

## BRICS – NEW ECONOMIC REALITY

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**Abstract:** *The current architecture of the international economic system is undergoing significant changes in favor of countries whose economies have not been dominant at the global level. This particularly applies to the BRICS (Brazil, Russia, India, China) which possesses significant political and economic potential. Considering the increasing interest of a growing number of countries in joining this bloc, it can be concluded that BRICS represents a new economic reality that cannot be ignored. The aim of this study is to highlight the importance and role of BRICS countries in the international financial system. The subject of the paper includes the analysis of monetary and fiscal indicators of BRICS countries for the period 2006-2023. The obtained results show long-term favorable trends in monetary and fiscal indicators, indicating that BRICS countries can be identified as economies with significant potential for growth and development.*

**Key Words:** *BRICS, economic potential, monetary and fiscal indicators*

**JEL classification:** *E01, E31, E60, H63*

### 1. INTRODUCTION

In conditions of permanently intensive geopolitical events and unstable economic circumstances, there is a growing need for countries to better position themselves and adapt to the emerging circumstances. Regional integrations have become a leading global trend as an attractive and efficient

way for countries to participate in global processes. The formation of regional blocs was initially seen as a process parallel to globalization, but increasingly globalization and regionalization are viewed as complementary processes. Today, countries like BRICS (Brazil, Russia, India, China, and South Africa) are actively participating in the process of regionalization at the global level (Lagutina, 2019). The current architecture of the international economic system is rapidly changing in favor of countries whose economies were not dominant at the global economic level. This particularly applies to BRICS countries and Asian economies, which are increasingly asserting themselves on the world stage. Zharikov (2021) emphasizes that BRICS has a good perspective for reforming the global economic system and aiding the world economy. BRICS can be seen as a potentially competitive economic bloc that will enable the utilization of each country's individual advantages in the context of global approach and presence in the international market. In this way, opportunities are created for a synergistic effect that can have effective implications on the economic currents of BRICS countries. Molefe and Mah (2020) define this bloc as a partnership known for having the fastest-growing economies with significant implications for local and global business flows. Accordingly, Goueva and Gutierrez (2023) highlight that BRICS countries are seeking ways to deepen their economic and political complementarity and interdependence through technology and innovation sharing, as well as preferential trade and investment arrangements. The new global architecture leads to new trade and

investment alliances, where this economic bloc could promote a more inclusive and equitable growth model in regions like Africa and Latin America (Lal, 2023). Additionally, the future of BRICS countries may be directed towards infrastructure projects such as the Chinese "Belt and Road Initiative," where infrastructure development can generate significant employment and create a middle class that will stimulate long-term economic development (Shahrokhi et al., 2017).

## 2. DEVELOPMENT OF BRICS

BRICS was first defined by Jim O'Neill in his report (O'Neill, 2001) and represents an acronym for a group of countries (Brazil, Russia, India, China, and South Africa). It can be seen as a form of economic as well as political alliance among these nations. Specifically, BRICS can be defined as a regional organization of an informal nature aimed at developing and strengthening economic and political cooperation among the mentioned countries. BRICS is often viewed as a forum because the work and functioning of this bloc are characterized by the aspirations of these countries for increasing and intensifying cooperation and the willingness to create new political and economic perspectives at the international level.

At the 2006 summit, Brazil, Russia, India, and China met for the first time on the sidelines of the United Nations General Assembly. The first formal meeting of these four countries was held in Yekaterinburg, Russia, in 2009, which gave this grouping institutional significance. The summit defined fundamental principles regarding the reform of financial and economic architecture, such as: a democratic and transparent process of decision-making and implementation in international financial organizations, a solid legal foundation, compatibility of activities between national regulatory institutions and international standards bodies, as well as strengthening the practice of risk management and supervision. Additionally, there is a highlighted need for improving and reforming international financial institutions. Developing countries must have greater representation in international financial organizations in terms of voting and decision-making. Simultaneously, there is an emphasized need for a stable, predictable, and more diversified international monetary system based on intensified use of national currencies in bilateral and multilateral trade relations. (<https://infobrics.org/news/summits/>)

