BRICS 2023 Economic Bulletin

November 2023

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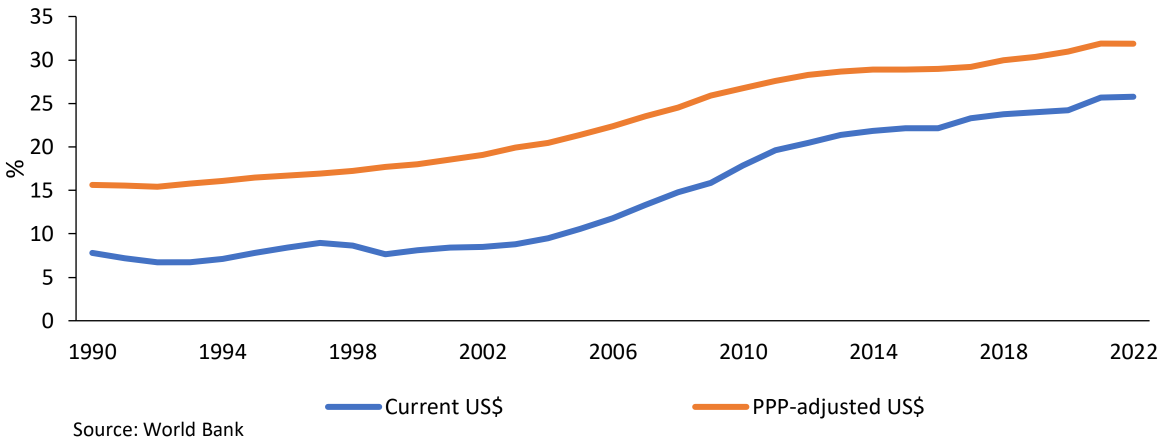
1. Introduction

The BRICS group of emerging economies has grown into a key global economic player over the past few decades. From representing only 8.0% of global gross domestic product (GDP) in 1990, it accounted for 26.0% in 2022 (Figure 1).[1] Were the six countries that were invited to join BRICS at the August 2023 Summit to be added to that calculation, the share would rise to 29.0%.[2] Equally, BRICS countries expanded their share of global nominal exports (by 14 percentage points over the past three decades to 21.0% as of 2022) and played an increasing role in global trade in commodities as well as cross-border bank lending and portfolio flows. Yet performance across BRICS member states has been uneven, reflecting the different structures of their economies and external trading patterns, divergences in productivity growth, demographic trends and capital accumulation as well as idiosyncratic economic and policy issues.

Figure 1: BRICS share of global GDP



Furthermore, the last few years have been challenging for the world economy, including BRICS members. The World Health Organization (WHO) announced in May that it no longer considers COVID-19 as a 'global health emergency' and indeed, member countries have by now successfully controlled the pandemic while being able to allow economic and social activities to return to normal. Yet legacies of the COVID-19 crisis and the public health measures employed to combat it – as well as the broad monetary and fiscal stimulus used to protect economies from the shock – linger globally in the form of either durable output losses or supply/demand mismatches that have resulted in

[1] This comparison uses World Bank nominal data in current US$. When expressed in purchasing power parity (PPP)-adjusted US$, the share rises from 16.0% to 32.0%.

[2] These six countries are Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates.

lasting inflation pressures. Geopolitical tensions that surfaced in the years following the pandemic exacerbated global economic imbalances, while further challenging the consensus of past decades that favoured greater international goods, services, capital and labour market openness.[3]

Against this background, the 2023 edition of the *BRICS Economic Bulletin* first looks at how member countries have continued to recover from the aforementioned shocks, even as the surge in global inflation led to sizable monetary policy tightening across the world, and the boost from earlier, pandemic-related fiscal stimulus faded. It specifically looks at economic growth, price developments and current and financial account trends. In the second section, the Bulletin analyses how successful member countries have been at offsetting the output losses from the COVID-19 pandemic and converging back towards earlier growth trends, how their labour markets have adapted and whether price and wage formation patterns have changed following these shocks. Finally, the document looks at how these developments have shaped the response of monetary policy, and whether other policies have been put in place that supported the task of central banks in fostering price and financial stability amid sustainable economic growth.

2. Economic normalisation in the third year since the pandemic

The world economy has faced new challenges in 2022 and the early part of 2023, even as the rollout of COVID-19 vaccines and the mutation of the virus into a more contagious but less lethal variant gradually reduced its influence on people's mobility and economic activity. At the global level, demand-supply mismatches in goods, labour and (increasingly) services markets that resulted from COVID-19-related disruptions, and the staggered pace of economic re-opening, drove inflation higher. In several advanced economies (AEs), consumer price index (CPI) increases rose to levels that had not been seen for decades. Geopolitical tensions in the early part of 2022 and subsequent sanctions on Russia, pushed prices of commodities (especially energy and grain) higher in the first half of 2022, compounding the world's inflation problem.

[3] Some research suggests that some reversal of globalisation trends had already started around the mid-2010s. See for instance Goldberg, Pinelopi K and Tristan Reed. 2023. 'Is the Global Economy Deglobalizing? And if so, why? And what is next?' Brookings Papers on Economic Activity (BPEA) Conference Draft, Spring.

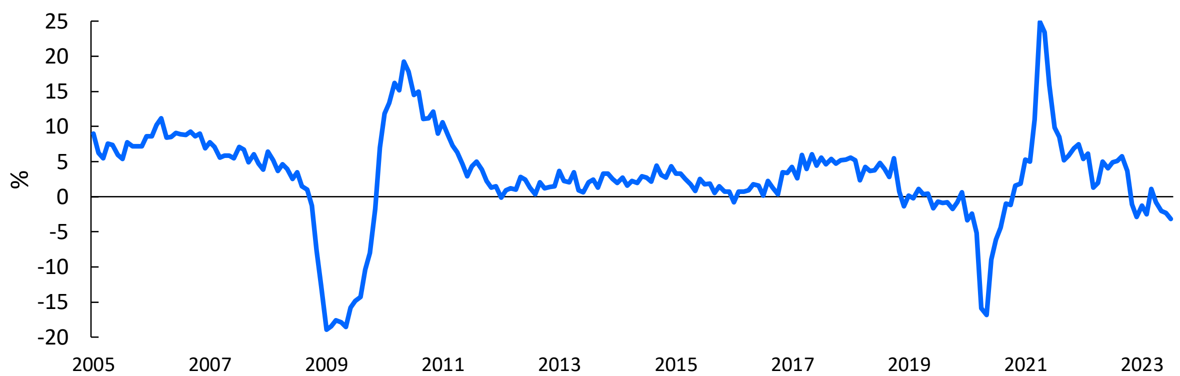
World GDP growth continued at a robust pace in 2022 – 3.5%, according to the International Monetary Fund (IMF) – though it slowed from the strong pace of 6.3% recorded in 2021 (which was supported by favourable base effects as COVID-19-related lockdowns eased). Nonetheless, as major AE and emerging market (EM) central banks raised interest rates to combat inflation pressures, and higher food and energy prices squeezed household disposable income, global economic momentum has slowed over the past few quarters. World trade growth has slowed sharply and eventually contracted on a year-on-year basis from the fourth quarter (Q4) of 2022 onwards (Figure 2). Signs of economic resilience (which have led to upward revisions to growth forecasts from earlier in 2023) notwithstanding, world growth is expected to weaken further in 2023. The IMF projects growth of 3.0%, less than the 2010–19 average of 3.7%, and other public and private forecasters paint a similar picture for the present year.

Table 1: Real GDP growth in BRICS economies

	2010-19	2020	2021	2022	2023F	2024F
Brazil	1.4	-3.3	5.0	2.9	3.1	1.5
Russia	2.1	-2.7	5.6	-2.1	2.2	1.1
India	7.0	-5.8	9.1	7.2	6.3	6.3
China	7.7	2.2	8.5	3.0	5.0	4.2
South Africa	1.7	-6.3	4.9	1.9	0.9	1.8

Source: IMF World Economic Outlook

Figure 2: World trade growth (year on year)



Source: Netherlands Bureau for Economic Policy Analysis

2.1 Real economic growth

Against this background, BRICS economies have generally experienced a slowdown in activity, though growth has also been relatively resilient given the size of the global inflation, interest rate and commodity shocks. Yet the performance has varied strongly across the group, reflecting idiosyncratic factors such as the strength of potential GDP growth, the legacy of pandemic-related measures, domestic policy space or the structure of each country's energy markets (see Table 1).

- While slowing, **India**'s economy remained the top performer among BRICS members, posting growth of 7.2% in the 2022/23 financial year (2023FY)[4] after 9.1% in 2022FY. While weaker external demand and the subsequent wider deficit in net exports dragged down growth over the period, both consumer and investment demand gained traction. Contact-intensive activity gradually increased during the year and the release of pent-up demand bolstered domestic activity. Encouragingly, growth accelerated from 6.1% (year on year, unadjusted) in January to March 2023, to 7.8% in the April to June quarter of 2023.
- **China** remained affected by the COVID-19 pandemic and related control measures throughout 2022, with real GDP expanding by only 3.0%. Nevertheless, as these measures were lifted at the end of 2022, the economy recovered at a fast pace, expanding by 5.5% year on year in the first half (H1) of 2023. With private consumption being the key driver of this acceleration, slower global trade growth had a limited impact on the recovery, though economic fragmentation remains a risk going forward.
- Economic activity in Brazil exceeded the initial forecasts for 2022 in the wake of the COVID recovery. It is set to gradually converge to around potential growth in the second half of 2022 and in 2023. Banco Central do Brasil (BCB) still forecasts slower growth in 2023, though it recently revised its projection for GDP growth from 1.2% to 2.0% after a stronger-than-expected performance in the first quarter.
- **South Africa**'s growth remains weak by both global and historical standards, with real GDP up by 1.7% year on year in 2023Q2 after an average growth rate of 1.9% in 2022. The latest forecast of the South African Reserve Bank (SARB) was revised upwards in September but still only projects a lowly 0.7% increase in 2023 GDP, with a moderate acceleration to 1.0% in 2024. Weakening global growth is weighing on a

[4] The period refers to the financial year starting in April 2022 and ending in March 2023.

relatively small open economy like South Africa's (exports account for 33% of GDP). Nonetheless, much of the recent weakening in South African growth reflects domestic issues, in particular more frequent power outages, bottlenecks in rail transport/ports and shortages of skilled labour.

