representation in the GSB, with its legal structure expressly prohibiting capitals from directly instructing individual members of the bank's Administration and staff, the approach

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oversee and regulate. See, for instance, Nogueira Batista Jr., Paulo (2021, p. 432-451). It seems clear, however, that these concerns hardly apply to the GSB, an institution with a limited purview that would not play macroeconomic or regulatory roles nor interfere with the policies of participating countries.

<sup>74</sup> This happened at least once in the NDB when I was discharged in 2017 from the post of Vice President on the basis of unfounded allegations. See Nogueira Batista Jr., Paulo (2021, p. 324-355) and Vasconcelos, Jonnas (2023). One important aspect to keep in mind is that multilateral institutions always enjoy legal immunity, and because of this are obligated to constitute an Administrative Tribunal or recognize an existing one, allowing employees or former employees to appeal against decisions by the institution's governing bodies. Nearly all international financial organizations have complied with this requirement. The NDB, however, has yet to take this basic step. The AIIB has done so, but not in a balanced and clear manner, seeming to leave ultimate decisions on appeals to the President of the bank. In case a dispute arises, the latter is supposed to appoint an "independent reviewer". Asian Infrastructure Investment Bank (2025, Staff Rule 8.01). Presumably hired by the bank, will this "independent reviewer" be truly independent? The employees of these two institutions, and especially those of the NDB, are thus unprotected against arbitrary decisions by the Administration and have nowhere to place an effective appeal, a clear violation of a fundamental right. The AIIB has gone half-way but fell short so far of establishing a permanent Administrative Tribunal or adhering to an existing one. In the case of the GSB, given its small size and small number of employees, it would be preferable to formally acknowledge the jurisdiction of a reputable existing tribunal, an option that involves less expenditure. One alternative is to recognize the International Labor Organization's Administrative Tribunal as an appellate body in disciplinary proceedings.

<sup>75</sup> This is what we have in the IMF and the NDB, to mention two examples. International Monetary Fund (2020, Article 12 ) and New Development Bank (2014, Articles 10 to 13).

adopted usually in multilateral organizations.<sup>76</sup> Instructions from countries should be transmitted through the BoG and the BoD.

Composed largely of government officials, the BoD could be non-resident and meet regularly, say on a quarterly basis, in the headquarters of the bank. This arrangement avoids the costs resulting from a resident Board, not required for a small institution with a modest scope in terms of responsibilities. The AoA could foresee, in any case, the possibility of a resident Board down the line, if such a reform in governance is deemed advisable based on the GSB's experience.<sup>77</sup>

The highest political authority would be the BoG, composed by Finance Ministers and Central Bank Presidents of the participating countries. The BoG could meet once a year, at the GSB's annual gatherings, and more frequently, if necessary, in online meetings. Some decisions of the BoG could be taken remotely by collecting votes without a meeting. Matters of less weight would be delegated to the BoD.

When establishing the composition of both Boards, one aspect should be taken into account: the legal structure of the GSB needs be defined in such a manner as to preclude any assumption that it would be dominated by central banks. This may be counterintuitive, given that the GSB is a monetary institution. However, one should not lose sight of the fact that the new bank would not only be a technical institution but also a geopolitical initiative. Exclusive or dominant participation of central bankers might be harmful to its development. Although central banks have no mandate to meddle with geopolitical matters, they often behave as if they do. Thus, Governors of the GSB should be the Finance Ministers, and not Central Bank Governors. In a sense, this is a natural decision, given that the ultimate backstop of the NRC are Treasury bonds<sup>78</sup> and that the GSB would have very limited interface with central banks.<sup>79</sup> Similarly, the presence in the BoD of officials from Finance Ministries or other branches of government, as well

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<sup>76</sup> In the case of the NDB, this rule is formulated as follows: "Each member of the Bank (...) shall refrain from all attempts to influence any [person in the Administration and staff] in the discharge of their duties." *Ibid.*, Article 13, paragraph f. "Member of the bank" should be taken to mean the authorities of the member countries. For obvious reasons, this sort of provision is especially relevant for relations between the authorities and nationals of a member country.

<sup>77</sup> This is the approach followed by the NDB and the AIIB. Both started out with non-resident Boards of Directors, but their AoAs allow for the future establishment of resident Boards. In the NDB's AoA, this possibility is formulated as follows: "The Board of Directors shall function as a non-resident body, which will meet quarterly, unless the Board of Governors decides otherwise by a qualified majority." New Development Bank (2014, Article 12, paragraph g). The same possibility is envisaged in the AIIB's AoA. Asian Infrastructure Investment Bank (2015, Article 27, paragraph 1). The pros and cons of resident and non-resident Boards of Directors are discussed in Nogueira Batista Jr., Paulo (2021, p.68, 69 and 295, 296). Incidentally, this was one of the many disagreements between John Maynard Keynes and Harry Dexter White in the negotiations that led to the creation of the IMF and the World Bank. Keynes argued in favor of non-resident boards; White preferred resident boards. As usual, the US side prevailed. See Harrod, Roy (1982, p. 632-635); and Nogueira Batista, Jr. (2021, p. 295, 296).

<sup>78</sup> As pointed out to me by Professor Ding Yifan in a debate in the Beijing Club in November.

<sup>79</sup> Interactions between the GSB and central banks would be essentially limited to the acquisition of NRBs as part of official international reserves. Otherwise, one could envisage technical assistance that may be usefully provided by central banks or the presence of central bank officials as government-provided personnel in the new institution. For its operations, the GSB would not depend on central banks in any major way.

as of outside experts,<sup>80</sup> could be required and foreseen in the GSB's legal structure. Central bank Governors and other officials should be at most Alternate Governors and Alternate Directors of the new institution. This is to guard against the repetition of what we have seen in the CRA, where the predominance of the central banks of the BRICS has led to a frozen institution, paralyzed by the conservatism of central bank officials.<sup>81</sup>

The governance structure outlined above could be partly defined in the Articles of Agreement, with less important matters, as well as those that require flexibility, relegated to by-laws approved by Governors and Directors or to decisions of the Administration. The Articles would, as usual, require Parliamentary ratification or other equivalent internal confirmation processes. As ratification can be a difficult and protracted process, the AoA should be kept slim and include only basic points that need not change often over time. The AoA would leave open and delegate to Governors, Directors and the Administration decisions that require flexibility and speed.