In addition, Iqbal and de Araújo (2015) specify that the BRICS countries have identified three areas of cooperation: a) cooperation in achieving energy efficiency and developing clean energy

sources, as well as joint action and sharing of new technological knowledge and operations; b) cooperation regarding population and employment issues with constraints arising from the increasing population growth (especially in China and India); c) cooperation in the direction of urbanization and transportation development as two major constraints influencing the growth and development of the BRICS economies. However, Jiaduo et al. (2023) state that the environmental dynamics of the BRICS countries, characterized by significant population density, are shaped by extensive use of natural resources and rapid urbanization. This profiles these countries as currently the largest polluters worldwide (Khan et al., 2020). Therefore, Huang (2024) emphasizes that BRICS countries should prioritize sustainable trade practices by integrating environmental issues into trade agreements and policies. This primarily involves supporting environmentally friendly supply chains and reducing trade barriers for environmentally sustainable products. The second summit was held in Brazil in 2010, where issues of international cooperation, the global financial crisis, the selection mechanism of World Bank and IMF leadership, G20 affairs, United Nations reform, climate change, and regional or international cooperation of BRICS were discussed. The then BRIC evolved into BRICS in 2011 when South Africa joined and became the fifth member at China's initiative, completing the group's regional coverage. At the fifth summit in Durban in 2013, the establishment of the New Development Bank and the agreement on forming a pool of currency reserves were discussed.

At the VI summit in Fortaleza, representatives of the BRICS countries signed an agreement to establish the New Development Bank with its headquarters in Shanghai and an initial capital of \$50 billion. The New Development Bank was founded based on the concept of existing regional development banks, where besides financing projects of general importance, it also provides technical assistance for project implementation regardless of the funding source (Stojković, 2016). The idea behind establishing the New Development Bank is to enable a higher degree of financial independence for countries, providing an alternative to the World Bank and IMF in terms of financing. Additionally, another agreement to form a pool of currency reserves totaling \$100 billion aims to protect the national currencies of BRICS representatives from potential disturbances in financial markets. It's important to highlight the significance of the VII summit of the BRICS countries, jointly held with the Shanghai Cooperation Organization and the Eurasian Economic Union in Russia in 2015. Alongside the

BRICS countries, representatives from countries such as Afghanistan, Armenia, Belarus, Iran, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Tajikistan, and Uzbekistan participated. At the VIII summit in India in 2016, the importance of combating international terrorism was emphasized through adapting the comprehensive convention on international terrorism at the UN General Assembly. Regional and international cooperation, improvement of industries of BRICS representatives, were discussed at the IX summit in China in 2017, as well as the X summit in South Africa in 2018. Interestingly, the debate on digital currency began at the XI summit in Brazil in 2019 as part of discussions on science, advanced technology, and innovations. The following summit was held on November 17, 2020, in the form of a video conference due to the then ongoing global COVID-19 pandemic, where the agenda was defined towards issues of advancing living standards and quality, peace, economy, culture, and society. The XIII BRICS summit was held in September 2021 in the form of a video conference, hosted by India. One of the most significant BRICS summits was held in June 2022, with Beijing as the official host. Similar to the previous summit, the XIV summit was conducted in the form of a video conference, highlighting the importance of the new reserve currency basket supported by precious metals. (<https://infobrics.org/news/summits/>)

The aim is to enable the combination of BRICS currencies in their bilateral and multilateral trade relations. The XV BRICS summit was held in Johannesburg and is considered a historic event because the question of expanding this group and redefining the group's name to BRICS Plus was opened. Namely, countries such as Argentina, Egypt, Iran, Saudi Arabia, and the UAE were invited to join the BRICS bloc. In early 2024, Egypt, Ethiopia, Saudi Arabia, the UAE, and Iran became part of the BRICS grouping, while Argentina withdrew its membership. It is important to note that in 2023 alone, 17 countries applied or are waiting to join negotiations for membership in the BRICS bloc. These include economies such as Algeria, Bangladesh, Mexico, Sudan, Syria, Senegal, Kazakhstan, Venezuela, Indonesia, Nigeria, Thailand, and Turkey. (<https://brics2023.gov.za/evolution-of-brics/>).

