BRICS Nations Developing “New Currency” As Quest For Global De-Dollarization Accelerates

Description

China and Brazil recently finalized a trade deal in their own currencies completely bypassing the dollar, but that’s not the only bad news for the world’s reserve currency.

Last week, a Russian official announced that the BRICS nations are working to develop a “new currency,” yet another sign that dollar dominance is waning.

State Duma (the Russian legislative assembly) deputy chairman Alexander Babakov said the transition to settlements in national currencies is the first step. We’ve already seen this occur with recent oil deals between India and Russia being settled in currencies other than dollars.

> The next one is to provide the circulation of digital or any other form of a fundamentally new currency in the nearest future. I think that at the BRICS [leaders’ summit], the readiness to

> realize this project will be announced, such works are underway."

That summit is scheduled for August.

Babakov said the BRICS nations are developing a strategy that "does not defend the dollar or euro" and that "a single currency" would likely emerge within BRICS, pegged to gold or "other groups of products, rare-earth elements, or soil."

Brazil, Russia, India, China, and South Africa make up the BRICS block. It accounts for about 40% of the global population and a quarter of the global GDP.

Last year, Iran officially applied to join BRICS, and according to a report by *The Cradle*, several nations have expressed interest in joining the bloc, including Saudi Arabia, Algeria, UAE, Egypt, Argentina, Mexico, and Nigeria.

Former Goldman Sachs chief economist Jim O'Neill coined the BRIC acronym. In a recent paper published by Global Policy Journal, he urged the expansion of BRICS.

> ***"The US dollar plays a far too dominant role in global finance,"*** *he wrote.*
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> *"Whenever the Federal Reserve Board has embarked on periods of monetary tightening, or the opposite, loosening, the consequences on the value of the dollar and the knock-on effects have been dramatic."*

It's clear that many countries are trying to minimize their exposure to the dollar.

Confidence in the greenback continues to erode thanks to the profligate borrowing, spending and money creation by the US government. America's use of the dollar as a foreign policy weapon also makes many countries wary of relying solely on dollars.

According to the International Monetary Fund (IMF), **the dollar's share of global foreign-exchange reserves fell below 59% at the end of 2021, extending a two-decade decline.**

> *Strikingly, the decline in the dollar's share has not been accompanied by an increase in the shares of the pound sterling, yen and euro, other long-standing reserve currencies…*
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> ***Rather, the shift out of dollars has been in two directions: a quarter into the Chinese renminbi, and three quarters into the currencies of smaller countries that have played a more limited role as reserve currencies."***

This is a big problem for the US government.

Uncle Sam depends on the demand for dollars to underpin its profligate borrowing and spending. The only reason the US can get away with massive budget deficits and an ever-growing national debt to the extent that it does is due to the dollar's role as the world reserve currency. It creates a built-in global demand for dollars and US Treasuries that absorb the money creation and maintain dollar strength. But what happens if that demand drops? What happens if BRICS develops its own currency and no longer needs dollars to trade?

If the demand for dollars tanks, the greenback's value will quickly erode away. That means even worse price inflation for Americans. And in the worst-case scenario, it could collapse the dollar completely.

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