



To the point!

Cross-Asset- and Strategy-Research

BRICS countries plan new currency

I bet that's not going to happen!

Last week, the foreign ministers from the so-called BRICS group of nations (Brazil, Russia, India, China, South Africa) met in South Africa, which currently holds the rotating presidency.

The global economic weight of the BRICS is enormous (over 30% of world output) and has overtaken that of the G7 countries. But structurally and economically, the BRICS countries have little in common. Not economically, not geographically, and not culturally. At most, a discomfort with Western dominance since the fall of the Berlin Wall can be cited as a common denominator.

A BRICS Currency to Compete with King Dollar?

And the secret fear of currency sanctions by “the West” is likely to have been driving other nations following the annexation of the Russian Central Bank's dollar and euro reserves. Thus, the foreign ministers gathered in Cape Town commissioned a feasibility study for a common currency. Instead of the unloved dollar dependence, the BRICS would provide their own reserve currency that reflects their global economic weight. And no BRICS state would then have to fear the “weaponization” of the dollar, as it happened against Russia. In view of the escalating geopolitical tensions, for example between China and the USA, this is not an entirely paranoid concern.

It will not happen!

That such a heterogeneous group of countries would be able to agree on a common currency is pure wishful thinking. Even in countries that are economically much more similar, monetary integration efforts have failed. Arab oil exporters in the Gulf, for example, remain formally committed to monetary union. Since

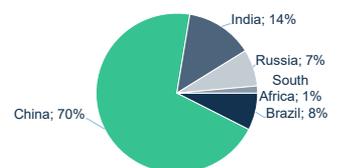
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What unites the BRICS? At best skepticism about "the West"

BRICS GDP Shares, 2022



Source: IMF, LBBW Research

their currencies have been pegged to the U.S. dollar for decades, this should be relatively unproblematic. What happened? Exactly nothing.

For the BRICS countries, in all their dazzling diversity, the bar is much higher. And heterogeneity would increase even more if applicants were admitted who would like to join the BRICS: Currently, [20 aspirants](#) are believed to want to join this loosely organized group. This, of course, makes a coherent currency area all the more unlikely.

How do you say "Crushing Dominance" in Chinese?

Beyond diversity there is dominance. That is also far from helpful: China accounts for nearly 70% of the combined BRICS economic output (see figure). A BRICS monetary policy would be a monetary policy for China. For comparison: In the Euro area, Germany accounts for less than 30% of GDP. For the other BRICS, a common currency would be tantamount to monetary subjugation.

But it goes further. Creating a credible world reserve currency like the U.S. dollar requires more than internal coherence, which does not exist in this case in the first place. The currency area must also allow for sustained structural current account deficits. After all, these deficits are financed with debt instruments issued in the reserve currency. Those securities are then held as reserves by central banks worldwide. Current account deficits and reserve currency capability are two sides of the same coin. However, China is in no way prepared to make these deficits. The share of the Chinese Renminbi in the world's currency reserves is hovering below 3%. This is easily explained: A currency that is not freely convertible is simply not suitable as a reserve currency. And that China would relinquish its monetary control in favor of the small BRICS partners seems supremely implausible.

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The BRICS are not an optimal currency area

A BRICS currency would be de facto a "China+" currency