Considering that the economy of China is larger than the economies of Brazil, Russia, India, and South Africa combined, questions arise about the structural disparity within this bloc and its functioning (Pant, 2013). Additionally, different political motives and economic aspirations are often cited as potential problems in the functioning

of this association. Although the economies of BRICS can be seen as heterogeneous, their structures can converge for several reasons. Namely, the economies of Brazil and Russia are mainly based on vast reserves of minerals and resources, while China and India are market competitive in terms of cheap labor and resources at low prices (Radulescu et al., 2014). China could use this bloc as a more secure way to expand its growing economic influence, instead of being viewed as a separate economy due to its unilateral actions. Also, the inclusion of South Africa may result in greater support for China's trade and investment ambitions in Africa. Brazil's membership can be analyzed through the prism of expanding influence on the world stage, given its status as one of the main regional powers in Latin America. Similarly, India lacks political verification at the global level, despite its enormous size, while Russia can use BRICS for other alliances beyond close ties with former Soviet republics (Lowe, 2016). In addition to economic potential, it is important to highlight the political weight of Russia and China as permanent members of the UN Security Council, which is an important condition in positioning this bloc in the geopolitical arena.

The economic expansion of BRICS is further confirmed through the functioning of the New Development Bank. It is important to note that in 2021, the board of directors of the New Development Bank approved the admission of Bangladesh, the UAE, and Uruguay, signaling the beginning of its expansion and profiling as a global multilateral institution. Similarly, the New Development Bank has approved 96 projects totaling \$32.8 billion primarily directed towards energy efficiency, environmental protection, transportation, social, and digital infrastructure. Some of the prominent projects include the construction of an LNG terminal in China (Tianjin province) worth €436 million approved to increase natural gas supply capacity and reduce coal usage. Additionally, the project for the rehabilitation of the Indira Gandhi Canal system in the Rajasthan region of India worth \$345 million aims to improve water systems and irrigation, promote efficient water use, and increase crop intensity. Another interesting project involves providing a loan to Brazil's third-largest development bank (BDMG) for financing sustainable development investments in the Minas Gerais region (Brazil), focusing on clean energy, urban development for inclusive and smart cities, agriculture, and social infrastructure. Regarding projects in Russia by the New Development Bank, the institution participated in the Russian Federation Government's housing support program, aiming to

address housing issues and improve residential spaces through the increased use of energy-efficient materials. The total project value amounted to \$1.4 billion, with the New Development Bank financing \$300 million for project implementation. Financing road infrastructure in South Africa totaling \$1 billion represents one of the most significant investment ventures realized in the country. The economic potential of BRICS is evident in the fact that this bloc covers 42% of the global population, 30% of the world's territory, 23% of the total gross domestic product, and 18% of global trade. To provide a more detailed depiction of the economic potential of these countries, monetary and fiscal indicators were analyzed for each country individually.