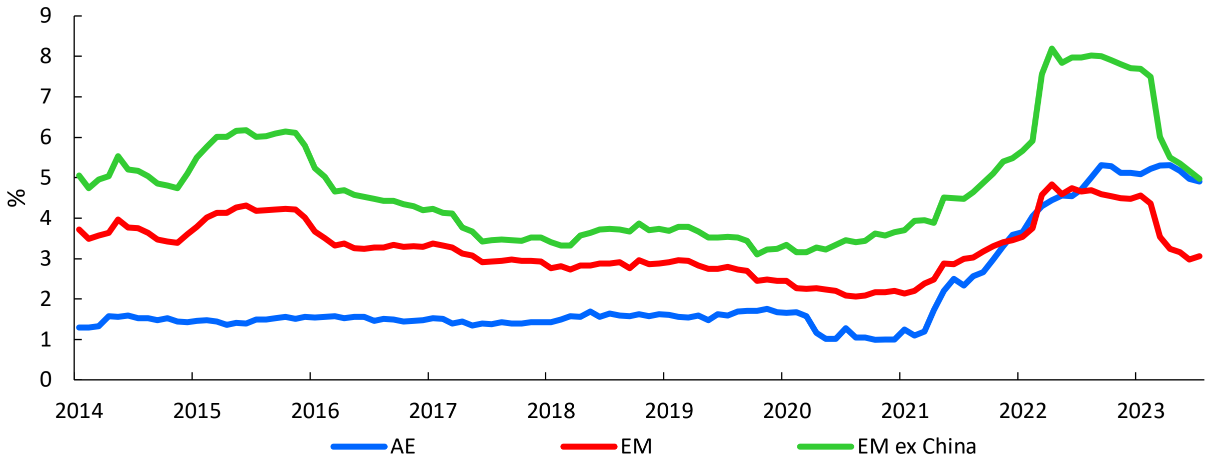
- The economy of **Russia** contracted by 2.1% in 2022 as geopolitical tensions and subsequent sanctions affected GDP dynamics from 2022Q2 onwards. Real GDP shrunk by 4.5% year on year in that quarter, and despite a recovery in the following quarters driven mostly by manufacturing, construction and wholesale trade, output was still 1.8% below year-ago levels in 2023Q1. Exports were the major drag on activity in 2022. Household consumption and inventories also contributed to the decline, but private and public investment as well as general government consumption (which reflected increased fiscal stimulus) provided support to GDP over the past few quarters. Latest Bank of Russia forecast projects GDP growth for 2023 in the range of 1.5–2.5%.

2.2 Consumer price inflation

The surge in inflation in 2021–22 was broad-based across countries, as it reflected in large part global factors (higher energy and food prices, supply chain bottlenecks that generated shortages of inputs as well as elevated transportation costs). Furthermore, given the high degree of global trade integration, price pressures spilled over across borders. In 2023, as these shocks are unwinding, inflation is now falling in most jurisdictions at the headline – and, increasingly, core – level (Figure 3).[5]

[5] The core inflation rate for AEs is sourced from Haver. The SARB calculated a core inflation rate for EMs by using data from 16 countries, weighted by PPP-adjusted GDP as calculated by the World Bank.

Figure 3: Average core inflation rates in advanced and emerging economies



Sources: Haver and SARB calculations

Nevertheless, in many countries, inflation remains well above target and is not expected to return sustainably to these targets for several quarters, even (in some cases) in 2025. While energy, food and non-food consumer goods prices are slowing amid the dissipating effect of global shocks, services inflation generally proves stickier, reflecting tightness in labour markets, a rotation of consumer spending back from goods to services and (in some cases) imbalances in rental markets. Such internal price pressures, however, vary considerably from country to country.

All BRICS countries felt the impact of global price shocks in 2022, and in most cases, headline inflation exceeded targeted levels (Figure 4). However, just like for real GDP, performance varied highly across member countries, reflecting the degree of domestic slack, the state of the labour market, sources of energy generation and imports as well as domestic agricultural developments.

- Among BRICS members, **Russia** experienced the highest rate of year-on-year inflation in 2022 as changes to the economy – induced by sanctions and geopolitical tensions – created new price dynamics that largely 'decoupled' Russian inflation trends from global ones. Inflation initially surged to a peak of 17.8% year on year in April 2022 on the back of rouble depreciation and a surge in household demand. A rise in the Central Bank of Russia's (CBR) key policy rate to 20% – coupled with other measures[6] – helped maintain financial stability and contain price growth. The

[6] Such measures aimed at supporting financial institutions, ensuring stable payments and mitigating emerged threats such as an acute shortage in foreign exchange (FX) liquidity and an exit of foreign investors from Russian assets.

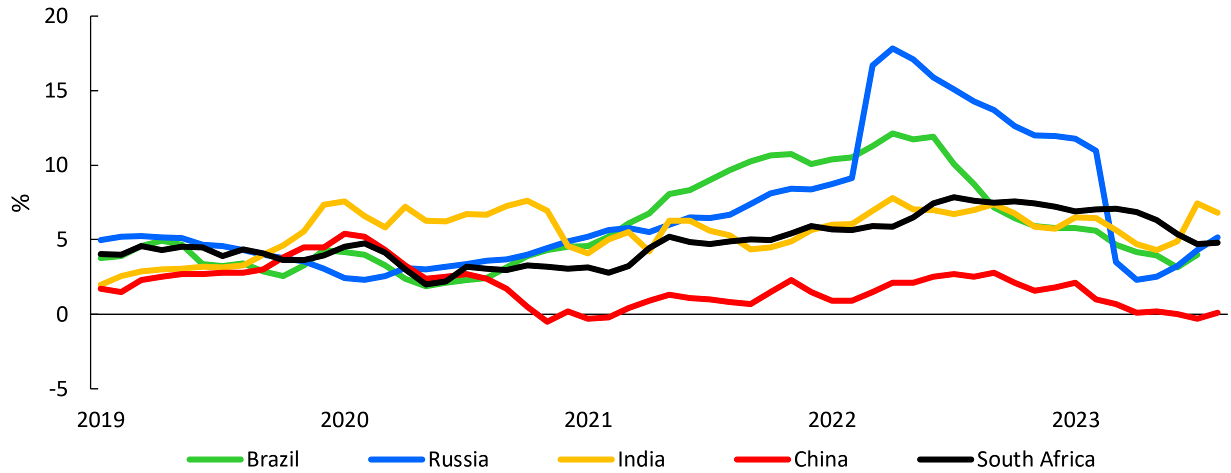
rouble's recovery on the back of higher export prices and shrinking imports fostered fast disinflation over the remainder of 2022 and early 2023. This allowed the CBR to cut its key rate substantially – to 7.5% by September 2022, even lower than prevailed before the rate hike (9.5%). In April 2023, annual inflation fell to 2.3%. However, in recent months, inflationary pressure has gradually increased again on the back of recovering consumer demand and a tight labour market.[7] The CBR projects annual inflation at 6.0–7.0% in 2023, whereas its objective is to return inflation to its 4.0% target on a sustained basis from 2024 onwards.

- Monthly inflation also peaked at double-digit levels in **Brazil** in 2022H1, though it has been steadily declining since. Significant price moderation is also observed in the diverse measures of underlying inflation as well as in inflation expectations. Brazil is reaping the results of an early monetary policy response. Nonetheless, shorter-term momentum in CPI (expressed by its quarterly change) remains at a level slightly above the centre of the inflation target range (1.75–4.75% in 2023).
- In **India**, headline inflation remained above the upper tolerance level of 6.0% for 10 successive months from January 2022 onwards, before moderating on easier food prices and favourable base effects. The pickup in prices was broad-based and core inflation remained persistently high around 6.0% during the year. Nonetheless, inflation eventually moderated in response to a gradual improvement in global supply conditions, record domestic food production, targeted domestic supply-side interventions as well as a cumulative 250 basis point (bps) rise in the repo rate by the Reserve Bank of India (RBI).
- Inflation also rose above the top end of the 3.0–6.0% target range in **South Africa**, peaking at 7.8% year on year in July 2022. It then declined to 4.8% (as of August 2023), mostly amid favourable base effects in the energy sector, before rebounding to 5.4% in September as these effects turned less favourable. Yet the SARB's preferred measure of core inflation (excluding food and non-alcoholic beverages, fuel and energy) showed some evidence of stickiness, although it has generally been slowing since April 2023. While headline inflation fell back within target in June 2023, the SARB's Quarterly Projection Model (QPM) only sees inflation return sustainably to the midpoint of that target by 2025Q2.

[7] The rouble exchange rate also started to depreciate in June–August on the back of shrinking exports and a rise in imports. Altogether, these processes called for further tightening – by mid-September, the key rate was increased three times, by 5.5 percentage points in total to 13.0%.

- **China** remained an exception both within BRICS and the world at large insofar as its price dynamics remained muted in 2022–23. CPI inflation slowed to zero in June 2023 and turned negative in July. This was mainly driven by two factors. First, supply chains recovered quickly as pandemic-control measures were lifted at the same time as the repairing of households' balance-sheets weighed on demand, and it took longer for consumption to recover. Second, favourable base effects were at work in the food and energy sectors. Overall, China does not face a risk of deflation and as consumption continues to recover, the People's Bank of China (PBoC) expects inflation to gradually rebound in the fourth quarter of 2023.

Figure 4: Year-on-year CPI inflation in BRICS economies

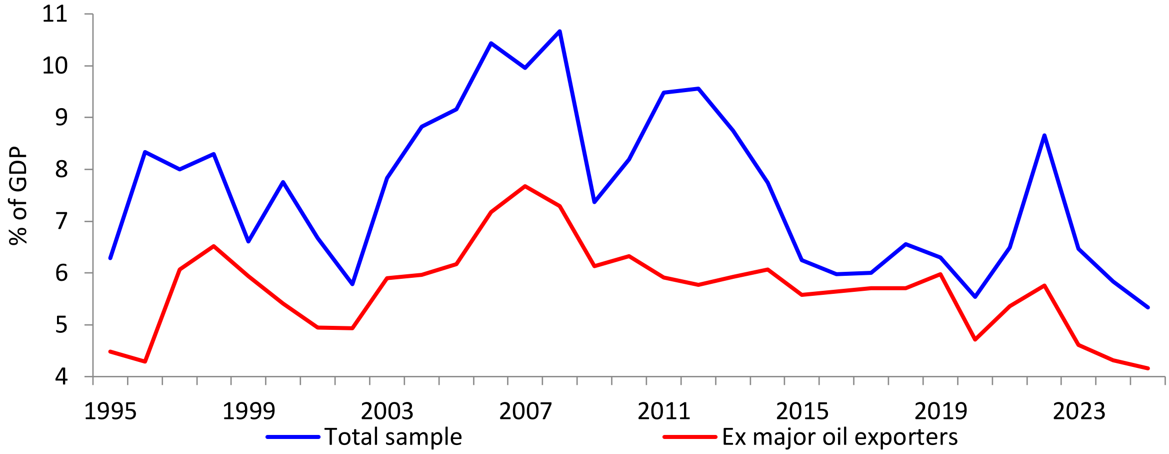


Source: National Statistical Offices

2.3 Current account balances

On a global scale, the shocks experienced by the world economy in 2020–22, including staggered economic reopening, disruptions to supply chains and commodity prices, did not lead to major dispersion of current account balances, at least relative to recent decades' averages. One such measure of dispersion – the standard deviation of current account balances for 81 medium to large economies – remained below the highs of the late 2000s or early 2010s, especially when major oil exporters are excluded (Figure 5). To some extent, this also applied to BRICS member countries: they did not experience significant current account challenges in the past couple of years. This said, there are structural differences within the group – some countries being traditional surplus countries while others typically run deficits; some are net commodity importers while others are exporters. Hence, global shocks had a dissimilar impact throughout the group (Table 2).