### **Voting and decision-making**

How will decisions be taken by Governors and Directors? Two aspects need to be clarified: i) the determination of an individual member's share of voting power; and ii) voting modalities.

Consensus or unanimity should be ruled out since it provides veto power to any single member country. This mode of decision-making is an infallible way of producing paralysis, as we see in the case of the BRICS political formation.<sup>82</sup> Voting should always be foreseen in the GSB, although actual voting can be replaced, in practice, by decisions taken in the shadow of the voting system. If the approval or rejection of a certain proposal based on weighted voting is clearly perceived beforehand, approval or rejection can carry the day even without actual voting.<sup>83</sup> Positions of countries could be ascertained in informal meetings of the BoD and in communications between Management or staff with individual Directors. Such decisions without voting are heavily influenced by the distribution of voting power and the stance taken by major shareholders on the issue at hand.

How would the voting structure look like? Votes of participating countries could largely reflect their share in the group's GDP PPP. If voting shares of members are to be determined by GDP PPP, adjustments will be needed to limit the influence of country size and to avoid the dominance of one or a few large members, India and especially China in the case of the GSB. To achieve this, one could think of a number of non-exclusive possibilities. One possibility is to establish that voting power be determined by applying a compression factor to GDP PPP shares

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<sup>80</sup> The presence of outside experts may be useful in the development of the institution as they could counterbalance a certain tendency of government officials to fall into routines and bureaucratic ways of thinking.

<sup>81</sup> Nogueira Batista Jr., Paulo (2025a, p. 16, 17).

<sup>82</sup> I have highlighted this weakness of the BRICS a number of times. See, for instance, Nogueira Batista Jr., Paulo (2025b, p. 14-17, 22-24). In the case of the of the NDB, we deliberately avoided consensus or unanimity as a decision rule. As a result, in the AoA of the bank, no decision requires the agreement of all members. New Development Bank (2024).

<sup>83</sup> The reason for this common practice is to avoid or minimize the loss of face for countries taking a minority view, and also to allow them a margin to negotiate changes to any decision as a precondition to join the majority view. For an explanation of how decision-making in the shadow of weighted voting works in the IMF, see Nogueira Batista Jr., Paulo (2021, p. 73, 74).

when calculating individual country votes, as is done in the IMF's quota formula.<sup>84</sup> A second possibility would be to introduce basic votes to raise somewhat the voting power of the smaller countries and lower that of larger countries, a method used in many of the main international financial institutions.<sup>85</sup> Each country is awarded a fixed amount of basic votes thus generating a larger percentage increase in votes for small countries. A third possibility would be to establish two sorts of shares: ordinary shares with associated voting power and preferential shares which enjoy privileges in the distribution of dividends without adding to voting power. China's and India's contributions to the GSB could come partly in the form of preferential shares, say, 20% or 30% of the countries' total shares.

Though moderated by a combination of these alternatives, the voting power of the larger countries might still be too high from the point of view of ensuring balanced governance. Another approach is to depart selectively from simple majority as the criterion for voting. Voting could be carried out, depending on the importance of a decision, by supermajorities. The requirement of a supermajority (or qualified majority) is defined as one that establishes thresholds for approval higher than 50%.<sup>86</sup> In this way, a country or a small group of countries holding a simple majority of the votes could not approve on their own matters requiring higher thresholds. On the other hand, the larger countries, especially China, would then hold veto power for decisions requiring qualified majorities exceeding a certain threshold.

Even if their voting share is compressed by basic votes and/or other mechanisms, China and other large members would retain considerable influence. Say China holds 35% of voting power in the GSB. It could not, on its own, carry decisions that require a simple majority, but it would be in a good position to build informal coalitions that surpass 50% of voting power.<sup>87</sup> Moreover, it would be able to veto any decision requiring 65% or more of voting power. Actually, imposing a high threshold for certain major decisions is the usual way of granting veto power to a major shareholder.<sup>88</sup> On balance, in the case of the GSB, it is preferable to avoid, or use sparingly, very high thresholds for supermajorities, given the size of China's and India's individual shares.

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<sup>84</sup> The compression factor in the IMF's quota formula is 0.95. This reduces the dispersion of calculated quotas, moderating the role of country size. International Monetary Fund (2008, p. 2, 3). Quotas are the main determinant of voting power in the institution.

<sup>85</sup> For example, basic votes are 5.5% of total votes in the IMF and 12% in the AIIB. International Monetary Fund (2020, Article XII, Section 5, paragraph a); and Asian Infrastructure Investment Bank (2015, Article 28, paragraph 1b).

<sup>86</sup> To be more precise, one should say higher than simple majority (50% plus one vote). The NDB's AoA, for instance, relies mostly on the simple majority of weighted voting. However, approval of certain decisions require a qualified majority, defined as an affirmative vote of 2/3 total voting power. New Development Bank (2014, Article 6, paragraph b).

<sup>87</sup> In the IMF, for example, the US holds 16% of voting power, but can form a simple majority in the Executive Board and in the Board of Governors by mobilizing the voting power of its allies – European countries, Japan, Canada, Australia, South Korea, and some others. For the distribution of votes in the IMF, see International Monetary Fund (2026a).

<sup>88</sup> As previously noted, this is exactly what happens in the IMF, where an 85% threshold is needed to approve crucial decisions, providing the US with veto power over such decisions, a privilege that only the US has in the IMF. Other groups of countries, namely the European bloc and the BRICS, can also exercise veto power, provided they have the necessary cohesion, but the US is the sole country that holds the power to veto on its own. Decision-making rules were of course reverse-engineered to guarantee an exclusive veto to the US on strategically important matters. For instance, on quota increases and redistribution, as well as in decisions relating to the SDR. Thanks to this, the US has been able to maintain the SDR in near total irrelevance since its creation in 1969.