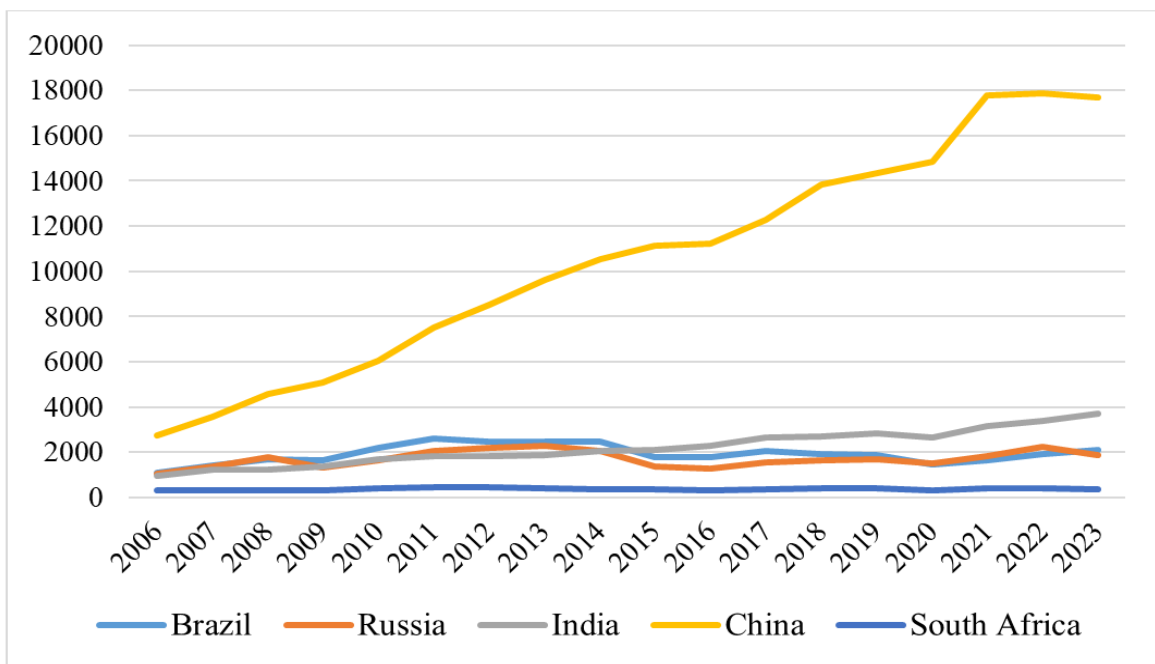
### 3. MONETARY AND FISCAL POTENTIAL OF BRICS

The monetary potential of BRICS countries refers to their ability and impact regarding monetary policies, currency management, as well as economic and financial aspects.

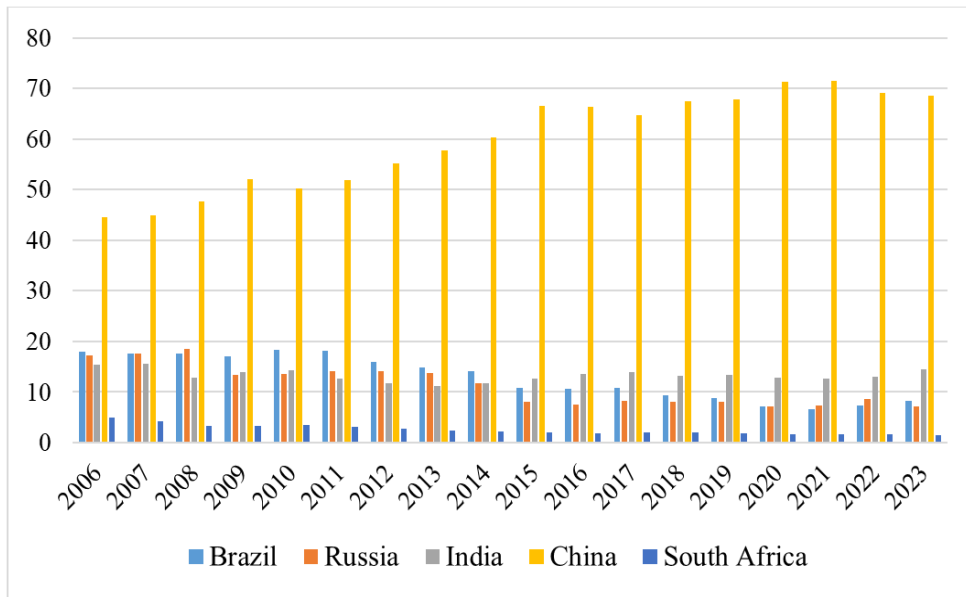
The economic potential of BRICS, measured by Gross Domestic Product (GDP), indicates that from its founding in 2006 until the end of 2023, the GDP increased by 173%. China stands out with a drastic growth of 542%, and India with 132%. Additionally, Brazil's GDP level in 2023 increased by 92%, Russia's by 75.5%, while South Africa's GDP grew by 25.27% compared to 2006.

