



BRICS currency – payment and trade settlement system – where is the journey headed? Analysis

The mainstream media in the West hardly report on this topic – the alternative media are making all sorts of forecasts. We are trying to put it into context.

Peter Hanseler

Mon 21 Oct 2024

Introduction

In our first article in this year's series, published ahead of the BRICS Summit in Kazan on 22-24 October 2020 ('[The US wants BRICS to fail in a geopolitically explosive environment](#)'), we highlighted the hostile geopolitical environment in which BRICS finds itself.

This was followed yesterday by '[BRICS - Facts and Figures](#)', which highlighted the quantitative and influential nature of BRICS.

This third part is about one of the most pressing challenges for BRICS: the settlement mechanism for trade between members and potential partners.

The leading Western media are silent about BRICS or ridicule this organisation and Russia, which holds the presidency this year. One suspects that something is in the offing, but official sources are reluctant to give details. Yuri Ushakov, assistant to the President of the Russian Federation, issued the following statement on 10 October."

"The Russian Finance Ministry, in cooperation with the Central Bank, is discussing with partners in the association the project of a BRICS-wide financial platform, a special clearing infrastructure and a BRICS reinsurer."

**YURI USHAKOV, ASSISTANT TO THE PRESIDENT OF THE RUSSIAN
FEDERATION**

This leaves much room for speculation. In the alternative media, various authors are outdoing each other with announcements about a new currency. This was already the case last year. Even respected experts - such as James Rickards - were certain last summer that a new currency would be launched at last year's summit. [We were cautious at the time and we were right](#). Let's stick to the facts and try to observe the situation, describe the challenges and think about what can realistically be achieved in the short and medium term and what we think makes sense.