A better voting modality would be double majorities, following the example of many international organizations. In this case, weighted voting is supplemented by a one-country-one-vote system. A country or a few countries may hold the required simple or qualified majority in terms of voting power, but approval would still depend on the number of countries supporting or opposing the decision. In the voting by the number of countries, a simple majority of the members (or alternatively some supermajority, say, 2/3 of members) would be required for approval. Double majorities can make the bank more democratic without the downsides of a pure one country/one vote system or of unanimity.<sup>89</sup>

With GDP playing the role of the main determinant of voting, one would ultimately have to rely on a combination of some of the above mentioned mechanisms: a compression factor, basic votes, preferential (non-voting) shares, supermajorities and double majorities. There would be no need to resort to all these variables and voting rules since a combination of some of them could well be sufficient to achieve the desired objective of moderating the role of country size. This can be done transparently without creating unnecessary complexities for the decision-making process. Economic size would still be the major determinant of voting, but its weight would be significantly mitigated by the other variables and by decision rules. This system, with appropriate variations, would apply to all decisions by the BoG and the BoD. As is usually the case, more important decisions would depend on more stringent voting requirements. In the end, if variables and rules are well calibrated, the GSB's governance structure would be more democratic and inclusive, providing decision-making power to medium-sized and smaller members.<sup>90</sup>

To sum up, the legal structure of the GSB would include six formulas. The ones for the NUA, the NRC, the NRB, the BoB, and the bank's capital would be identical in structure and take the form of a weighted geometric trimmed average of GDP PPP shares. A further equation would define voting power based on GDP PPP shares adjusted by one or more of the above mentioned variables (compression, basic votes and/or preferential shares). The latter could be complemented by relying on qualified and, especially, double majorities.

This approach allows the GSB to kill two birds with one stone. It would take advantage of China's financial power and economic stability by attributing a large and uncompressed share to the country in the bank's monetary and financial baskets, while at the same time mitigating its weight in decision-making in order to make the GSB a representative and inclusive institution.

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<sup>89</sup> There are many ways of applying double majorities. The European Union, for example, relies on double majority as the most common voting method by requiring that a proposal be supported by 55% of EU member states (currently 15 out of 27 countries) and establishing that these states shall represent at least 65% of the Union's population. European Union (2012, article 16, paragraph 4). Some multilateral regional development banks, such as the Interamerican Development Bank and the Asian Development Bank, rely on a double majority (a majority of regional member countries in addition to the simple majority of weighted voting power) to elect their presidents. Inter-American Development Bank (1995, Article VIII, Section 5, paragraph a); Asian Development Bank (1965, Article 34, paragraph 1). The NDB also uses a double majority for certain decisions. Referred to as "special majorities" in the institution's AoA, it requires for the approval of certain decisions an affirmative vote of four of the five founding members plus an affirmative vote of 2/3 of total voting power. New Development Bank (2014, Article 6, paragraph b).

<sup>90</sup> As those that have experience of such discussions in international organizations know full well, calibration of variables and coefficients always involves substantial reverse-engineering. The main starting points are not theoretically well designed formulas and voting rules, but target values for the desired outcomes in terms of country shares and influence. Starting from these targets, the structure of equations and rules is established accordingly.

All these institutional aspects would of course be up for negotiations between officials of the prospective member countries. If we can go by the experience of the NDB and the CRA, this negotiation could last around two years.<sup>91</sup> Its main result would be the Articles of Agreement to be signed by the participating countries and ratified by their Parliaments or other official bodies. Once the Articles are ratified and the GSB is created, Governors, Directors and the members of the Administration will be responsible for finalizing the bank's legal structure and administrative organization.

As examples of matters that will necessarily have to be settled before the establishment of the GSB, besides the allocation of votes among members and the voting modalities, one could mention the location of headquarters, the rules of rotation among countries in the appointment of members of the Administration, among other features to be inscribed in the AoA. A balance will need to be struck by addressing only the essential matters in the Articles, while not overburdening them by the adoption of too wide a definition of "essential". As previously mentioned, the need to obtain parliamentary ratification or equivalent procedures in every single country make any amendments to the Articles difficult to implement and should be expected to occur only rarely. Only if truly needed, should we include features of the GSB in the AoA, delegating the other aspects to the BoG, the BoD and the Administration.

As examples of decisions that would fall to the BoG, one could mention the admission of new members into the GSB, the confirmation of the persons appointed by a country to the Administration, and approval of capital calls, among others. The BoD could in turn be in charge of matters such as confirming the appointments by the Administration of the names for the higher ranking staff, the approval of the GSB's budget, as well as the preliminary discussion of matters to be decided by the BoG. The Administration would be in charge of the bank's day-to-day operations, as well as of its strategy and operational policies. As mentioned above, it would carry out its work under the overall direction and supervision of the BoG and the BoD. The Administration could suggest, as needed, new policies or a change of existing policies and legal requirements, but would be subject to the BoD's control to check for advisability and to ensure strict compliance with the AoA and consistency with other legal arrangements of the bank.

### **Opt-out and exit clauses**

Can the GSB become too expensive for some of the participating countries? The provision of capital, it should be recalled, constitutes a capital expenditure in the budgets of the sponsoring central governments. A call for capital might well be an excessive burden for a country experiencing fiscal stress. This may be a relevant constraint for some less developed countries in case the NRC is successful and becomes a major player in international markets.

However, a few features of the GSB mitigate this problem. First, capital would be provided only for the constitution of a small precautionary reserve to cover possible operational cost overruns, as previously explained. Second, the share of each country would be based largely on the relative size of its GDP PPP, a rough indicator of the country's overall fiscal capacity. Moreover, the size of the additional capital required for precautionary purposes would be smaller if the GSB is allowed, as expected, to retain at least part of its profits

In any case, one cannot dismiss these concerns entirely. How could the GSB's structure accommodate them? If there is widespread acceptance of the NRC, as desired, the sponsoring countries could be called upon to provide some additional capital beyond their initial

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<sup>91</sup> Nogueira Batista Jr., Paulo (2022, p. 16-29, 33-37).

commitment, the amount for each country being determined by the size of the call and the country's share of capital and of the basket of bonds.