Each country has its specificities, but collectively they strive to contribute to the stability and dynamics of the global financial system. The fact that BRICS countries, especially China, possess significant foreign currency reserves indicates that these countries play an important role in creating and maintaining stability in the global financial market. However, BRICS efforts are reflected in the diversification of the international monetary system, which involves greater use of their national currencies and less dependence on the US dollar. On the other hand, the fiscal potential of BRICS countries reflects their ability to lead stable, sustainable, and efficient fiscal policies that support long-term economic growth and development.

**Graph 1.** Gross domestic product in BRICS (in billion \$)



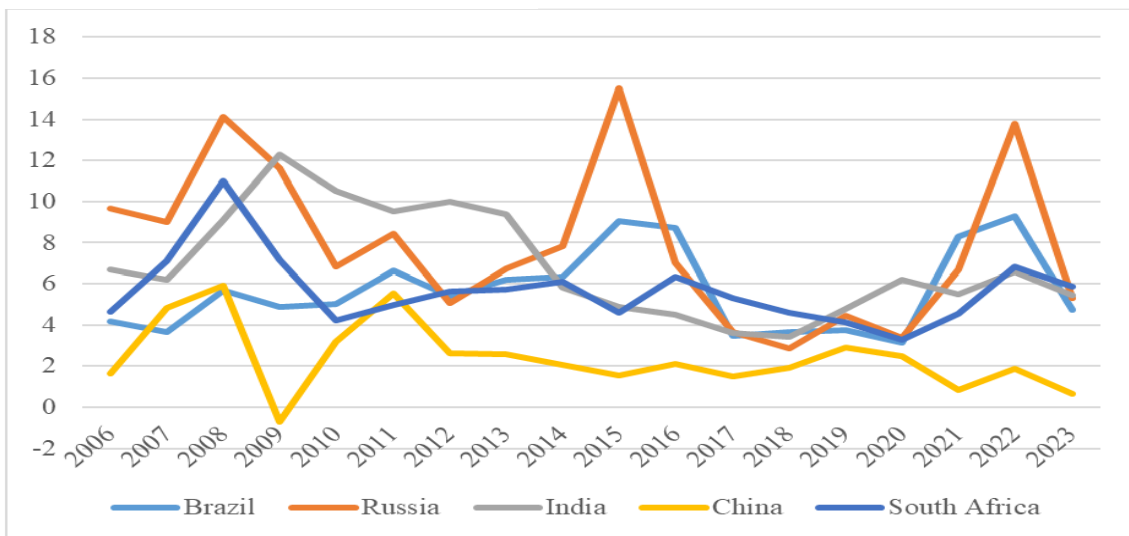
**Graph 2.** Country share in total GDP of BRICS



In the next graph, you can see how the economic potential of BRICS is predominantly influenced by the economy of China. On average, the share of China's gross domestic product (GDP) amounted to 59.91%, while the other economies comprised slightly more than one-third of the BRICS GDP. The average share of gross domestic product for Brazil, Russia, and India ranged between 11-13%, while South Africa has a significantly lower share in the total GDP achieved.

In addition to economic growth, the inflation rate is one of the most important indicators that indicates the level of price stability in the economic system. In order to achieve positive effects on economic growth and development, it is necessary to enable an inflation rate that will be at a sufficiently high level to stimulate economic activities of producers. On the other hand, the inflation rate must not be too high in order to prevent the economic capacity of the economy and the population from being devalued in terms of reduced investment or purchasing power.