Figure 5: Dispersion of global current account balances



Sources: IMF and SARB calculations

Table 2: Current account balances in BRICS countries (% of GDP)

	2019	2020	2021	2022	2023F	2024F
Brazil	-3.6	-1.9	-2.8	-2.8	-1.9	-1.8
Russia	3.9	2.4	6.6	10.5	3.4	4.0
India	-0.9	0.9	-1.2	-2.0	-1.8	-1.8
China	0.7	1.7	2.0	2.2	1.5	1.4
South Africa	-2.6	1.9	3.7	-0.5	-2.5	-2.8

Source: IMF World Economic Outlook

- One member country which experienced a significant shift in the current account in 2022 was **Russia**, where the surplus reached a record high of US$236 billion (versus US$122 billion in 2021) amid soaring commodity prices and contracting imports. From 2022H2, however, imports started to recover thanks to a geographical refocusing of trade relations, a parallel import mechanism and a stronger rouble. Together with a commodity price-driven contraction in exports, this led to a reduction in the current account surplus, that continued in the first two quarters of 2023.
- **China**'s current account has been in positive territory since 2020Q2, and the surplus amounted to 2.2% of GDP in 2022. Resilience in domestic supply chains helped stabilise external balances, and while the surge in energy prices in 2022 negatively impacted the current account, China benefits from diversified sources of energy supply. In 2023H1, the decline in energy prices had some positive impact on the

current account, though because of a sluggish recovery of global trade and a wider services deficit (as China lifted restrictions on overseas travel) the surplus posted a small decline, to 1.7% of GDP.

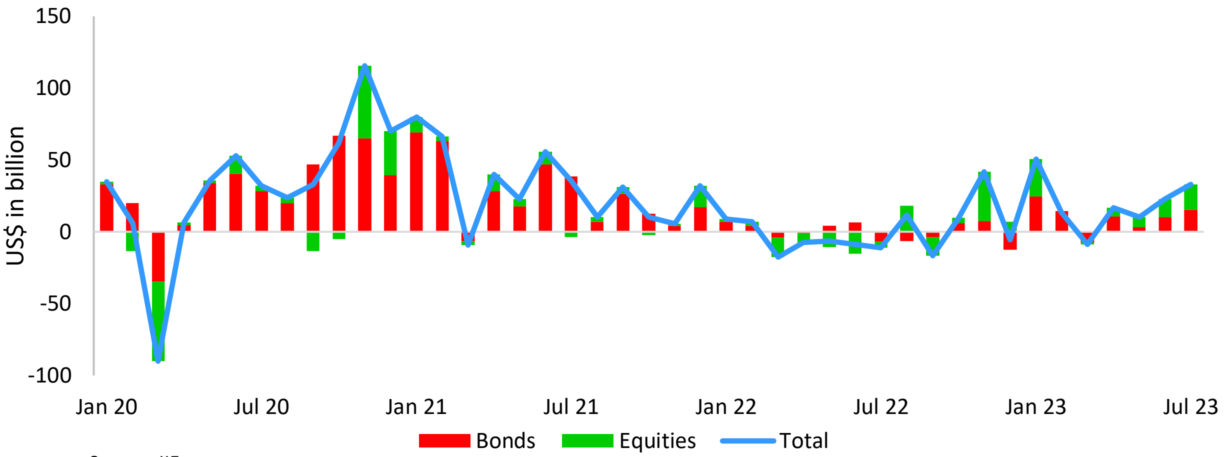
- **South Africa**, which historically has been a structural deficit country, posted consecutive surpluses from 2020Q3 to 2022Q1, but subsequently saw a deterioration in its current account. The SARB's latest projections foresee deficits of 2.0% in 2023 and 3.0% in 2024, which compares to an average of 3.3% in the pre-pandemic decade. The decline in commodity prices since 2022Q2 has negatively affected South Africa's terms of trade, though the worsening in the trade balance also reflected a strong rebound in imports of intermediate and consumer goods (especially vehicles) over the past year.
- In **Brazil**, the current account of the balance of payments ended 2022 with a deficit of US$53.6 billion (2.8% of GDP), wider than in 2021. The largest merchandise trade surplus since 2017 was not enough to make up for increased net expenses on primary income and services (in part reflecting the increase in freight costs). This said, BCB forecasts a lower deficit (2.2% of GDP) in 2023 amid higher export volumes and lower imports, and external accounts showed somewhat positive dynamics in the first half of the year, with a current account deficit of US$14.6 billion. Though only slightly smaller than in the past three years, this was the lowest for the period since 2017.
- As the slowdown in global demand weighed on the country's exports and the terms of trade deteriorated, **India** experienced a widening in its current account deficit, to a high of 3.7% of GDP in the July–September 2022 quarter. Nevertheless, India's exports increased by a robust 6.7% in 2023FY, driven in part by petroleum products, electronic goods, chemicals, and pharmaceuticals. The current account deficit had narrowed to 2.2% of GDP in October–December 2022 and further to 0.2% in January–March 2023. However, on account of a higher trade deficit coupled with a lower surplus in net services and a decline in private transfer receipts, the deficit increased again to 1.1% of GDP in April–June 2023.

2.4 Financial account balances

The past year and a half have seen unusually fast and pronounced increases in monetary policy rates in most advanced economies to combat the surge in inflation. Historically, such an environment makes it more challenging for emerging countries to attract capital inflows, both because of ‘push’ factors (increased returns on investment in ‘source’ countries and reduction in exposure to risk) and ‘pull’ factors (weaker macro fundamentals in recipient countries and possible exchange rate pressures, especially if they run current account deficits).

Typically, portfolio flows (equity and especially debt) and, to some extent, cross-border bank lending flows are more sensitive to higher global interest rates, whereas fixed direct investment (FDI) flows are more immune as they tend to reflect longer-term, sector- or company-specific fundamentals. The negative impact from stricter financial conditions in AEs is usually stronger when bond yield increases reflect higher *real* rates – for example, because a repricing of the expected policy path – than higher inflation expectations. The 2022 experience has seen a major rise in real bond yields in most AEs.

Figure 6: Portfolio flows into emerging countries



Source: IIF

However, while portfolio and bank lending flows to EMs weakened in response to global rate developments, the deterioration has not been as strong as previous experience might have suggested, and the past few months have seen some recovery (Figure 6). Consequently, few emerging countries experienced severe balance-of-payment pressures in 2022 and early 2023, even though currencies and debt markets typically re-priced, sometimes significantly. The observation also applied to BRICS member countries, though again, different domestic fundamentals influenced the degree to which their financial account was affected by the more challenging global environment:

- In **China**, the deficit on the financial account stayed within reasonable levels since 2020. As FDI inflows slowed and outflows expanded, net FDI had registered deficits for four quarters in a row by 2023Q2. Net portfolio flows have been in deficit since 2022, amounting to a negative US$56 billion in 2023Q1.

- **India**'s financial account continued to benefit from strong FDI inflows in 2023FY – US$28 billion (net) after US$39 billion in the previous financial year (a performance which had made India the seventh-largest FDI recipient in the world).[8] Services accounted for a major share of FDI. By contrast, net portfolio flows displayed greater volatility, with a notable outflow in the first two quarters of calendar 2022 – as policy tightened in AEs – though the following two quarters saw inflows.
- Net FDI inflows also surprised on the upside in **Brazil**, reaching a record high of US$91 billion (4.8% of GDP) in 2022 and comfortably outweighing the current account deficit. The portfolio balance registered some net outflows, though equity inflows offset to some extent debt outflows. In the first half of 2023, though, net FDI inflows declined from high 2022 levels, reflecting among other things a reduction in inter-company lending. However, net non-resident portfolio inflows were positive in January–June, suggesting an improvement in the perception of fiscal risk by non-resident investors.
- **South Africa**'s modest 2022 current account deficit (0.5% of GDP) limited the need for external financing at a time when rising global rates and reduced risk appetite made global funding conditions more challenging. The financial account also received support from a surplus on the direct investment balance, though the portfolio account experienced net outflows, especially as non-resident sales of debt securities (amid worsening domestic fiscal and underlying inflation metrics) outweighed net purchases of equities. Non-resident portfolio outflows continued in 2023Q1, though this was offset by residents' liquidation of offshore assets.
- Due to geopolitical tensions and sanctions, while mitigating elevated financial stability risks, **Russia** implemented special measures on capital flows, including restrictions on certain transactions pertaining to non-residents. At the same time, sanctions substantially restricted capital flows of residents. As a result, Russia's financial account balance is predominantly influenced by country-specific rather than global factors.

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8 See *World Investment Report*, United Nations Conference on Trade and Development (UNCTAD), June 2022.

3. Delving deeper into the longer-term impact of shocks

Since 2020, the world economy in general and BRICS member states have been buffeted by a series of shocks (e.g. the COVID-19 pandemic and related restrictions on activity, supply chains bottlenecks and commodity price volatility amid geopolitical tensions) that have the potential to durably affect economies' medium-term fundamentals. In many countries, the pandemic shock delayed corporate investment plans, while disruptions to schooling could have curtailed the build-up of human capital. In turn, if not corrected, this would lead to weaker potential GDP growth going forward.