Would a country be allowed to opt-out from the call to provide additional capital? Yes, participation in the provision of additional paid-in capital could be defined as expected but not compulsory. In other words, the rules of the GSB should explicitly include an opt-out clause. Countries desiring to opt-out should have the right to do so, provided that they follow a predetermined process that could include an initial period of consultations during which the authorities of the opting-out country would present the reasons for their decision and give an opportunity to the Administration and Directors of the other countries to express views.<sup>92</sup> After that, if the country decides to go ahead, it will not participate in the call for additional capital, but will lose voting power. The GSB should then make the necessary proportionate upward adjustments in the voting power of the other, opting-in countries, and indicate the additional capital contributions required from them to compensate for the opt-out and reach the foreseen amount of resources for the GSB.<sup>93</sup>

Could a country leave the GSB altogether or call back part of its paid-in capital? The answer is yes, again. The same basic procedures would be established: an initial period of consultations, the readjustment of voting and capital shares, etc. To allow the GSB to adjust to the exit of a relatively large member, a grace period would need to be given by the exiting country, while smaller members would be exempt from this provision.<sup>94</sup>

In short, exit from the bank, as well as the opt-out clause, should be part of the GSB's legal structure. Basic principles for exit and opt-out can be included in the AoA. Operational details can be left to decisions of the BoG or the BoD, as appropriate.

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<sup>92</sup> The obligation to hold such consultations follows naturally from the fact that opting out entails a corresponding additional burden for the other countries.

<sup>93</sup> If an opt-out occurs, the reductions and increases of countries' voting power would be in proportion to the size of the capital call. Since the precautionary reserve is expected to be small, capital calls would also be small and no major reductions (or increases) in voting power would occur.

<sup>94</sup> One possibility would be to apply this provision only to countries participating in the rotating right to appoint members of the Administration.

## IV – Viability of the proposed monetary architecture

### Weak spots and how to address them

Even with all the previously explained institutional and monetary safeguards, it should be recognized that the new system is not foolproof. Again, nothing ever is. It behooves us to be conscious of the main vulnerabilities and consider how to deal with them.

What are these weak spots? How could they be addressed and minimized? Although these questions have already been partially answered in the foregoing sections of this paper, it seems necessary to discuss them more carefully and comprehensively.

There are basically three partly intertwined weak points: i) lack of confidence in the sponsoring countries; ii) China's relative size and a resulting imbalance in governance; iii) the risk of Western backlash (sanctions and/or speculative attacks against the GSB). Let us consider these three points in turn, highlighting the links between them.

#### i) Lack of confidence in the sponsoring countries

Even with 100% coverage of the liabilities of the GSB, some lack of confidence in the quality of the back-stop provided by bonds of the sponsoring countries is to be expected. These countries are all middle-income nations with less than perfect fundamentals, a fact reflected in their sovereign credit ratings and in the premiums that their bonds carry over US Treasuries and Chinese bonds.

Nevertheless, this weakness could be addressed and compensated for in more than one way. First, by strict selection of entry into the GSB's membership. Second, by specifying temporary withdrawal from the baskets of the GSB of the currencies belonging to countries with weakening exchange and interest rates, as set out earlier. Third, and more importantly, by relying on China's share in the currency, the bonds, the backstop and the capital of the bank. Let us consider these countermeasures one by one.

Selection of entry can be implemented by adopting a few objective criteria. The rules of the GSB could exclude from membership countries whose Treasury bonds carry a premium over equivalent Chinese government bonds above a certain specified level. Procedures for accession to the GSB would only be initiated if a country fulfills the established precondition. In the case of countries largely or entirely excluded from market participation because of sanctions and/or wars, other criteria (macroeconomic data, including GDP, fiscal, monetary and external sector indicators) could be used instead of capital market premia.

Temporary withdrawal of a members' currency from the baskets, recommended above for purposes of reducing the volatility of the exchange of the NRC and the interest rates on NRBs, also fits naturally with the first countermeasure and can obey the same or similar thresholds and principles. If the specified levels of instability are breached by any member, it would have its currency automatically suspended. Selection of entry and temporary withdrawal serve the double purpose of raising confidence in the backstop and stabilizing the currency's value. To avoid stigmatizing countries, these rules of entry and suspension, while not confidential, should not be highlighted in the bank's communications.

The third countermeasure against lack of confidence, a high weight for the renminbi and Chinese bonds, would clearly have greater impact on confidence. Since China accounts for the

dominant share of the backstop to the NRC, the currency will automatically be perceived as stronger. Given the dynamism, stability and stronger fundamentals of the Chinese economy, a higher weight for China strengthens confidence in the new currency. From this angle, the country's size is an advantage. Having China play a large role is, however, a double-edged sword.

#### ii) China's size and a possible imbalance in the governance of the GSB

One unavoidable problem is China's disproportionate size compared to that of all other possible members of the GSB, with the partial exceptions of India and, to much lesser extent, of Russia, Indonesia and Brazil. If we take relative size measured by GDP, no matter whether in PPP terms or in market rates, China accounts for 40% or more any conceivable group of sponsors of the GSB. A high share for China in the GSB, while undoubtedly generating confidence in the backstop and stability for the NRC, harms the internal governance of the bank. The GSB would become a China-dominated institution, with the other countries playing a largely figurative role. Thus, it is crucial to resort to the previously discussed mechanisms to restrain China's (and India's) share of votes and influence in decision-making. The goal is to keep China large in the provision of bonds and capital, while at the same time limiting somewhat its voting power and influence.

In any case, the NUA, the NRC, the NRB, the BoB, the bank's capital and precautionary reserve would be not only BRICS-centric, but also inevitably China-centric, given the country's overwhelming size. No matter how you may play with the numbers, in the end China will have the largest share, significantly higher than that of the second largest member. The upside of this is, again, the effect of China's weight on confidence. The downside – the overwhelming influence of the country in decision-making – can be dealt with, by establishing a different set of weights for voting power compared to the set of weights in the other baskets of the GSB, and complementing this difference by decision rules specifically designed to avoid conferring to China or a few large countries the ability to take decisions on their own, ignoring the views of the rest of the membership.