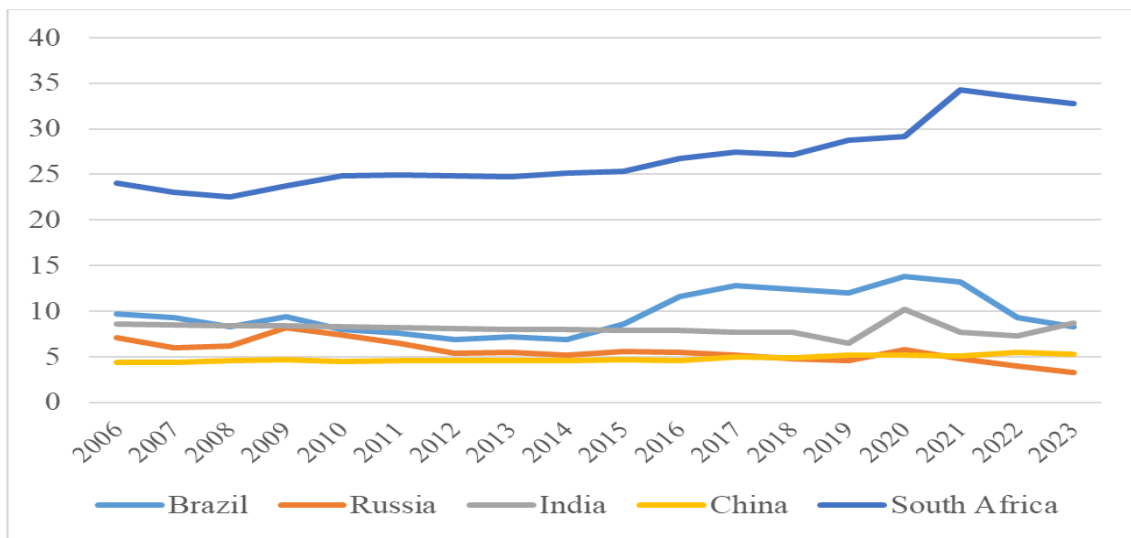
**Graph 3.** Inflation rate in BRICS



Looking at individual countries, it can be observed that China achieved the lowest inflation rate of 2.37% on average. Brazil and South Africa follow with average inflation rates of 5.6%, while India and Russia recorded average general price increases of 6.92% and 7.9% for the time period from 2006 to 2023. If we analyze the last year, the economy of China was close to deflation, while the other BRICS countries experienced inflation rates between 4-5%.

It is important to note that in 2022, Russia had a double-digit inflation rate of 13.77% as a consequence of the escalation of the conflict in Ukraine. However, the following year, the central bank of Russia managed to reduce the inflation rate to 5.28% through its interest rate policy. The average general price increase in BRICS countries in 2023 was 4.26%, which is approximately the average level of the G7 (4.1%) and higher compared to the EU (2.9%).