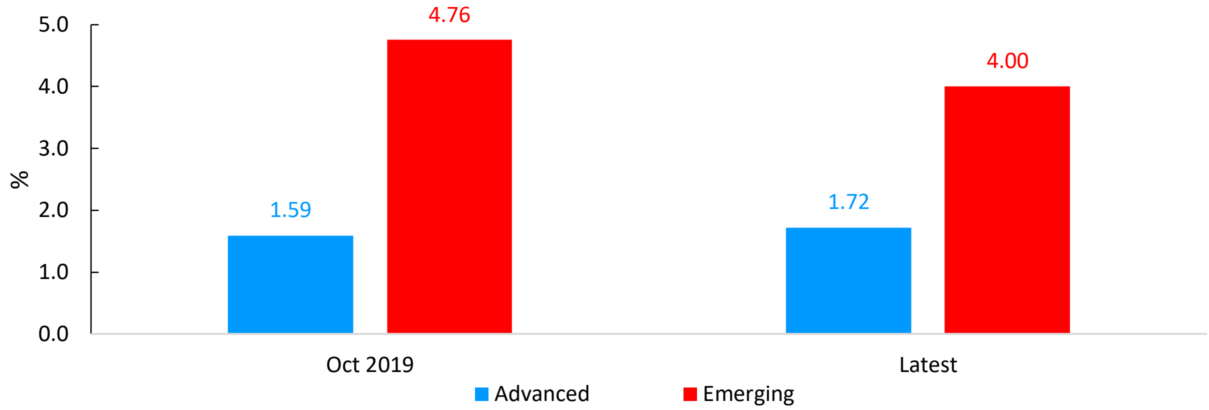
At the same time, evidence of the vulnerabilities of supply chains are prompting multinational firms and governments alike to reassess the structure of these chains, diversify the sources of their inputs and even relocate part of the production process to their domestic economy or other economies with conducive policies or stronger political ties. This, together with a more uncertain geopolitical environment, appears to have created a state where supply shocks are both more pronounced and frequent than in earlier decades.[9] Unless economies prove nimble enough to adjust to these shocks, they could affect not only potential GDP growth but equally the labour market, the process of price formation and overall economic and financial stability.

Because they typically had lesser policy space to mitigate the effects of the pandemic, both with respect to its direct health effects (treatment of patients, rollout of vaccines) and its indirect economic effects (offsetting of income and job losses related to lockdowns, incentives for 'catch-up' investments as economies reopened), emerging countries probably suffered more lasting damage from the COVID-19-related shocks than their advanced counterparts. In addition, their economies are generally less diversified, the range of their exports at times less sophisticated or lower in value-added products and services, their domestic capital markets less developed and their skills base narrower. This makes it harder to reallocate resources to sectors that stand to benefit more from shifts in global trade and changes in value chains. Thus, it may not be surprising that medium-term IMF projections for real GDP growth in EMs – which can

[9] This point was made by Professor Kristin Forbes in an event hosted by the Brookings Institution: 'The Fed: Lessons learned from the past three years', 23 May 2023. ECB President Christine Lagarde also highlighted the likelihood of more frequent supply shocks in 'Structural Shifts in the Global Economy', speech at the symposium organised by Federal Reserve Bank of Kansas City in Jackson Hole.

serve as a proxy for potential growth in the years ahead – are now lower than they were pre-pandemic, in contrast to that for AEs (Figure 7).

Figure 7: Five-year ahead real GDP growth projections

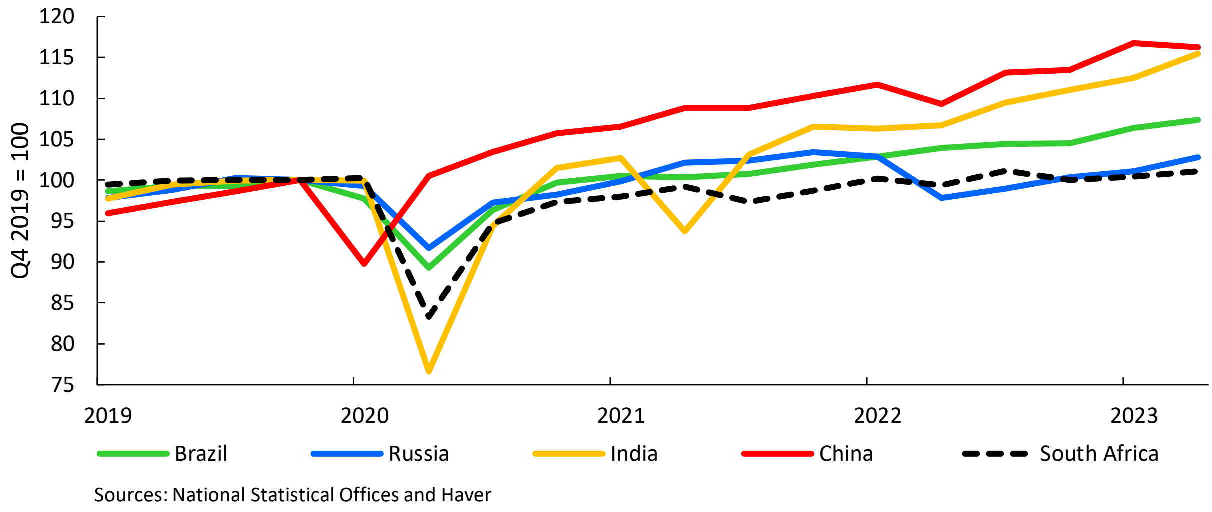


This chapter looks at the specific situation of BRICS member states in that regard. Due to a lack of long data series and with academic research on the topic still in its infancy, it is too early to estimate whether potential GDP growth, labour market dynamics and the price formation process have been durably altered by the shocks of the past few years. Yet a 'deeper dive' into trends observed over the past three years or so, and how they compare with developments in earlier years may nonetheless provide some answers as to which medium-term challenges member states may face in coming years. This is what this chapter tries to address.

3.1 Real economic activity

In BRICS member countries, real GDP has by now recouped the losses experienced during the COVID-19 pandemic. However, the speed at which economic activity recovered and rose above pre-pandemic levels, varies considerably across members (Figure 8). The strength of pre-pandemic growth dynamics, the efficacy with which countries dealt with the COVID-19-related shocks, and whether they faced additional disruptions in the years that followed, all influenced relative performance.

Figure 8: Real GDP level in BRICS economies[10]



Within BRICS, **China** experienced the quickest rebound as the pandemic was quickly controlled, allowing GDP to return to pre-pandemic levels as early as 2020Q2. However, in the following years, China's recovery was disrupted by recurrent resurgences in the pandemic, which forced the re-imposition of restrictions on activity; yet thanks to policy support and the resilience of the domestic economy, real GDP remained above the pre-pandemic level.

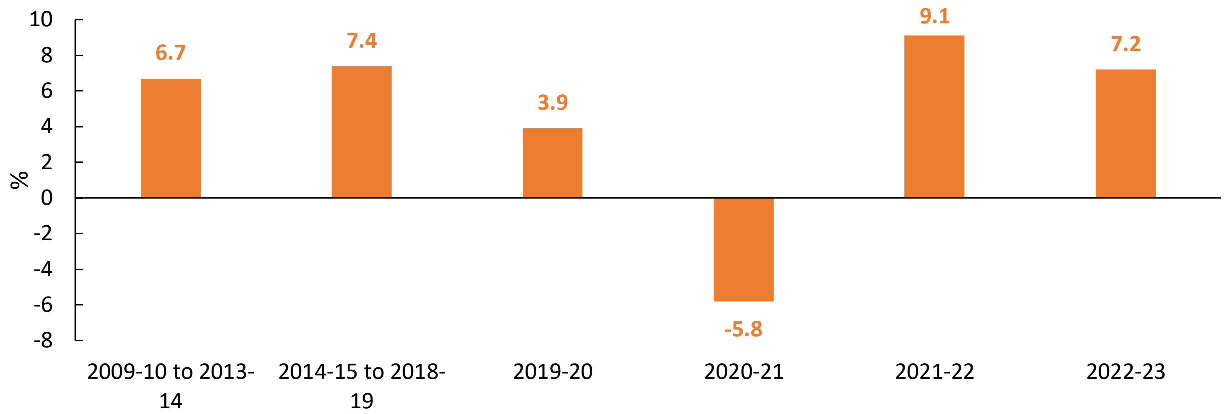
Economic activity was also quick to return to pre-pandemic levels in **India** and **Brazil**. In India, real GDP (with annual growth of 9.1%) exceeded the pre-COVID-19 level in 2022FY, whereas positive year-on-year growth had been registered as early as 2020Q4 (quarterly data are not seasonally adjusted). In Brazil, seasonally adjusted data showed that real GDP rose above pre-pandemic levels as early as 2021Q1 and continued to increase thereafter. Nonetheless, because the Brazilian economy had experienced a relatively deep recession in 2015–16 from which it took a long time to recover, real GDP only returned to its pre-pandemic maximum (seen in 2014Q1) in 2022Q2.

Russia and **South Africa** experienced greater challenges in returning durably to pre-COVID-19 levels. The Russian economy had rebounded above its pre-pandemic peak as early as 2021Q2 and continued to expand strongly thereafter, boosted by the effects of significant fiscal and monetary policy support delivered in 2020. However, the geopolitical tensions and sanctions resulted in new, large output losses in 2022Q2; as a

[10] The chart uses seasonally adjusted data as provided by the national statistical institutes for China, Brazil and South Africa. For India and Russia, it uses data that are seasonally adjusted by Haver Analytics.

result, as of 2023Q1, real GDP is only 1.0% above the 2019Q4 level. In South Africa, GDP has only returned to its pre-COVID-19 (2020Q1) peak in recent quarters. As of 2023Q2, real GDP was 0.8% above that level.