In this manner we could, counter-proverbially, have our cake and eat it too. China's share of voting power and influence in decision-making would be kept lower than its share in the formation of the NRC's anchor. The structure of the NUA, the NRC, the NRB, the BoB and the bank's capital, based on GDP PPP, would be identical but differ significantly from the weights applied in voting. The formula for voting shares should be a bit more complex, including more variables. Decision-making rules could include qualified and, especially, double majorities, as previously explained. Whether China will be inclined to accept this approach is a question to be considered in a moment.

#### iii) Risk of Western backlash

If the second weak spot – the risk of a non-inclusive, undemocratic governance – is addressed in such a fashion, this helps address the third – the risk of a US or Western backlash. This backlash can be expected to be all the more vigorous if the GSB were to be perceived as a mere facade behind which China, seen as the main rival by the United States, would be hiding. If the GSB has a more balanced governance, the risks of a backlash could be somewhat reduced.

Not eliminated, mind you. Far from it. Judging from the intransigent and aggressive behavior of the United States, the risks of reprisals would remain elevated, even beyond the term of the current US administration. The West can do a lot of damage, as we know from bitter

experience. The construction of an alternative monetary framework requires initiative and considerable courage from the sponsoring countries.

They would be well advised to foster this courage. Under present trends, even if we were to remain silent and passive, nothing but instability, resentment and intimidation can be expected from the United States. We might as well rise up to the challenge and not fear bringing forth ambitious and well thought out initiatives.

Could the West attack the GSB and the sponsoring countries? A coordinated attack to undermine the credibility and circulation of the NRC is certainly possible. This might include a speculative market attack plus official sanctions. Official sanctions could be applied in full knowledge that this would stimulate market players to exit from the countries targeted by the sanctions or speculate against their currencies.<sup>95</sup> Prominent among these market players are some gigantic Western-based hedge-funds, Blackrock and the like, that dominate international capital markets. These market movements could be orchestrated by governments and large investors.

The sponsoring countries would need to prepare, well in advance, a strong response to any sanctions and punishments, inspired perhaps by the effective defensive measures employed by China against the US in 2025. This means hitting back at the sanctioning countries and financial institutions in areas where they are more vulnerable. One can think of many such countermeasures, but I will leave this topic aside since an attempt to address it more carefully would lead us far from the purpose of this paper. Suffice to retain that the West, although still powerful, is no longer in a position to dictate. It is not only vulnerable in some respects, but would also be at pains to explain why an open and democratic monetary arrangement should be met with violent reprisals.

In sum, while one must admit that the proposed architecture has some vulnerabilities, there are ways to deal with them. They cannot be done away with entirely, but can certainly be mitigated or worked around by the combination of measures and precautions discussed here.

### **What stance could China be expected to take on the GSB's governance?**

A crucial question is the stance that China would take on such proposals. Would it take advantage of its size and reject a more balanced governance, despite the drawbacks that arise for other countries and even China itself? In other words, will China throw its weight around or adopt a cooperative approach?

Since the beginning of its rapid development in 1979, China has preferred to keep a low profile instead of taking the lead in international issues.<sup>96</sup> It often encourages and inspires other countries to come forward as leaders of mutually convenient innovations. The explanation is straightforward. The Chinese have always been fully aware of the fact that spearheading

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<sup>95</sup> The types of possible sanctions are well-know, given their repeated use by the West. For example, any country or firm involved directly, or indirectly, in the construction and operation of the GSB could be black-listed and sanctioned in different ways. Individuals participating in the new arrangement could also be targeted, as experience shows. For discussions of the sanctions applied on a number of countries in recent years, see BRICS Chairmanship Research (2024, p. 24-26); and Gao, Bai (2024, p. 13-17).

<sup>96</sup> This is what happened in the negotiations that led to the creation of the BRICS CRA. Nogueira Batista Jr., Paulo (2022, p. 16- 21).

initiatives will provoke resistance to proposals that interest them. While this may change, or may have changed already, China's preference for a relatively low-profile behavior still seems to be there. Applied to the discussion at hand, a BRICS-centric new reserve currency, with a balanced governance, may be a better route to de-dollarization than large scale renminbi internationalization or an overwhelming role of the country in the GSB.

One difficulty is political in nature. How could Beijing explain domestically the acceptance of a share in voting power that is significantly lower than its capital contribution and its share of the basket of bonds in the new bank? To put this question in perspective, a few considerations are in order. The GSB would be, for reasons explained earlier, an institution working in a largely automatic manner. Thus, voting would be less important than in institutions based more on discretion than rules, such as the IMF, the World Bank, and the New Development Bank. Moreover, given the bank's mode of operation, also explained above, capital requirements would be modest and equally modest the corresponding capital budget expenditures for China and other members. Capital would be requested for the purpose of building a small initial precautionary reserve, and could be paid back gradually as the GSB generates and distributes profits. And, furthermore, if the bank were to be located in China, a possibility indicated earlier, this would help the Chinese authorities make the case at home. All these circumstances could be highlighted in the bank's and China's public communication so as to address undue concerns about disproportionate burden sharing among the sponsoring nations.

If China does not accept these arguments, it might try to impose an unbalanced governance on the other potential members. Conscious of the complexities of plurilateral negotiations and perhaps still unhappy about a lack of recognition of its special role, Chinese authorities could conceivably prefer to go alone, promoting aggressively the internationalization of its currency. On balance, however, this route does not seem attractive to China since it undermines some basic pillars of the country's successful economic model, as discussed above. China may realize upon careful reflection that the new currency could function as a shield, deflecting external demand from the RMB and thus containing appreciation pressures and/or the need to accumulate additional undesired balances in dollars and euros, as well as exempting the country from the problematic step of further opening up its capital account.