Away from the US dollar

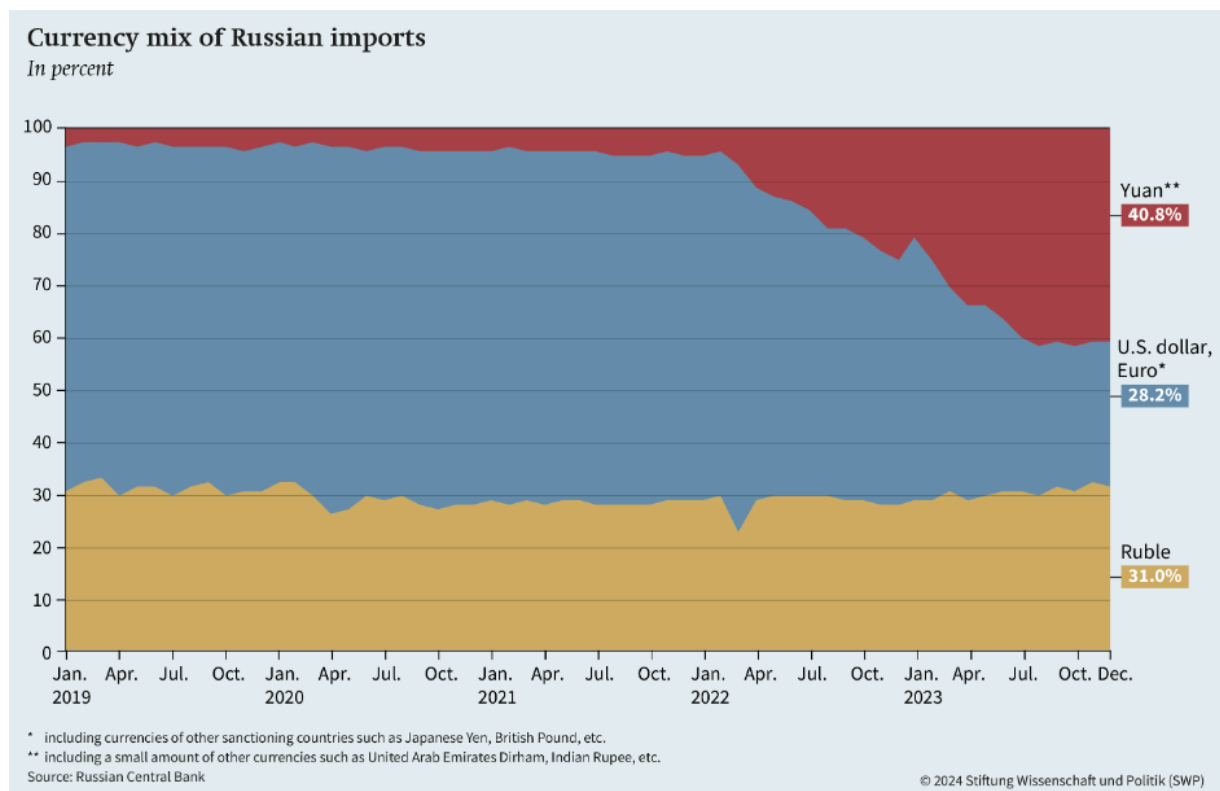
Reason for abandoning the US dollar

It is no secret that the BRICS want to move away from dependence on the US dollar. This development is a consequence of the US using the US dollar as a weapon, with the culmination of this abuse being the freezing of Russia's central bank reserves in March 2022. You can read more about this in our article '[BRICS - Series - Part 2](#)' from August last year, in which we describe the development of the petrodollar and its abuse.

So far, the approach of the BRICS members using the example of Russia

To this day, BRICS members have a policy of using their own currencies in trade with each other whenever possible. Russia, for example, gets Rupees when it sells oil to India, or Yuan when the buyer is China. The Chinese get Rubles for cars sold to Russia. As a result, the use of the US dollar as a transaction currency has fallen sharply.

As shown in the chart below, the US dollar's share of sales for Russian imports in 2022 was still over 65%, but by the end of 2023 it had fallen to 28.2% - the Yuan replacing the US dollar to about the same extent.



Source: Stiftung Wissenschaft und Politik

The second chart shows the evolution of the currency mix of Russian exports. While the US dollar still accounted for more than 85% of Russian exports in 2022, it had fallen to 26.5% by the end of 2023. Similarly, the yuan's share rises from virtually 0% to 37.5% and the rouble's from around 15% to 36%.



Quelle: Stiftung Wissenschaft und Politik

According to [President Putin's statement on Friday 18 October](#), 95% of trade between China and Russia is currently conducted in yuan and rubles.

Consequences resulting from this approach

The consequence of this approach is that when the trade account is balanced, i.e. when exports and imports are in equilibrium over the course of a year, both countries spend the money earned from exports on imports from the same country.

With a trade volume of [USD 240 bn \(2023\)](#), the trade deficit between China and Russia is about USD 19 bn (about 8%) in Russia's favour. This is quite manageable, especially as Russia also uses the yuan in trade with third countries.

(6) 2023年12月进出口商品主要国别（地区）总值表

单位：百万美元

Import origin country (place) Export final destination country (place)	import and export		exit		import		Cumulative year-on-year ±%		
	December	Jan to Dec	December	Jan to Dec	December	Jan to Dec	import & export	exit	import
RUSSIA	21'905.8	240'111.5	10'709.6	110'972.4	11'196.2	129'139.1	26.3	46.9	12.7

Quelle: General Administration of Customs of the People's Republic of China

The brisk trade between Russia and India, however, paints a very different picture. The trade deficit with India is \$61 billion out of a total trade volume of \$65.4 billion. This means that Russia is sitting on a huge pile of Rupees that it cannot use for trade with third parties.

Department of Commerce
Export Import Data Bank
Country - wise

Dated: 14/10/2024
Values in US \$ Millions

Country: RUSSIA						
S.No.	Year	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
1	EXPORT	3'017.67	2'655.52	3'254.68	3'146.95	4'261.31
6	IMPORT	7'093.01	5'485.75	9'869.99	46'212.71	61'159.30
11	TOTAL TRADE	10'110.68	8'141.26	13'124.68	49'359.67	65'420.60
12	%Growth		-19.48	61.21	276.08	32.54

Note: The country's total imports (S.No.6) since 2000-2001 does not include import of Petroleum Products (27100093) and Crude Oil (27090000)

DOC-NIC

Quelle: [Government of India: Department of Commerce](#)

As a result, countries that run large bilateral trade surpluses with one country are sitting on huge amounts of their trading partners' currencies, some of which they cannot easily spend.