Figure 9: Real GDP growth rate in India



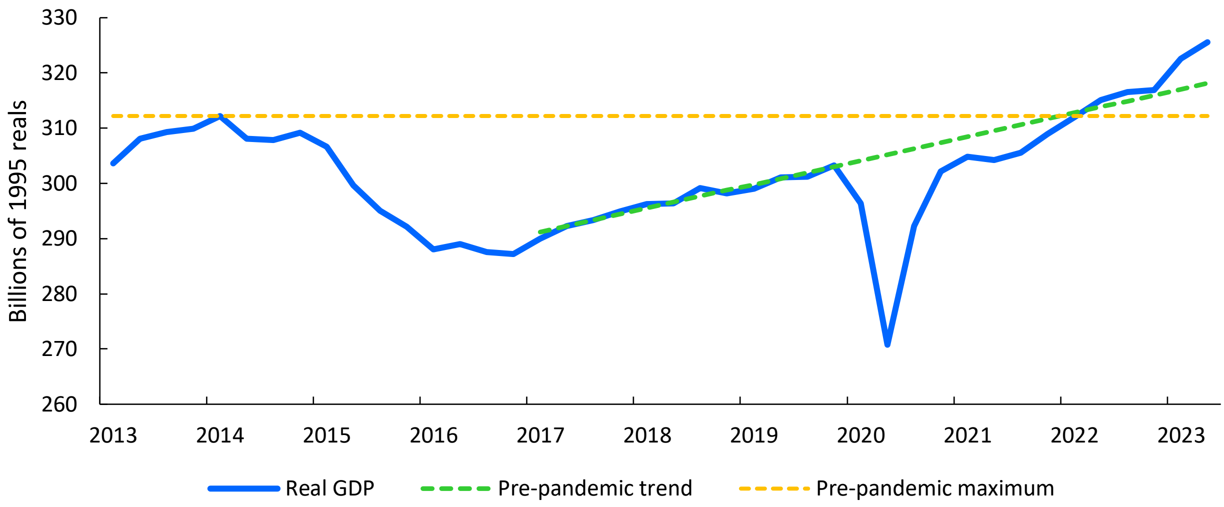
Source: Reserve Bank of India

Matching, let alone exceeding the pre-pandemic trend has been a more difficult challenge that member states have generally not achieved, and this could be a sign that the shocks of the past few years may be having some impact on potential GDP. One exception, however, appears to be **India**: the economy has shown robust resilience over 2021–23, in part reflecting various policy support from the government and the RBI, and the growth rate experienced in 2023FY (7.2%) compares favourably with the average growth rates of 6.7% and 7.4% witnessed in the two halves of the past decade (Figure 9). In **Brazil**, GDP returned to its pre-pandemic trend in early 2023, though the BCB still expects decelerating growth in 2023 compared to what was observed in the past two years, influenced by the global growth slowdown and the cumulated effect of past monetary tightening (Figure 10).

In other countries, real GDP growth remains below pre-pandemic trends. In **China**, potential GDP growth is now estimated between 5.0% and 6.0%, which is below the 7.7% average annual growth experienced through the 2010s, let alone an earlier period of double-digit growth. However, it is hard to ascertain how far this reflects the impact of recent shocks as opposed to a typical longer-term, gradual process that sees potential growth slows as an economy develops and marginal returns on investment decline.

In **South Africa**, real GDP has in the three years since the pandemic started, failed to match even the relatively weak trend experienced in 2015–19 (1.0% real growth on average per year). This appears mostly structural: SARB calculations based on its QPM estimate that potential GDP growth slowed over the past year, largely reflecting increasing electricity availability issues, and is currently barely into positive territory. The negative output gap that emerged during the COVID-19 crisis has now closed.[11] Potential growth is only expected to recover very gradually, to around 1.0% in 2025.

Figure 10: Real GDP in Brazil vs pre-pandemic trends and maximum



Russia's economy is facing specific challenges that make it difficult to compare present trends to that which prevailed prior to the pandemic. Given the restrictions imposed on external trade, Russian companies have been changing their established practices and business models. This entails looking for new suppliers and buyers, streamlining expenses amid higher transportation costs, rebuilding production processes amid technology availability issues and formulating new requirements for the qualification of new specialists. These structural transformations will involve a change in the weight of sectors in the economy.

In the following sections, we take a more granular approach of trends in GDP, looking at which components of both supply and demand have been key in driving growth in the past few years, and which (by contrast) may have turned out to durably drag down activity.

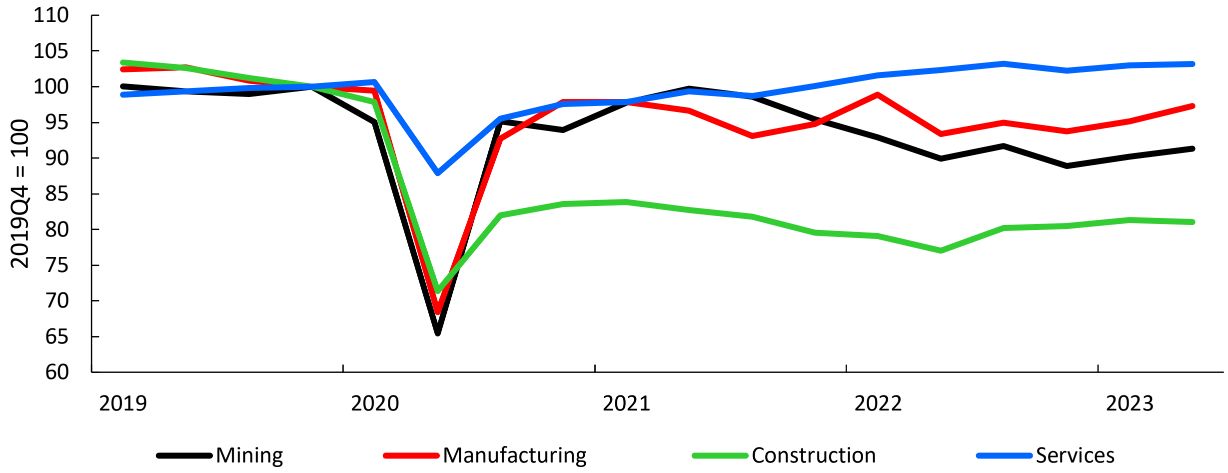
[11] The SARB's QPM estimates a mildly positive output gap in 2025, at 0.2% of potential GDP.

3.1.1 Supply approach

The performance across BRICS member countries has been highly heterogeneous in that respect, largely reflecting the duration of COVID-19 restrictions and the speed at which they were lifted. Thus, in **China**, limits to contact-intensive activities meant that the recovery was mainly driven by the secondary sector – which contributed almost 48.0% of 2022 GDP growth – even though the tertiary sector had dominated economic expansion prior to the pandemic. The primary sector was also a strong contributor to growth in 2022 thanks to good harvest, though as restrictions were lifted in early 2023, growth drivers shifted back to the tertiary sector. In **India** too, contact-intensive sectors (construction, trade, hotels, transport, communication) took longer to recover than others (finance, real estate, professional services or defence) that were already recovering strongly in 2021. Manufacturing quickly shaped the industrial sector's recovery, while the agricultural sector had remained relatively immune from the pandemic as it was largely exempted from containment measures.

In **Brazil**, by contrast, the services sector provided the main contribution to the recovery, especially transportation and 'other services' – even though these had been severely affected at the onset of the pandemic. The agricultural sector produced some positive surprises in output in the first half of 2022. In the industrial sector, the performance was heterogeneous, with strong increases in construction and utilities contrasting with a poorer performance in mining and manufacturing. In **South Africa** too, the recovery has been driven by the tertiary sector (in finance/insurance/real estate and social services, gross value-added (GVA) is currently well above pre-pandemic levels). By contrast, while agriculture benefited from favourable weather conditions, infrastructure constraints resulted in a decline in mining output and sub-par manufacturing output (Figure 11). Meanwhile, construction activity failed to significantly rebound from its 2020 plunge.

Figure 11: Selected components of real GVA in South Africa



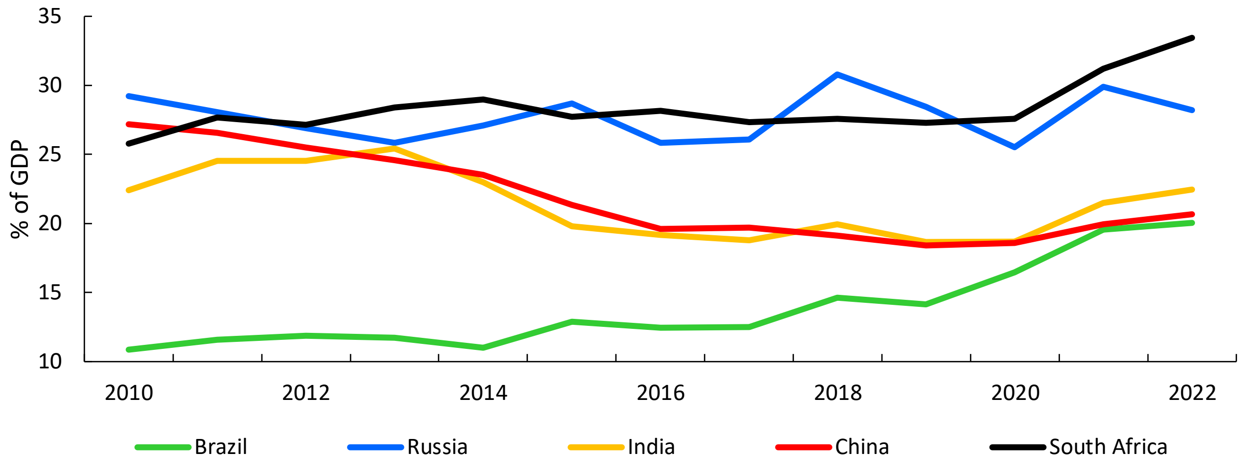
Source: Stats SA

Russia again remains somewhat of an exception as recent developments – as indicated above – force major structural changes in the economy. On the supply side, the manufacturing and wholesale trade sectors provide the major support to the recovery in GDP. Overall, industrial activity remains robust, while the construction sector has been a supportive factor as well.

3.1.2 Demand approach

For most member countries, external demand has been supportive of the post-pandemic recovery, and the ratio of exports to GDP is higher than what it was in 2019 (Figure 12). For example, prior to the pandemic, **China**'s exports/GDP ratio had been declining gradually, as consumption took over a growing role as a driver of growth, but the trend subsequently reversed since the pandemic – exports accounted for 19.4% of GDP in 2023Q1 and 19.3% in 2023Q2 respectively, versus 17.2% in 2019Q4. This is mainly because consumption was restricted during the pandemic and took longer to fully recover. Overall, apart from a brief dip in early 2020, Chinese exports were remarkably strong throughout most of the pandemic, only deteriorating from 2022 onwards. In **India**, exports recovered strongly despite an adverse global outlook and moved into positive territory (on a year-on-year comparison) from the last quarter of 2021FY onwards. High-tech electronics, agricultural produce and services all contributed to that recovery. In 2023FY, the exports/GDP ratio reached an eight-year high of 23.5%, compared with a 19.0–21.0% range over 2017–19.