From the above, we can conclude that the dilemmas and obstacles that arise in the construction of the NRC and the GSB are manageable. On the one hand, a balanced governance, that would preclude China from running the institution on its own, can be seen as more democratic and would have the additional advantage of helping to reduce international resistance to the GSB. China would still be the largest member of the GSB, but not to the point of making the bank a mere extension of its power. On the other hand, a large share of China in capital and in the backstop increases the credibility of the NRC, given the country's solid policies and ample resources. One will need to balance these considerations against each other.

The way to do it, as explained, is to reduce somewhat the influence and voting power of China by a combination of adjustments and decision rules, while maintaining a high Chinese share in the monetary and financial aspects of the GSB. In case India were to join, some of the same issues would arise, albeit to a much lesser extent, and could be dealt with in a similar manner.

### **Can we do it?**

Despite my attempts to keep the explanation of the proposed monetary architecture as straightforward as possible, one might still go away with the impression that creating it will be

rather demanding after all and could prove too tall an order for BRICS and other Global South countries, even for the larger and most developed ones.

I submit, however, that this is too pessimistic an assessment of our capabilities. After all, many of our countries have efficiently run financial institutions that are much more complex than the envisaged issuing bank. Many of the central banks of developing nations, for example, are highly sophisticated organizations that have been mostly successful in achieving their goals and fulfilling their mandates.

It should be reiterated that, if the NRC is not created, the alternative scenarios are problematic for the Global South. A first scenario, the possibility of a simple continuation of the dollar system with all its deficiencies and inequities, will not serve the purposes of the majority of countries. In a second scenario, the renminbi rises to preeminence or shares preeminence with the dollar, but not much is gained from the vantage point of most Global South countries. While China is playing and can continue to play a constructive international role, a hegemonic transition or a bipolar monetary system will leave most of the world in an unsatisfactory position, maybe not essentially different from the current one. National currencies, managed by national central banks, would continue to supply international currencies. Moreover, as argued above, China itself has reasons to fear the rise of its currency to a large-scale global role and is not yet persuaded, so it seems, that this is strategically convenient for the country.<sup>97</sup>

In summary, both scenarios are unfavorable to the world's majority. In case the NRC is created and becomes a relevant player, the picture could be different. Were it to be so successful as to become one of the dominant currencies, we would have an entirely novel situation – for the first time in history, one major international currency would be a transnational and transregional currency, not a national or regional one. The system would not be run according to the priorities and criteria of a dominant or a few dominant powers, but to rules negotiated and defined by a plurality of countries from different regions of the world.

The dollar system may be at a tipping point. It is doubtful that it could withstand unscathed another financial crisis of great proportions. In 2008/2009, during the worst financial crisis since the 1930s, the dollar was paradoxically a safe haven, despite the fact that the crisis originated within the US financial system itself. This paradox will probably not hold anymore, at least not to the same degree. Nowadays, given the preexisting loss of confidence in the United States and the dollar, if another severe crisis does occur, as many economists and market analysts fear,<sup>98</sup> investors (including notably central banks) will probably accelerate their flight from the dollar to safer havens – gold, other commodities, the renminbi, and other Western currencies.

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<sup>97</sup> As mentioned earlier, offshore renminbi markets can be a way around these obstacles, and China is testing this possibility. It is still an open question whether this will function effectively at a macroeconomic level. For descriptions of China's actions on this matter, see Zucker-Marques, Marina (2025) and Zhang, Chun & Jiang, Yile (2025).

<sup>98</sup> See, for instance, Rogoff, Kenneth S. (2025) on the risk that what he calls "Washington's debt addiction" could provoke the next global crisis. The danger resulting from the dismantling of precautionary regulation and supervision of the financial system by the Trump administration is highlighted in Krugman, Paul (2025). Radhika Desai, closer to what seems to be the central issue, points out that after inflating asset bubbles through easy money policies, the Federal Reserve now finds itself caught on the horns of a dilemma. Raising interest rates could prick the financial bubbles on which the dollar system and the wealth of the US elite rest. Not doing so incurs the danger that inflation will eat away at the dollar's value. "Worse, notwithstanding the reluctance of the Federal Reserve to increase rates beyond their current plateau," she writes, "the sheer incredibility of the current rise of asset values may, in any case, lead to the crash out of which it will be unable to rescue the dollar's world role." Desai, Radhika (2025, p. 4).

Prices of commodities, especially gold, would rise even more, constituting perhaps yet another financial bubble. China's economy would face a sizeable inflow of volatile portfolio capital, leaving the Chinese authorities with no good options, forced as they would be to choose from an undesired appreciation of the currency, foreign exchange intervention or the accumulation of additional unwanted reserves in the form of dollars and euros, or further accumulation of gold reserves at very high prices. Alternatively, the PBOC could impose barriers to the entry of capital, probably the least costly route, but paying the price of distancing the renminbi even more from full convertibility.

As professor Radhika Desai noted in a recent debate,<sup>99</sup> if a crash of the system were to happen, everyone would be scrambling for alternatives. This a good reason for putting ideas on the table, as I have attempted to do in this paper. Proposals perceived now as overly demanding, may look quite different if push comes to shove.

The approach suggested here drives at something new in the history of international monetary arrangements, while at the same time remaining grounded on the realities and practicalities of current international monetary arrangements. Hitherto, as mentioned, we have had national currencies (or a regional one, the euro) playing an international role on top of their domestic roles. But what we need is an *international currency that plays no domestic role*. That's precisely what the NRC can be.

We are in a special moment in world history. The West is becoming less and less dependable. The United States and Europe seem to have lost their capacity to innovate and have fallen back into the business of stonewalling new initiatives, especially those that threaten, even remotely, their privileges and dominance. It will fall on us, countries of the Global South, particularly the larger and more developed ones, such as China, Russia, India, and Brazil to provide fair and inclusive solutions to the world's problems.

If the West prefers to stay in the 20<sup>th</sup> century and remain attached to the institutions and practices of the past, this is truly regrettable. But let them stay there. We can move into the 21<sup>st</sup> century regardless.