As long as business was conducted entirely in US dollars, as it used to be, this was not a problem because the US dollar could be used for any trade activity.

However, the US dollar is not an alternative for balancing these trade deficits because there are BRICS members that are cut off from the US dollar (Russia, Iran) and the other members have legitimate concerns about keeping their reserves in US dollars after the Russian currency reserves were frozen.

Possible solutions

New currency, using the euro as an example

I do not expect the BRICS to issue a single currency similar to the Euro. Introduced in 1999 as fiat money and in 2002 as cash, the euro is a failure. Anyone holding Euros since 1999 has lost 93% of their value against gold. A tragedy for a currency. Moreover, a single currency does not work for a heterogeneous community like the EU or even the BRICS. Only politicians who compensate for their incompetence with megalomania can come up with such an idea.

Personally, I rule out the possibility of such a common currency.

Unit

Some alternative media strongly claim that BRICS will announce a new currency called UNIT in Kazan.

The UNIT would be a currency backed 40% by gold and 60% by the basket of currencies of the member countries. This is also the reason given for the sharp rise in the price of gold.

It is also rumoured that this currency is the result of official Russian-Chinese cooperation. This is not true. This currency was conceived by a Russian (Alexey Subbotin) and a Chinese (Ji LUO) and they published a [white paper](#) about it. It is not an official document.

One of the most intelligent experts I know, [Alastair Macleod](#), has written a negative opinion on the UNIT and his arguments are convincing. He writes that the 40% gold backing makes sense, but that the 60% currency basket without gold conversion does not solve the problem.

For these reasons, I do not expect the UNIT to be adopted by the BRICS.

A currency that is backed by gold and other commodities

There is also a lot of talk about a currency backed by gold and other commodities found in the BRICS region. This sounds good at first glance, but there is a big catch.

Most commodities are not fungible. For example, oil is not just oil, there are over 30 types of oil available worldwide. They have a wide range of characteristics and therefore prices (examples: West Texas Intermediate, Brent Crude, Dubai Fateh, Urals, etc.). This makes them non-fungible and, in my opinion, unsuitable as an underlying for a currency. The same is true for natural gas and many other commodities.

An underlying with a basket of non-fungible commodities is theoretically possible, but complex. Is there a simpler solution?

Gold and silver are fungible.

The fact that gold and silver have been used as money for thousands of years is partly due to their fungibility. 24 carat gold (9999) is fungible, as is silver (999.9). These two precious metals are very well suited to backing a currency. This is a fact that is often ignored in today's world, as gold was the guarantor of the value of the US dollar until 1971, when President Nixon initiated the decline of the US dollar by closing the gold window.

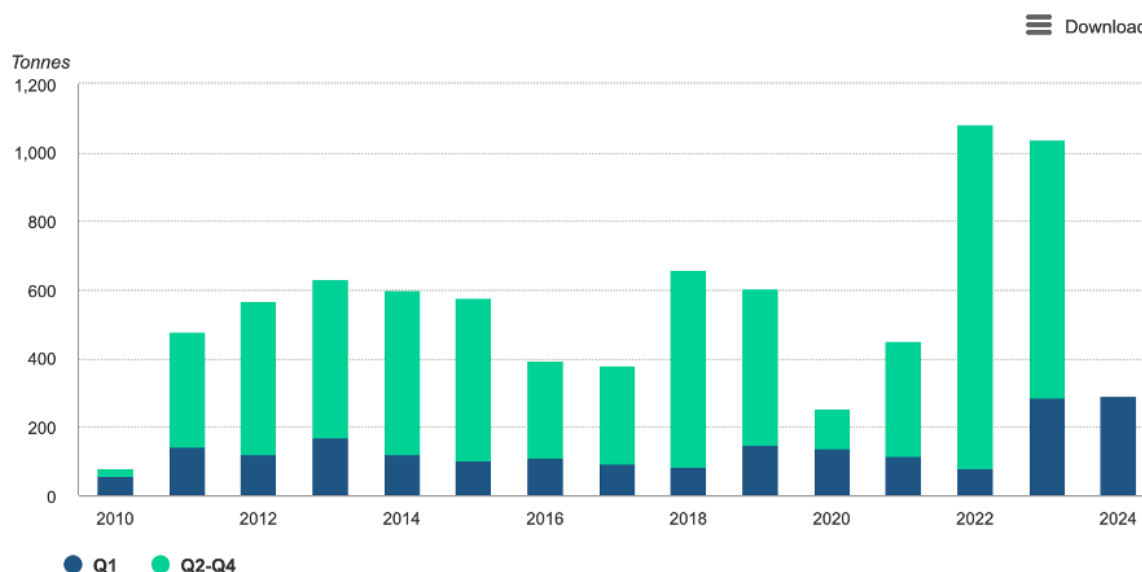
BRICS members and those interested in BRICS are buying a lot of gold.