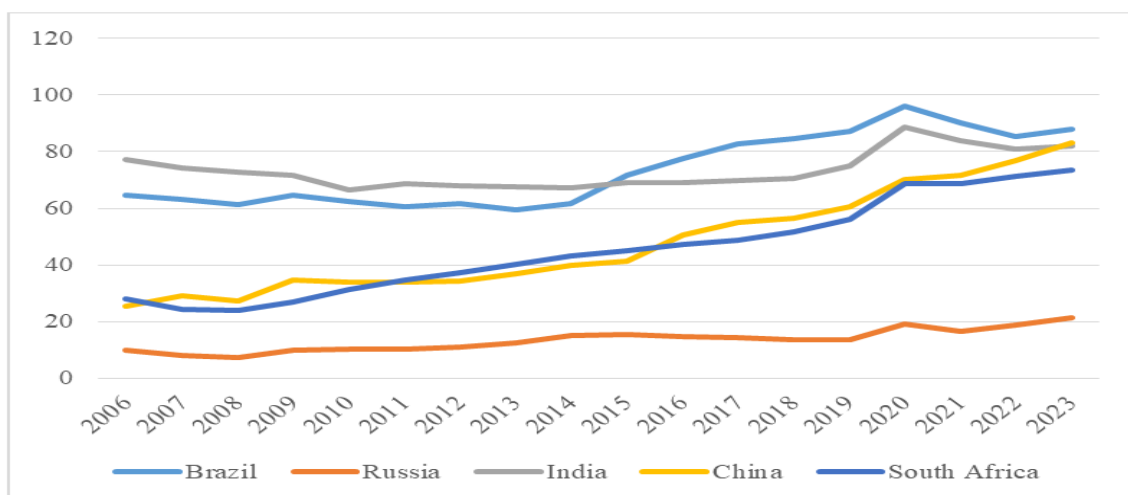
**Graph 4. Unemployment rate in BRICS**



Unemployment represents one of the key problems facing economies. The average unemployment rate in BRICS countries was 11%, with the highest value recorded in South Africa (as high as 27%), while other countries were around or below 10%. In 2023, Russia and China achieved the lowest unemployment rates of 3% and 5.3%, respectively, while Brazil and India recorded 8% and 9%.

On the other hand, South Africa recorded an unemployment rate of as high as 33%, indicating significant structural problems in the economy of this country. When comparing the unemployment rate in BRICS countries with the averages in the G7 and the EU, it must be noted that it is significantly higher than these groups (4.1% in the G7 and 5.9% in the EU).

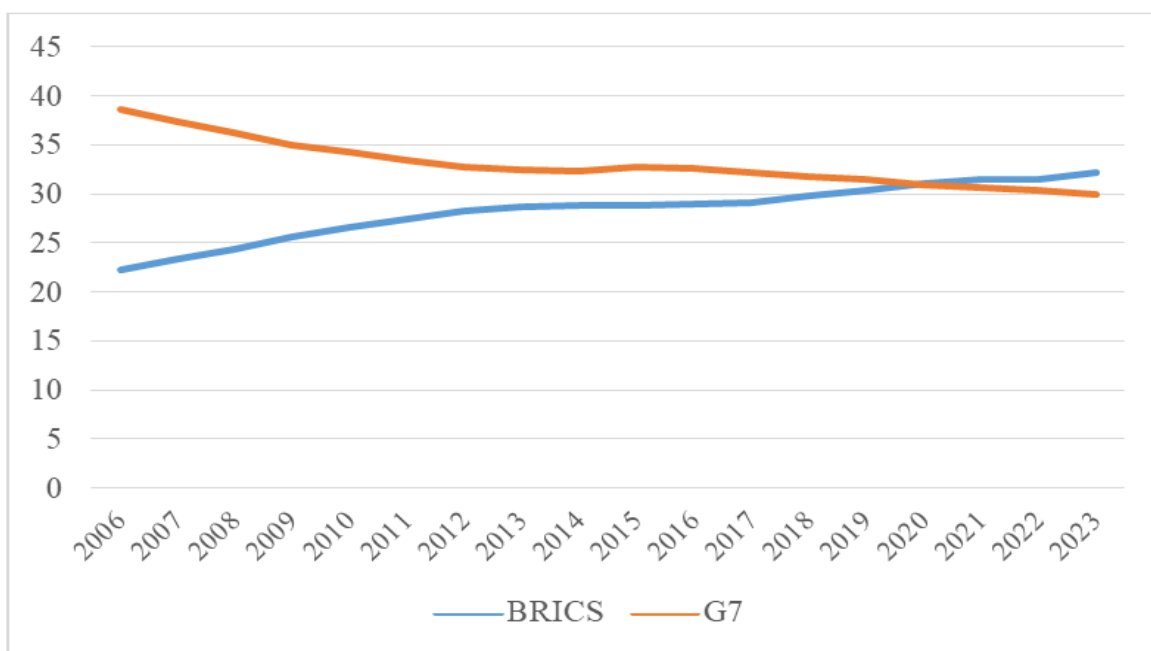
**Graph 5. Public debt in BRICS (% of GDP)**



Analyzing the share of public debt in GDP, a significant difference can be observed between the economy of Russia and the other BRICS countries considered. Specifically, the average share of public debt in Russia amounts to 13.44% of gross domestic product, which is considerably lower compared to Brazil and India (average share above 73% of GDP). When it comes to China and South Africa, the average share of public debt was at the level of 45-48% of GDP for the period from 2006 to 2023. Based on the above, it can be concluded that the economies of BRICS are burdened with the share of public debt of 50.77% on average.

ignored on a global level. This means that this bloc can be seen as a counterbalance to the current international system, which is predominantly oriented towards global financial organizations such as the World Bank and IMF. Namely, any alternative form of organization that can contribute to economic prosperity represents a desirable phenomenon in international relations. Creating multiple poles at the geopolitical level enables a diversified approach that can foster healthy competition and provide opportunities for countries whose economies are not at the center of the economic world but cannot be considered economic peripheries either.