Taking a very long view, the NRC could perhaps become the embryo of a new global currency, a step towards an all-inclusive international monetary and financial system. The current geopolitical splits, wars and rivalries make this a pipe dream for the time being. But who knows what can happen, say, in 30 or 40 years? A harmonization of geopolitical conditions, a meeting of minds from all corners of the world may allow serious practical consideration of a universal system that all countries of the world could take part in, a system to which the NRC might be a precursor. Thus, more than 100 years later, Keynes' dream of a global reserve currency will have finally been realized.

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### ***Post scriptum: Origins of the proposal presented in this paper***

A few words on the historical and intellectual background of the monetary arrangement proposed here. Where do these ideas come from?

One of the main references is the form money currently takes, namely pure fiduciary money. To have chances of succeeding, the NRC could not depart fundamentally from the

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<sup>99</sup> Valdai Club (2025).

predominant monetary model, lest it be regarded as a strange or anachronistic currency. To prove workable any new currency should be able to function in the context of the prevailing monetary and financial arrangements.

What does this mean exactly? Take the case of the US dollar. If you convert any Treasury or other bonds into dollars, say, to current deposits in a bank, what can you do with these deposits? You can of course ask your deposits to be redeemed as cash. This cash can be used to buy goods, services, and assets, but is ultimately not convertible in the monetary sense, in the way that currencies used to be convertible into gold. Or, put differently, the dollar is unanchored. If you try to get rid of a USD 100 bill, you can exchange it for lower denominations and ultimately convert it into coins. Since these are not minted in precious metals, if you melt them you will receive only a small fraction of their face value in legal tender.<sup>100</sup> In other words, the US dollar is not convertible – contrary to what existed in the time of the gold standard or, more appropriately, the gold-exchange standard. Its anchor is trust in the fiscal and monetary policies of the US authorities, not gold or any other tangible asset.<sup>101</sup> The same holds for nearly all contemporary currencies – exception made to a few that are rigidly anchored under a currency board system to the dollar, the euro or some other currencies.<sup>102</sup>

When it is said that the US dollar or the euro are “convertible” what is meant is that they are freely convertible into other currencies. The word “convertible” has actually been redefined. What we have is an oxymoron: inconvertible convertibility, so to say. International currencies are only convertible into each other. And not even at fixed prices but under a system (or non-system) of floating exchange rates. Convertibility now means simply full liberalization of international transactions, including capital and financial account transactions, with no restrictions on the buying and selling of the US dollar and most other major currencies (the Chinese renminbi excepted). All these currencies float and are ultimately backed by their convertibility into bonds of the Treasuries of the issuing country, the US being by far the most important one. Since 1971, when the Nixon administration defaulted on its obligation to convert dollars into gold, all relevant currencies are fiat and floating currencies. There is no going back on this. Gone is the time when one could plausibly revive a commodity standard, i.e., a currency convertible into gold and/or other commodities.

Another historical reference for the proposals presented in this paper is the hyperstabilization of the German currency in 1923/24, the so-called “Rentenmark miracle”, which was based on a new parallel currency, the Rentenmark, issued by a parallel issuing bank, the Rentenbank. The new currency was backed by national fixed assets, i.e., by a mortgage on all productive assets of the country. Like the NRC, the Rentenmark was a currency of a less than fully trusted issuer, Germany. The solution, in a nutshell, was to replicate the functioning of a gold-based currency in a situation where the issuing country, pressed by massive reparations arising from its defeat in World War I, could not back a new currency with gold, other reserve assets (US dollars and pound sterling) or external financial support. Under such a constraint, the Rentenmark was built on an internal anchor. The new currency was convertible into Rentenbriefe, bonds issued by the Rentenbank. These in turn were backed by real assets,

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<sup>100</sup> Friedman (1992, p. 9, 10).

<sup>101</sup> Ibid., p. 10-50. The only remaining “anchor” is institutional in nature, i.e., the predominance of legally autonomous central banks, referred to above.

<sup>102</sup> Even these are indirectly fiduciary and floating, since their anchor is always a pure fiduciary and floating currency.

specifically by mortgages on productive assets. The similarity between the Rentenmark and the NRC is evident.<sup>103</sup>

Did Keynes' bancor play a role in the development of the NRC? This question was asked by some experts that had access to preliminary versions of the architecture presented here. I did not have Keynes' proposal in mind when thinking of a new reserve currency. After this paper was essentially completed, I went back, after many years, to Keynes' writings on the topic from the early 1940s, and noticed that there are indeed similarities but also many differences. In some respects, the influence of Friedman's later work is more present in the conception of the present arrangement than that of Keynes. Writing 50 years later, Friedman could perhaps see more clearly that in contemporary monetary systems nothing remains of the commodity-standard world. Keynes still felt the need to pay homage to the gold standard, including in the name of the new currency he proposed – bancor, from the French expression *banque or*. The dollar was eventually placed at the center of the Bretton Woods system, it being established, however, that the US currency would be back-stopped by gold, i.e., freely convertible into gold in unlimited amounts at a fixed price. This design was essentially imposed by the US delegation, under the leadership of Harry White, during the negotiations that led to the 1944 Bretton Wood conference. Proposals of the British delegation led by Keynes were shelved, frustrating any hopes for a supranational standard. Keynes' bancor is similar in spirit to the NRC, with the differences reflecting mainly the radically different international context of the 1940s. The common essential similarity is the search for an international standard that could break with the centuries-old tradition of having national currencies play an international role.<sup>104</sup>

In essence, the NRC largely mimics the actual functioning of modern currencies since the late 20<sup>th</sup> century, more specifically since 1971 when the US defaulted on its commitment to convert unlimited amounts of dollars into gold at a fixed price, and the American Treasury Secretary famously called the US dollar "our currency but your problem"<sup>105</sup> – a crass reminder of why a national currency should not be the international standard. As shown, the new currency would be in this sense the exact opposite of the now existing international currencies that play domestic roles as well. The NRC would be an international currency with no domestic role, circulating in parallel to the currently existing international currencies – that are national or regional (in the case of the euro) – and to the national currencies of the sponsoring countries. The latter are national currencies that, with the exception of the renminbi, play little or no international role.<sup>106</sup>

Financial innovation and low but persistent inflation has compressed demand for high powered money. There is limited demand for cash and non-remunerated bank reserves since inflation is low but not zero and cash pays no interest. What the public requires is liquid bonds that can be converted into currency instantaneously, with little or no loss of principal. Under the

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<sup>103</sup> My interpretation of the Rentenmark stabilization, which differs from the standard view quite significantly in crucial respects, is presented in Nogueira Batista Jr., Paulo (2023b).