It is worth noting that many central banks of BRICS members and aspiring members have been buying a lot of gold in recent years.

This chart shows official purchases in recent years; the increase since 2022 is staggering.

Chart 8: Central banks carry gold buying momentum into 2024

Central bank net purchases, tonnes*



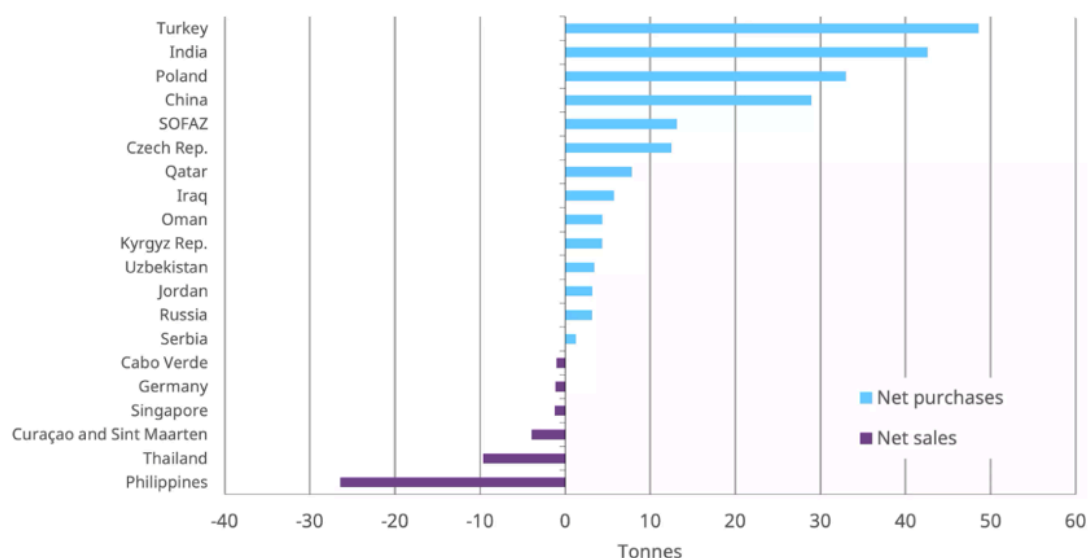
Sources: Metals Focus, Refinitiv GFMS, World Gold Council; [Disclaimer](#)

*Data as of 31 March 2024.

The following chart shows official gold purchases by country.