Figure 12: Exports of goods and services in BRICS members



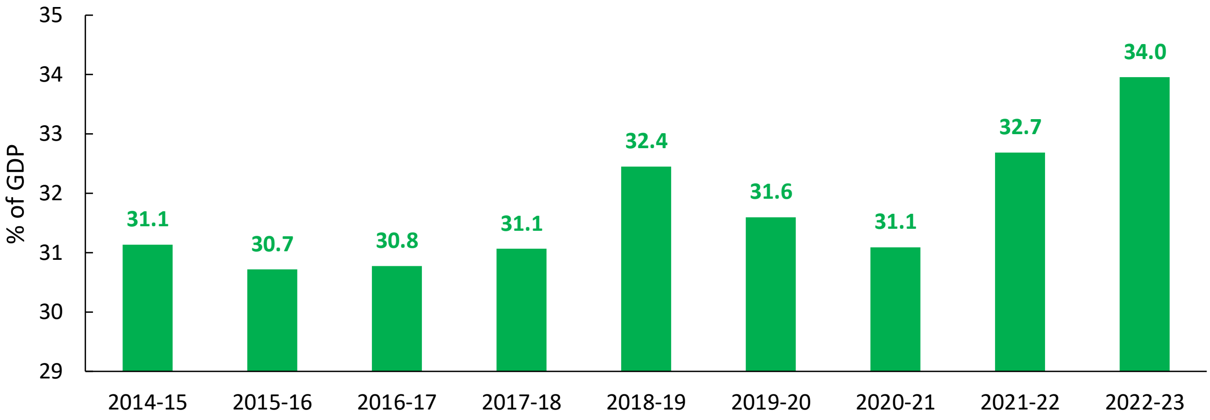
Source: World Bank

In **Brazil** too, the ratio is above pre-pandemic levels, as exports, both of primary and manufactured goods, recovered solidly. The rebound in commodity prices initially provided impetus to nominal exports, while in early 2023, the volume of exports gained momentum, offsetting at least in part the declining trajectory of export prices. **South Africa**'s ratio of real exports to GDP also rose back to around the peak of the previous decade in 2022, standing at 28.1% in 2023Q2 (versus a 10-year average of 26.9%). That said, real GDP growth itself is weak, meaning that the performance of exports remains mediocre by overall EM and BRICS standards. Furthermore, import penetration now exceeds pre-pandemic levels, consistent with a deteriorating contribution of real net exports to GDP in the past couple of years. In **Russia**, exports had recovered (as a share of GDP) to above the prior decade's average in 2021, but the drastic change in external trade patterns and international supply linkages in 2022 led to a decline in the ratio, which is likely to remain structurally altered in the near future.

With respect to domestic demand, the performance has been more heterogeneous. Private consumption generally remained hampered by the pandemic and related restrictions – especially in discretionary, contact-intensive retail and consumer services subsectors – but eventually recovered on the back of policy stimulus and the gradual unwinding of restrictions. With respect to fixed investment, which is key to supporting healthy potential GDP growth in the years ahead, results, however, appear mixed at this stage.

Encouragingly, gross fixed capital formation (GFCF) in **India** recovered quickly from its fall in the pandemic year, in part thanks to the government's thrust on public capital expenditure. At around 34.0% in 2023FY, it exceeded pre-COVID-19 averages (Figure 13). In **Brazil** too, the ratio of GFCF to GDP has recovered above its pre-pandemic level, though because fixed capital spending had declined by nearly 30.0% during the 2014–16 recession, it remains below the peak reached in the early 2010s, especially when adjusting for the volume of imported oil rigs that do not cross borders.[12]

Figure 13: Gross fixed capital formation in India



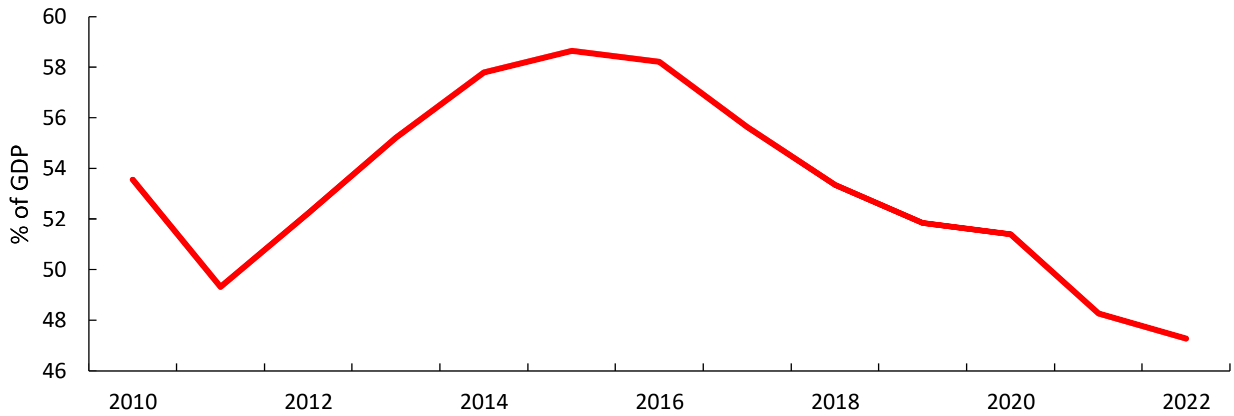
Investment activity also has been robust in **Russia**, returning swiftly back to the pre-pandemic level. In 2022, inertia in most investment plans limited the scaling down of private projects. Government infrastructure investments continued to expand. The departure of some foreign companies has opened new opportunities for domestic investment. Despite the decline of foreign investment, capital accumulation in Russia has been maintaining a moderate pace ever since, fuelled by both the private sector and the government. However, the most recent structural transformations of Russia's economy make it harder to ascertain how fixed investment will evolve in coming years.

Such developments nonetheless stand in contrast to **China**, where the ratio of GFCF to GDP has extended the trend decline already witnessed in the pre-pandemic years (Figure 14). While the pace of that decline slowed somewhat from earlier years, this was mostly on account of restrictions imposed by the pandemic on private consumption and

[12] See Box: 'Recent evolution of gross fixed capital formation', in Central Bank of Brazil, Inflation Report, March 2022, pp. 33-6.

the investment/GDP ratio is likely to continue falling as consumption recovers. In **South Africa**, despite a pickup in capital spending in the first half of this year, the ratio of GFCF to GDP – both overall and the private sector – remains below pre-pandemic levels, following a gradual deterioration in the previous decade.

Figure 14: Fixed asset investments in China



3.2 Labour market dynamics

The evolution of labour markets has been key to growth and price dynamics in the period since the COVID-19 pandemic and has been a major parameter in shaping policy responses to successive shocks. Initially, many observers and policymakers feared that the pandemic and subsequent lockdowns would lead to labour market scarring, in the form of permanent, structural increases in unemployment. This informed the decision of governments to provide significant fiscal support, either in the form of exceptional transfers to households or furlough schemes for firms to keep people employed. It also enticed central banks to lower interest rates and inject liquidity to ensure credit still flowed through the global economy, limiting corporate bankruptcies.

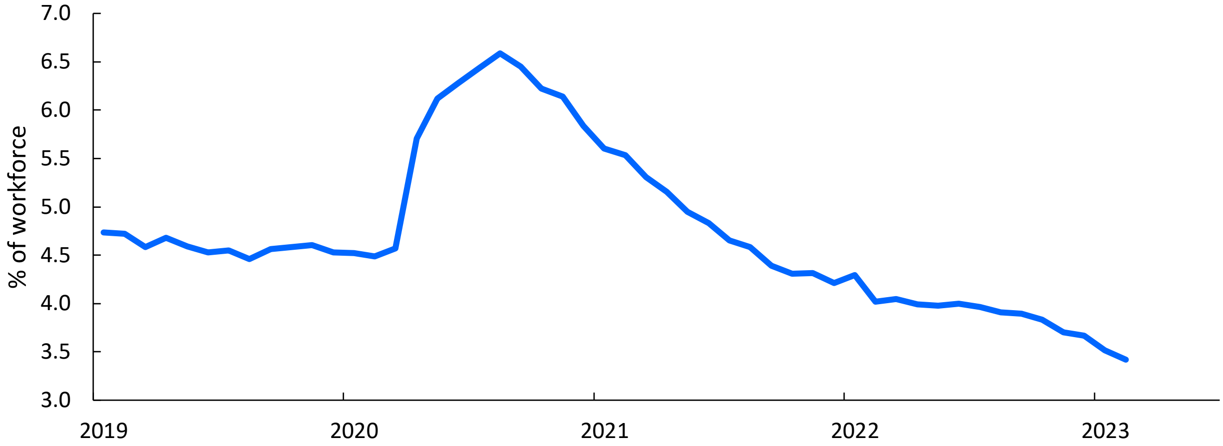
From 2021–22 onwards, however, the focus shifted to supply/demand mismatches in the labour market, and how these could result in persistent inflationary pressures, especially in the services sector. In advanced economies in particular, demand for labour recovered quickly as the mix of fiscal stimulus and the removal of restrictions released pent-up demand, first for consumer goods and then services. However, the supply of labour did not follow suit, for a variety of reasons, among other, decisions of older workers to retire early, extended sick leave related to 'long COVID' and, retrenched employees seeking jobs with better pay or working conditions). This resulted in unusually high ratios of open vacancies to unemployment, and in cases like the US or the UK, signs of a shift in the 'Beveridge curve' as workforce participation rates did not return to pre-pandemic levels.

Labour supply issues typically have been less of a concern in emerging countries. Policy space to provide cash transfers to households was more limited, and hence, workers were less able to 'sit out' of the labour market for a while and wait for better opportunities. Thus, there has not been strong evidence of lasting shifts in the participation rate in EMs. Nonetheless, there is also limited evidence (with a few exceptions) of scarring, and unemployment rates have declined in most EMs since 2021, in some cases below pre-pandemic levels.

This has generally been the case in BRICS member countries, except for South Africa. In **India**, the unemployment rate has been on a declining trend in recent years, falling from 5.8% in 2019FY to 4.1% in 2022FY. Various employment indicators have pointed to continued strong job gains over the past year, but at the same time, the labour force participation rate has improved and stood above pre-pandemic levels in 2022FY. In **Brazil**, the unemployment rate rose in 2020, but it more than reversed that increase in subsequent years, reaching its lowest level since 2015. The relatively high level of hirings, despite a recent dip, bears witness to the strength of the labour market; however, the participation rate failed to fully recoup its 2020 decline and has declined again in recent quarters.