**Graph 6.** Comparative view of the share of BRICS and G7 economies in the total GDP - purchasing power



However, if trends in the past five years are followed, the share of public debt has significantly increased as a result of crisis situations such as COVID-19 and the war conflict in Ukraine. Only in the last five years, the average public debt of BRICS countries has increased and amounted to 65.88% of GDP, which is again much lower compared to developed countries and groups such as the G7 and the EU. The economies of the G7 and the EU are much more burdened with public debt, exceeding 123% of GDP for the seven highly developed countries and 90% of GDP for EU member states.

**CONCLUSION**

Considering the fact that an increasing number of countries see opportunities in this political and economic bloc, it can be stated that BRICS+ represents a new economic reality that cannot be

Based on all the above, BRICS countries are recognized as economies with significant growth potential for several reasons. First, they have a large and growing population, where the observed countries constitute a significant portion of the world population, indicating a large consumer base and workforce for economic growth and development. Second, BRICS includes developing countries, i.e., rapidly growing economies that provide opportunities for investment and expansion. Third, many BRICS countries are rich in natural resources such as oil, gas, minerals, and agricultural products, which undoubtedly can contribute to economic growth. Fourth, BRICS insists on infrastructure projects that can contribute to economic prosperity, with a focus often on investments in transportation networks and energy facilities. Fifth, BRICS countries are increasingly participating in mutual trade relations, as well as

with other regions, creating additional space for economic progress. Also, strengthening their own financial systems and using national currencies allows for further integration of these economies and indirectly reduces dependence on the use of dollars or euros in international transactions

The subject of this paper involves a descriptive overview of the economic potential of BRICS from the perspective of monetary and fiscal indicators for the period 2006-2023. The first aspect encompassed the general economic state by presenting fundamental macroeconomic aggregates such as gross domestic product, inflation, and unemployment. The second aspect related to fiscal potential, which was analyzed through the prism of the share of public debt in gross domestic product. The results of the conducted analysis indicate that BRICS covers 42% of the global population, 30% of the world's territory, 23% of the total gross domestic product, and 18% of global trade. During the observed period of analysis, the GDP of these countries increased on average by 173%, with China standing out as the absolute leader in this economic bloc. Specifically, the size of China's GDP was over 17,000 billion dollars, which is twice as much as all BRICS countries combined. Over the past fifteen years, the average inflation rate of BRICS countries has been 5.7%, with an average unemployment rate of 11%. These trends indicate somewhat stable movement in the general price level, while the double-digit unemployment rate is a consequence of a large number of unemployed in South Africa. When it comes to the share of public debt in gross domestic product, the average share of BRICS countries was 50.77% of GDP for the observed period. Displaying share in global GDP at purchasing power parity, BRICS countries had a greater share compared to G7 countries for the first time in 2020. At that time, the share of these countries amounted to 31.02% compared to the share of G7 economies of 30.94% of total GDP globally. This difference continued to increase in subsequent years, with it being 32.14% compared to 29.92% of global GDP in favor of BRICS countries by the end of 2023. The mentioned economic facts indicate a much more favorable fiscal position of these countries compared to G7 and EU countries, whose economies are significantly burdened by budget deficits and public debts. This implies that these countries have more room for increased consumption, both private and investment, which can lead to positive effects on their economic growth and development. This does not mean that BRICS countries are more developed than G7 economies, which have a much higher gross domestic product per capita and fewer

unemployed. The obtained results point to a new economic reality and positive trends in BRICS countries, whose potential will be further strengthened with new members such as Egypt, Ethiopia, Saudi Arabia, UAE, and Iran.

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