Gold buying continues to heavily outweigh sales this year

Y-t-d central bank gold purchases/sales in tonnes*



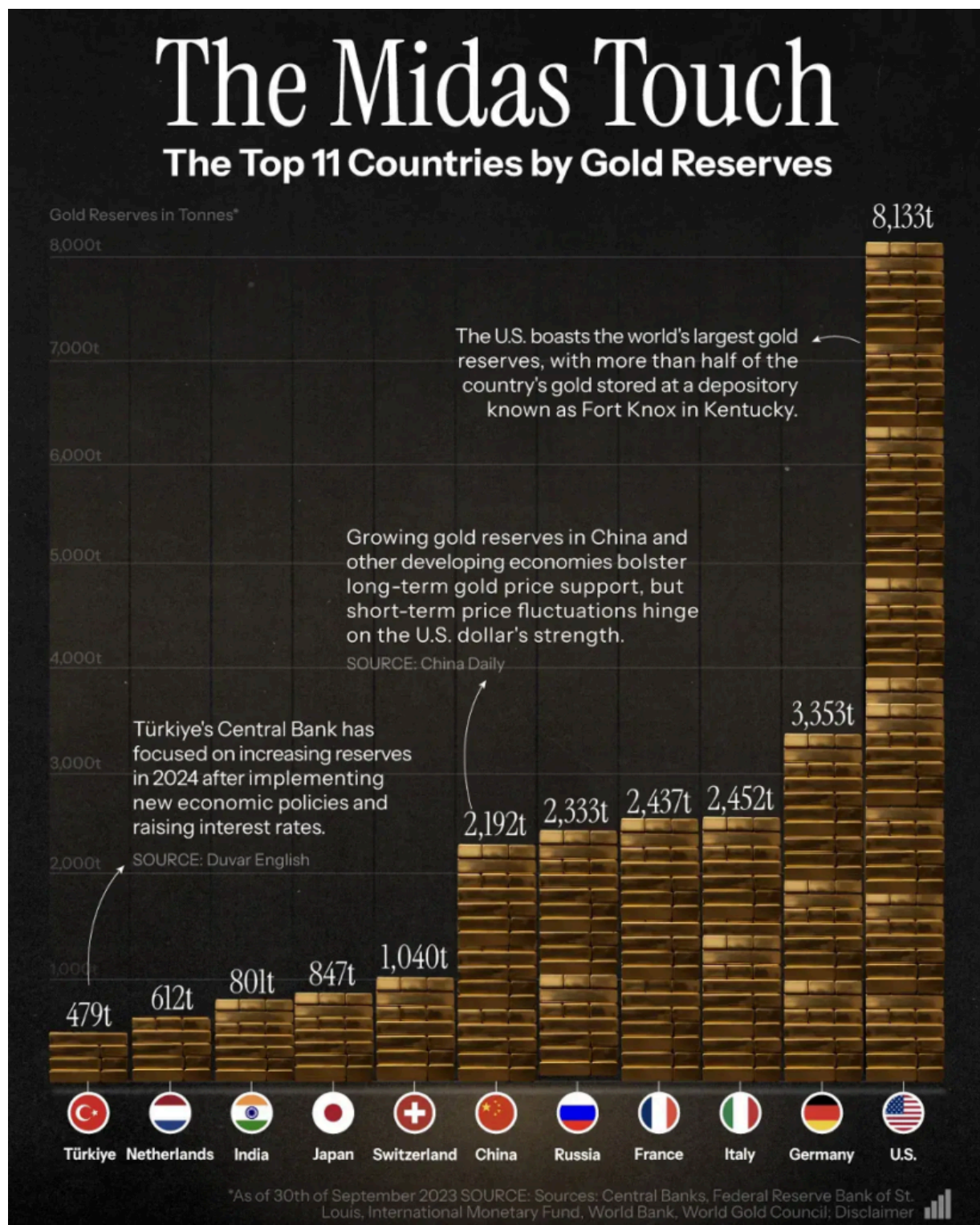
*Data as of 31 July 2024 where available.

Source: IMF IFS, respective central banks, World Gold Council

Source: [World Gold Council](#)

Official gold reserves of the central banks

The following chart shows the official gold reserves of the top 11 countries.