In **Russia** too, the unemployment rate started to decline as early as September 2020, reaching its pre-pandemic level of 4.6% in July 2021 before continuing to drop – to a historical low of 3.1% as of June 2023 – amid manpower shortages in some sectors (Figure 15). Importantly, Russia's unemployment had never risen much even in 2020, as typically, the adjustment to shocks in the Russian labour market happens via real wage adjustments (i.e. reduced working hours, increase in short-term unpaid leave, etc.) rather than layoffs. Generally, the CBR does not see any major effect of the pandemic on the labour market.

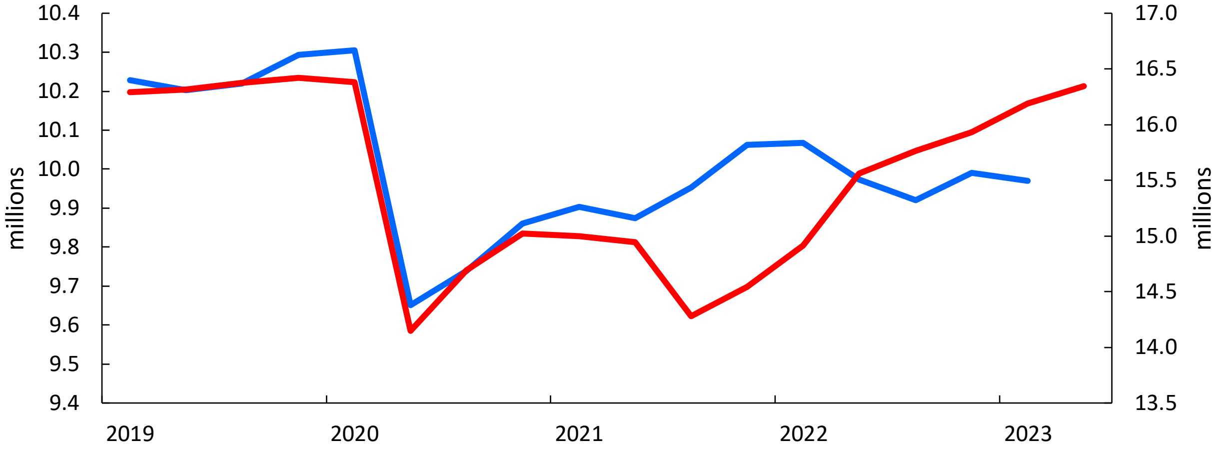
Figure 15: Russian unemployment rate



In **China**, the unemployment rate is stable relative to pre-pandemic levels – at 5.3% in July 2023, it was only 0.1 percentage point higher than in December 2019. The PBoC expects a further decline as the economy continues to recover, though it notes that the unemployment of young people (16–24) is rising, indicating evidence of a mismatch between labour demand and supply for that specific group, including university graduates.

In **South Africa**, separate employment measures paint a divergent picture: The Quarterly Employment Statistics (QES; based on a survey of businesses) shows employment still well below the 2019 average, while the Quarterly Labour Force Survey (QLFS; based on a survey of households, generally viewed as less reliable) showed that the gap had largely closed by early 2023. However, this recovery in employment has been insufficient to match growth in the labour force, as the participation rate has slowly but steadily recovered to pre-pandemic levels of 59.0–60.0%. Consequently, the unemployment rate (as of 2023Q2) stood at 32.4%, almost 4.0 percentage points above its 2019 average.

Figure 16: Measures of employment in South Africa

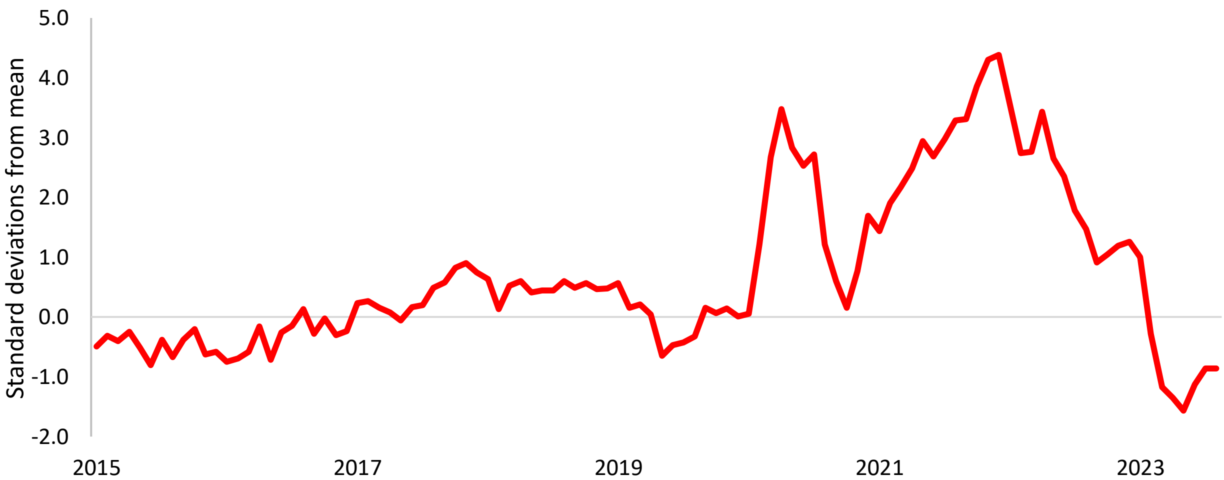


Source: Stats SA

3.3 Price formation and inflation developments

At a global stage, the key macroeconomic development of the post-pandemic years – and a direct consequence of the supply/demand frictions described above – has been a broad-based surge in inflation, both from a geographical and sectoral point of view. In many AEs, annual changes in CPIs rose to levels last seen in the early 1980s. Initially, the pickup in inflation reflected a strong recovery in commodity prices – that was given an additional push by 2022 geopolitical developments and US/EU attempts to reduce energy imports from Russia – and unusually high bottlenecks in global supply chains (Figure 17).

Figure 17: Global supply chains pressure index



Source: FRB of New York

Later though, signs of stickiness in underlying measures of inflation began to emerge, reflecting among others issues a tightness in labour markets, surprising resilience of demand to monetary policy tightening and a rotation in consumer demand from goods to services, where prices are more dependent on labour costs and typically display more inertia. While the past few months have shown encouraging signs of lower global inflation, not just at the headline (where base effects turned favourable this year) but at the core level, forecasts from both public and private institutions generally do not see a return to pre-pandemic norms until 2025.

Most EMs have also been affected by the inflation surge, as many of its drivers such as energy and food commodities, depleted inventories, shortages of inputs like microchips and elevated shipping costs were global or spilled over across borders. However, the degree of price pressures varied broadly across the EM bloc. This reflected the speed at which countries lifted pandemic restrictions and domestic demand recovered; the existence (or not) of domestic bottlenecks compounding global ones; the dynamics of domestic labour markets and the role of state-administered prices; exchange rate developments; the policy response; and the degree of anchoring of price expectations.

This divergence was also observed in BRICS economies, though to a large extent – apart from China – member countries experienced a period of relatively high and sticky inflation compared to the pre-pandemic years, even though it has now (to some extent) normalised (Figure 3):

- In **India**, inflation surged during 2023FY (reaching a peak of 7.8% in April 2022), reflecting primarily the impact of overlapping global supply shocks and pass-through of higher input costs. As these factors gradually faded as the government introduced targeted supply management measures and the impact of RBI rate hikes filtered through, inflation eventually moderated. However, the lagged pass-through of input costs to retail prices of both goods and services amid improving demand conditions, imparted considerable stickiness to core inflation, which remained around 6.0% through 2023FY.
- In **Brazil**, BCB published in its March inflation report a study[13] that decomposed the deviation of inflation from the official target in 2022. Most contributing factors were inertia from the previous year, inflation expectations, imported inflation and 'other

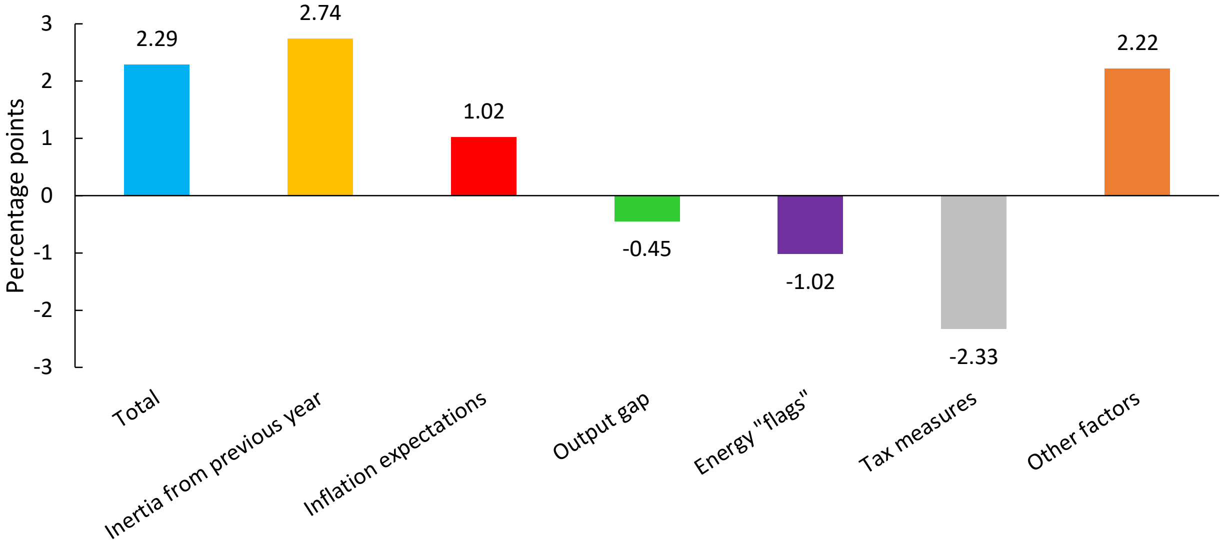
[13] Banco Central do Brasil (2023). Inflation Report Box '2022 Inflation Decomposition', March, pp. 72–75.

factors', although these were in part offset by the negative output gap, electricity tariff reductions and tax measures (Figure 18). In 2023 so far, both headline and core inflation have fallen, while the BCB's index of domestic supply chain pressures largely mirrored global (easing) developments. Separately, data from collective bargaining agreements suggest incipient loosening in wage growth.