<sup>104</sup> Incidentally, the British authorities only came to advocate an international currency after the pound sterling had become clearly incapable of continuing as one of the dominant reserve currencies. Nationalism played a role in Keynes' insistence, ultimately unsuccessful, on the defense of a non-national reserve currency. This aspect of Keynes' activities in the runup to the Bretton Woods conference was highlighted by Robert Skidelsky in the third volume of his biography of Keynes, symptomatically entitled *John Maynard Keynes: Fighting for Britain, 1937-1946*. Skidelsky, Robert (2000).

<sup>105</sup> During discussions with a group of European officials. Steil, Benn (2013, p. 337).

<sup>106</sup> The Brazilian real, the Russian ruble and the Indian rupee play only a small international role, mostly in the economies of their immediate neighborhood.

proposed system, this is ensured by the issuance of short-term NRBs. Demand for NRC balances would be small and balances would be kept mostly in NRBs into which NRCs would be freely convertible. In turn, NRBs would be freely convertible into a basket of Treasury bonds of the participating countries. Also in this respect, the NRC does not differ essentially from existing currencies.

The Brazilian experience of the late 20<sup>th</sup> century – an extreme and rather peculiar case – also had some influence, specifically on one point of the proposed monetary arrangement – a new unit of account as the starting point of a new currency. In the case of Brazil, very high inflation for long periods had led to widespread indexation<sup>107</sup> (not dollarization as in Argentina and other Latin American nations) and to a radical shortening of government bonds, often maturing overnight, making public debt largely indistinguishable from currency – except in that the latter earned no interest.

In the 1994 stabilization, the *Unidade Real de Valor* (URV), a unit of real value, was introduced in parallel to the existing devalued currency in order to induce convergence in the pricing of goods, services, and labor. The intention was to make prices follow the URV, the evolution of which was tied to domestic inflation as measured by general price indices. Since the devaluation with respect to the dollar followed inflation closely, this amounted to an alignment of the URV to the dollar. After a few months, the old, devalued currency was converted into the real, the new currency, initially at parity with the dollar. This initial parity was a means of taking a free ride on the dollar's widespread informal role in the Brazilian economy.<sup>108</sup> Analogously, the NUA could flow into the NRC after a transitional period in which the NUA would become a widely recognized standard of value. Like the Brazilian real, the new reserve currency could also begin at parity with the dollar so as to benefit from the US currency's global role as a unit of account.

The idea of a SDR-like basket for the new currency harks back to proposals made by Russian economists since 2018.<sup>109</sup> Initially, this was known as the R5 proposal, taking into account that the currencies of the then five BRICS countries all began with the letter “R” – real, ruble, rupee, renminbi, and rand.<sup>110</sup> This convenient acronym was disturbed, however, after the expansion of the BRICS brought into the group countries whose currencies did not begin with “R”. More fundamentally, it became increasingly clear, to me at least, that any practical initiative would not necessarily include at the start all 10 full members of the BRICS, and might well benefit from the participation of non-BRICS nations of the Global South. For these reasons, nomenclature relating to the BRICS group, such as R5, BRICS currency or the like, were deliberately avoided in this paper.

Finally, the governance and decision-making s of the GSB are also very much influenced, sometimes in negative ways, by my experience in the IMF, in the negotiations that led to the NDB and the CRA, and in my time in Shanghai in the initial years of the NDB.<sup>111</sup> Many of the GSB's features are based on these institutions, of which I have direct experience. This is apparent in the constant references to the Articles of Agreements and other regulations of existing

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<sup>107</sup> Indexation understood as monetary correction of prices, wages, incomes, and contracts based on general price indices.

<sup>108</sup> There is an extensive literature on the Brazilian stabilization of the 1990s. See, for example, Franco, Gustavo (1995).

<sup>109</sup> Lissovlik, Yaroslav (2023a, p. 2).

<sup>110</sup> Lissovlik, Yaroslav (2018, p. 1).

<sup>111</sup> On what I learned about IMF governance, see Nogueira Batista Jr., Paulo (2021, p. 41-235). On the CRA and NDB negotiations and the initial years of the NDB, see Nogueira Batista Jr., Paulo (2022, p. 13-65).

international financial bodies, especially the IMF and the NDB. From all of this, I drew positive lessons but also negative ones – of what not to do – , and this was explicitly mentioned in the paper, especially in the sections on governance and voting in the GSB. Many of the institutional, operational and accounting details, however, are standard practices, common to number of monetary and financial institutions.

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## **Acronyms**

AIIB – Asian Infrastructure Investment Bank

BCBPI – BRICS Cross-Border Payment Initiative

BIS – Bank for International Settlements

BoB – GSB's basket of bonds

BoD – Board of Directors

BoG – Board of Governors

BRICS – Brazil, Russia, India, China, and South Africa

CBDC – Central Bank Digital Currency

CIPS – China's Cross-Border Interbank Payment System

CRA – BRICS Contingent Reserve Arrangement

EMDCs – Emerging Market and Developing Countries

EU – European Union

GSB – Global South Bank

IMF – International Monetary Fund

IMFS – International Monetary and Financial System

NDB – New Development Bank

NRC – New Reserve Currency

NRB – New Reserve Bond

NUA – New Unit of Account

PBOC – People's Bank of China

PPP – Purchasing Power Parity

RMB – Chinese Renminbi

SDR – IMF Special Drawing Right

SWIFT – Society for Worldwide Interbank Financial Telecommunication

USD – United States dollar