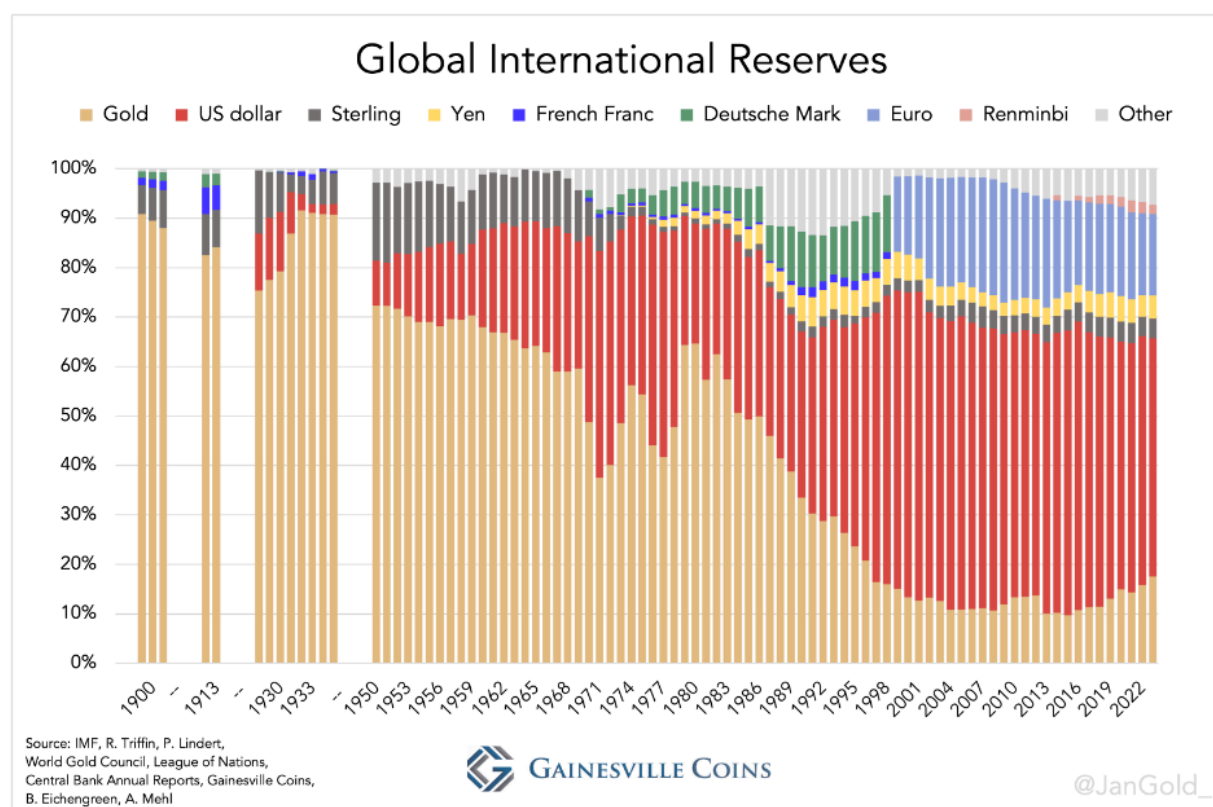


Source: Voronio

Gold overtakes the euro as a reserve currency

According to Gainesville Coins, the world's central banks held more gold than euros as reserves by 2023. This trend will of course accelerate against the US dollar if it continues to depreciate at such a rapid rate. Interest rate cuts and money

printing suggest that there will be no reversal of this trend.



Quelle: Gainesville Coins

What does 'officially' mean?

It is a commonly held belief that China and Russia hold significantly more gold than is reflected in the official figures. While they do not deliberately mislead, the current reporting structure does not fully capture the full extent of their gold holdings. In Russia and China, a range of state institutions and funds are also known to have acquired substantial quantities of gold. It is reasonable to assume that the Chinese state may hold upwards of 25,000 tonnes of gold, while Russia's holdings could be in the region of 12,000 tonnes.

With regard to the American gold treasure, it is worth noting that while the United States claims to possess gold reserves of 8,133 tonnes, there are a number of voices that suggest the American government may no longer have possession of these holdings. Additionally, there are even suggestions that the United States may have misappropriated gold reserves belonging to friendly states.

It would seem that there are two indications that these doubters, who are of course being discredited as conspiracy theorists, could be right. It would seem that there has been no comprehensive audit of American gold reserves since 1953. At that time, Eisenhower was the President of the United States. This is a matter worthy of reflection, as the process of counting a substantial quantity of gold is relatively straightforward. Furthermore, when the Germans sought the repatriation of 500

tonnes of their gold held in the US in 2013, they waited three years for it. This raises the question of whether the US still retains its own gold or even the gold it holds in trust for other countries.