- Headline inflation in **South Africa** moved above the upper end of the 3.0–6.0% target in May 2022 and only returned within the band in June this year, declining at a slower pace than its earlier acceleration. Until recent signs of moderation, there were indications that inflation had become stickier at higher levels in the food, core consumer goods and services sector. This appeared to result from both external factors, including rand depreciation, and internal factors such as electricity and transport infrastructure constraints and relative rigidity in the wage formation process.[14]
- Signs were also emerging that inflation was becoming stickier than usual in **Russia** by the start of 2022. Despite sizable policy rate increases, inflationary pressures continued to build up. However, price dynamics changed substantially following the early 2022 geopolitical events, and the subsequent transformation of economic structures to adapt to a new regime of international trade and cooperation. Supply constraints thus started to reflect more the restrictions on goods imports than global bottlenecks. At the same time, labour shortages became more prominent throughout the year, and the CBR now sees wage growth as an upside risk to inflation.
- As indicated above, **China** has been an exception among both BRICS and EMs at large, insofar as CPI inflation remained modest even in 2022 when global energy and food prices surged. Factors that contributed to this persistence of low inflation include the diversification in sources and supply of energy; good domestic harvests in recent years; and a faster recovery in supply relative to demand. In turn, because inflation remained low, there has been no sign of a durable shift in wage formation patterns, with nominal wage growth still mostly influenced by the pace of GDP growth.

[14] The SARB recently estimated that power outages are adding about 0.5 percentage points to inflation through cost-push pressures.

Figure 18: Contributions to Brazil 2022 inflation deviation from target



Source: BCB

4. The policy response

Concerns about durable (and potentially more frequent) supply shocks and their impact on the price formation process, have been a concern of global policymakers for the past couple of years. Many central banks have queried whether these shocks are impeding the policy transmission process, for example through changes in traditional economic relationships like the Phillips curve, linking the output or unemployment gap through inflation, or in 'unobservable' variables such as potential GDP, the natural rate of unemployment or the neutral real interest rate (r*). Generally, economic researchers and central bankers alike feel it is too early to ascertain whether these have been durably changed by recent shocks. Nonetheless, because of rising uncertainty and how this affects risk around central projections from econometric models, many central banks – especially in AEs – have adopted a more data-dependent approach and attached a somewhat higher importance than in the past to actual (as opposed to projected) economic variables when formulating policy decisions.

Central banks in BRICS member countries have also faced growing uncertainties about economic variables or relationships, though the extent to which this has affected policymaking varies across members, depending on how variables (and, in particular, inflation) have evolved over the past few years:

- In **China**, the modest inflation background – as described above – has allowed the PBoC to implement accommodative monetary policy to support the economic recovery. Since 2022, the PBoC has cut its benchmark interest rate four times and lowered the reserve requirement ratio (RRR) three times. Besides, it has also launched a series of structural instruments to support higher-quality development of the economy. These include facilities to encourage lending to SMEs, carbon-emission reduction, technological innovation and so on.
- An analysis by the RBI showed that the average contribution of demand-side factors to inflation in **India** rebounded in both 2021 and 2022, increasing to 31.8% and 30.5% respectively. Though this was lower than in 2019, this role supported the introduction of monetary tightening from May 2022 onwards, with an eventual cumulative policy rate increase of 250 bps. This said, RBI analysis found evidence of effective transmission from tighter policy to inflation, estimating that in the absence of rate increases, inflation would have been higher by 90 bps.
- In **Brazil**, monetary policy decisions have been informed by internal BCB estimates which show an increase in the neutral real interest rate in the Brazilian economy. It is now estimated at no less than 4.0%, up from a low of 3.0% as estimated in 2020Q4 BCB *Inflation Report*.[15] In assessing the factors that could lead to a higher neutral rate scenario and reduced power of monetary policy, emphasis is placed on the possible adoption of expansionary parafiscal policies in Brazil. BCB also views higher neutral rates in major economies, a more resilient domestic economy and a slow disinflationary process in Brazil as potentially compatible with a higher-than-assumed neutral rate and lesser contractionary effect of policy tightening, though more data will be needed to corroborate this interpretation.
- In **Russia**, the drastic changes in external and internal conditions in February–March 2022 could have reduced the efficiency of some channels of the monetary policy transmission mechanism to the economy. However, as the economy started to adjust

[15] A recent study published by the BCB has seen the neutral real interest rate in Brazil at a level as high as 4.8% (with a range from 4.5% to 5.0%). See Box: "Measures of neutral real interest rate in Brazil" in: Central Bank of Brazil, *Inflation Report*, June 2023.

to the new conditions, the effectiveness of policy transmission began to recover and is now estimated to be close to what it was before 2022. At the same time, in August the CBR increased the real neutral rate estimate by 0.5 percentage points to 1.5–2.5%. The main factors include a somewhat lower potential growth rate estimate compared to the 2017–19 period, which is counteracted by a higher global neutral interest rate and higher country risk premium.[16]

- **South Africa** witnessed resilience in both consumer and corporate investment demand in 2022, even as the repurchase (repo) rate rose from a low of 3.5% in November 2021 to 8.25% as of now. To some extent, this probably reflected the rise in both current and expected inflation, which meant that real interest rates did not increase as fast as nominal ones. Hence, the SARB's Monetary Policy Committee (MPC) now feels that the policy stance has moved from very accommodative to restrictive, and internal models project weaker GDP growth in 2023, which is expected to result (with a lag) into a decline in core inflation in 2024 and 2025.

The effectiveness of monetary policy, admittedly, can be facilitated or impeded by other policies – both fiscal and structural – that affect the growth/inflation trade-off in an economy. Measures that help increase total factor productivity (TFP), for example, will help boost GDP growth while holding down unit labour costs, hence increasing policy scope for the central bank.

Other policy decisions can be more ambiguous in their impact, for instance, temporary reductions in indirect taxes or the introduction of energy subsidies – as some European economies introduced in 2022 – can dampen an inflation shock in the short term and limit the risk of a wage-price spiral. But unless targeted in time and scope, they can result in the type of fiscal easing that offsets the impact of tighter monetary policy on inflation. In similar fashion, policies that force a diversification of supply chains to make them more resilient, can have mixed effects. They can reduce the risk of bottlenecks and thus of a supply-driven inflation spike, but equally, they may permanently raise input costs and the relative price of tradable goods.

The implementation of such policies happened to varying degrees across BRICS member countries. **India** implemented a broad swathe of policies aimed at enhancing

[16] See Bank of Russia Monetary Policy guidelines 2024-2026.

global value chain (GVC) participation, transforming India into a global manufacturing hub, rectifying supply-side anomalies, enhancing capital expenditures, facilitating the transition to green energy, boosting agricultural productivity, providing impetus to the infrastructure, reducing logistics costs, assisting with export development strategies including free trade agreements and promoting digital technologies.

In **Russia**, the implementation of specific policy measures to deal with economic disruptions accelerated following the 2022 geopolitical shocks. These included emergency support measures to industries and sectors affected by sanctions, including subsidised loans and debt repayment holidays. At the same time, capital controls and some macroprudential measures were introduced and the policy rate was increased to 20.0% to counter financial stability and price risks. Overall, these measures helped stabilise inflation dynamics as they reduced excess demand while supporting the production side of the economy – even though it is still too early to say whether trend economic growth has changed durably.

In **Brazil**, policies implemented recently may hold mixed implications for price dynamics. Ahead of the 2022 presidential election, the government won constitutional amendments that allowed it to substitute some provisions of the 2016 constitutional cap on public spending ('teto de gastos') while delaying making payments ordered by courts and indexing the budget to a higher inflation figure. The new government that took office in January 2023 then undertook to restore the higher, original scope of social programmes and further loosen the spending cap.[17] At the same time though, a new rule for fossil fuel prices has been implemented that will reduce the dependency of domestic prices on international oil prices and exchange rate fluctuations, while permanently reducing wholesale and retail prices through its impact on the energy supply chain.

In **China** and **South Africa**, fewer policies were put in place that would have interfered either way with growth and price dynamics. Nevertheless, China's government implemented a series of tax exemptions to support the recovery, such as exempting small-scale businesses (with monthly sales below RMB150 000) from value-added tax

[17] Parliament recently approved a comprehensive set of fiscal measures as embodied in the 'novo arcabouço fiscal' in substitution of the former 'teto de gastos'. A constitutional amendment attempts to simplify the complex and intricate Brazilian tax system by setting up a national VAT. At the same time, the new framework provides the government with an in-built countercyclical fiscal mechanism, while preserving a (less stringent) cap on the growth of public spending. Under the new rules, the zeroing of the primary fiscal deficit is scheduled for 2024.

(VAT). Meanwhile, government tax and regulatory policies in South Africa generally attempt not to interfere with price formation in the private sector. Thus, there were no adjustments to VAT on food or other necessities in the past few years. An exception was a temporary relief of R1.50/l, later reduced to R0.75/l before being phased out, on the fuel levy in 2022.

5. Conclusion

BRICS member countries continued to grow in 2022 and early 2023, extending the 2021 recovery from COVID-19-related shocks. Nonetheless, performance remained uneven among the group, and most member countries have not been immune from the global slowdown witnessed over the past few quarters amid an inflation squeeze on real incomes and tighter monetary policy. Encouragingly, while member countries – apart from China – saw inflation rise above target in 2022, price gains are now on a moderating trend. With current account balances also not displaying major shifts into the red (for those countries that run deficits), the ability to attract external funding does not appear to have been severely compromised. Overall, such developments should ease the challenges BRICS central banks are facing in late 2023 and into 2024.

It remains too early to tell whether potential GDP growth has been durably curbed by the shocks of the past few years. Nonetheless, while member countries' real GDP recovered to levels that prevailed before the pandemic – helped by robust export demand – it has generally not matched the trend seen prior to COVID-19, calling for caution when assessing future growth potential. Encouragingly, there are few signs of lasting disruptions to labour markets: unemployment rates, except in South Africa, have reversed earlier rises[18] and participation rates have normalised. Equally, while underlying measures of inflation often proved sticky in recent quarters, they now show signs of moderation. Still, central banks will need to remain cautious until evidence emerges that price formation patterns, sensitivity of wages and prices to the output gap, or unobservable variables like r* have not shifted in any durable way.

BRICS member countries retain the potential to be key drivers of global growth in coming years and current trends suggest that the weight of the group in the global economy is

[18] In China, the unemployment rate generally remained stable and is only slightly higher now than before the pandemic.

likely to continue rising. Increased trade and financial cooperation among members have the potential to accelerate the pace of economic growth within BRICS. Nevertheless, stronger growth and continued economic development will also depend on the pace of internal reforms and the extent to which they ensure optimal allocation of capital and labour resources, human skills development as well as deepening and greater resilience in domestic productive structures and capital markets.