Silver purchases

China and India are also buying vast quantities of silver, purchasing silver ingots (approximately 80% pure) directly from the mines. These direct mine purchases are not reflected in the official statistics. Unlike gold, which is primarily bought as an investment, silver has many industrial applications. It is the best electrical conductor and is used for renewable energies (solar panels) and electric cars, but also for weapons. It is therefore difficult to assess whether the gigantic silver purchases are being made for industrial or monetary purposes.

One thing is clear: many central banks and other state organisations in the Global South are buying gold and, to some extent, silver. What conclusions can we draw from this?

Reason for buying gold and silver

If one believes that there is a trend towards a bifurcation of the world, with the Global South distancing itself from the Collective West, then it makes perfect sense for states in the Global South to invest their US dollar reserves differently, and thus to choose gold as their reserve. After all, gold is what the US dollar used to be - at least until 1971: first and foremost a currency that can be used for all public and private expenditures. Due to the US sanctions policy, this is no longer possible for all countries with the US dollar.

Second, gold is a store of value, whereas the US dollar has lost over 98% of its purchasing power since 1971.

These two arguments are a very good reason for all countries - including Western countries - to buy more gold, without these purchases having anything to do with BRICS.

However, if you look at the list of countries that are actively buying gold, it turns out that most of them are BRICS members or countries that are close to BRICS.

These are good indicators that these gold purchases may very well be related to the intentions of BRICS. I formulate this statement very cautiously because I could not find any facts that make this seem certain.

Not a BRICS currency, but a settlement system

No currency

I can rule out the possibility of a new currency being declared in Kazan. Confirmation of this came on Friday (18 October 2024) from President Putin himself, when he stated the following:

"As for the BRICS common currency, we are not considering this issue. Its time has not come yet. We need to be very careful and act gradually, without any rush."

PRESIDENT PUTIN – 18 OCTOBER 2024

BRICS Pay as a means of payment



On 18 October 2024, BRICS Pay was also presented in Moscow. The idea is to use this means of payment to make payments – for holidays, for example – in countries that are cut off from SWIFT. It is not yet clear how far this project has actually progressed and which countries will use this system in the near future.

BRICS settlement system

This article has revealed the most urgent concern of the BRICS members: to find a solution for closing trade deficits. This is essential to prevent members that have trade surpluses in bilateral trade from being stuck with currencies that they cannot

continue to use. Russia and its rupees are a case in point.

We continue to assume that the BRICS currency is not coming. Otherwise, President Putin would not have made such unambiguous statements last Friday.

A currency is not even necessary yet. A payment mechanism can be managed relatively easily via an electronically standardized system. The Chinese and Russian CIP and MIR systems already exist. Linking them or extending them to other members and partners is a technical, not a political, problem.

The biggest challenge is not the technical hurdles of payments. It is, as we have already stated, the aforementioned smoothing of trade deficits among the BRICS members.

There is no need to reinvent the wheel when there are fungible precious metals that have been used as a universal currency for thousands of years. Many BRICS members and potential partners either already have gold reserves or are building them up.

Conclusion

It is worth reading official statements from the Russian government carefully and taking them seriously. This has always proved its worth in our work. If we take the statements made by President Putin and his assistant Yuri Ushakov on Friday as the basis for our discussion, we can assume that no single currency (BRICS currency) will be proclaimed in Kazan.

We can expect a payment system that will most likely be based on the existing Chinese and Russian platforms CIP and MIR, as these systems are already functioning. This will simplify the handling of payments between members, but will not yet solve the problem of settling trade deficits.

This does not require a new currency, but a system that is based on something fungible and value-preserving. The substantial purchases of precious metals, especially gold, by BRICS members and related countries in the Global South are indicators that this settlement system could be (partly) based on gold (possibly with a silver component).

We will know more on October 24.

Analysis Subbotin, Alexey Luo, Ji BRICS BRIC Summit Kazan 2024 Eisenhower, Dwight D.
Nixon, Richard Putin, Vladimir Central Bank of Russia (CBR)
The People's Bank of China (PBoC) World Gold Council (WGC) Gainsville Coins