BRICS ECONOMIC BULLETIN

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1. INTRODUCTION

In 2023–2024, the BRICS members continued to operate in an environment of elevated geopolitical tensions, and risks stemming from geoeconomic fragmentation, including protectionism and unilateral coercive measures, declining growth in advanced economies and high interest rates. GDP growth for most BRICS members in 2023 exceeded both growth in developed countries and global growth with an optimistic outlook for the upcoming years. The BRICS members' economic fundamentals were primarily supported by resilient demand amid prudent fiscal and monetary policy decisions aimed at maintaining price stability in the medium term, facilitation of infrastructure projects, as well as promoting FDI inflows.

In recent years, most BRICS economies gained more resilience to spillovers from developed countries' economic decisions. The magnitude of monetary policy tightening in BRICS countries was considerably lower compared to previous global shocks, as BRICS members in recent years were focused on strengthening economic development, decreasing internal imbalances, as well as further improving the credibility of their domestic policies. Such measures significantly diminished the BRICS vulnerability to global turbulence and increased their resilience to external shocks.

This time, in many emerging market economies and in the BRICS nations in particular, the policy rate paths were less synchronised with those of advanced economies (AEs) compared to previous episodes of monetary policy tightening. Many of the BRICS members carried out preemptive policy rate hikes back in 2021, which allowed them to resist excessive inflationary pressures. It is important to note that the BRICS countries' monetary policies became more autonomous and transparent, providing more space for domestic interest rate management. In recent years, most of BRICS economies have become more immune to spillovers from economic and financial developments in AEs, on the back of stronger economic fundamentals, improved inflation targeting frameworks and adequate fiscal policies.

The trade volume of the BRICS countries is rising, and although the share of AEs remains large, it tends to slowly decline. The sustainability of balance of payments (BoP) in the BRICS economies is illustrated by a decrease in current account surpluses and deficits in 2023 after a surge in 2022, which happened as commodity prices declined and some supply chains have been reconfigured. Capital outflows were generally contained, while foreign direct investment (FDI) flows became increasingly resistant to external shocks.

As the number of countries with a high risk of debt distress increases and given the rising global debt trajectory, potential global shocks can have additional spillover effects on BRICS countries. This requires preparedness and actions aimed at rebuilding fiscal buffers as well as effective use of appropriate policy tools. Most BRICS members maintained prudent fiscal policies in the post-COVID period. The focus on limiting government debt for most countries remains, despite heterogeneous fiscal regimes. On average, government debt is much lower in the BRICS than in AEs. For a long period before 2022, most of the BRICS members were undertaking gradual fiscal consolidation, which made them less sensitive to external

shocks from the recent monetary policy tightening in AEs. Moreover, the improvement of macroprudential tools as well as the development of resilient financial markets made capital flows more balanced and the national currencies more resilient.

The BRICS economies significantly benefit from deeper manufacturing, commercial, technological, service (e.g. travel) and financial integration. With a large share of net exporting countries, the BRICS as a whole could influence price developments via both import prices and commodity prices. These developments are accompanied by the prioritization of intra-block transactions in national currencies and greater integration into the global financial system. This helps to significantly limit the spillover effects from AEs' policies and even generate possible spillbacks in the medium and long term.

2. BRICS ECONOMIC REVIEW

2.1. REAL ECONOMIC GROWTH

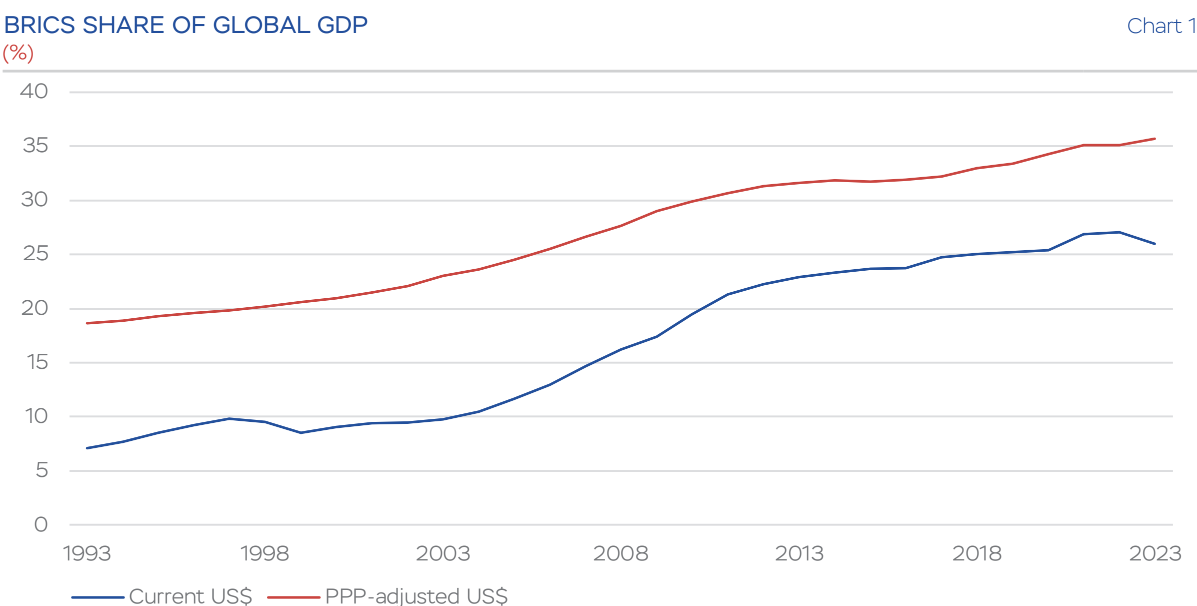
In 2023–2024, the BRICS members have continued to operate in an environment of heightened geopolitical tensions, global trade fragmentation and high interest rates. Despite these challenging conditions, the BRICS economies have demonstrated significant flexibility and capability to promptly adjust to extensive changes in external and internal environments. Although weaker growth had been expected in 2023, most of the BRICS members actually experienced either an acceleration in GDP growth or a leveling out around recent years' average. For the majority of the BRICS countries, the GDP trajectory turned out to be better than initially predicted, with a rather optimistic outlook for the upcoming years. Even though some countries showed a slower GDP path, the recent economic outlook seems nonetheless stronger than the environment of higher rates for longer would have suggested. To a great extent, the BRICS members' economic fundamentals were supported by sustainable growth in domestic demand, government support, adequate monetary and macroprudential policies, facilitation of infrastructure projects, as well as FDI inflows. Furthermore, a number of countries benefited from favorable conditions on some international markets, increasing their exports.

Brazil's GDP has long overtaken the maximum pre-pandemic level despite a growth slowdown. GDP's pre-pandemic trend was reached in 2023, albeit indications of moderation emerged by the end of the year. GDP grew by 2.9% in 2023, after expansions of 4.8% in 2021 and 2.9% in 2022. On the supply side, the 15.1% growth in agriculture is noteworthy – the highest figure since the time series started in 1996. On the demand side, the main contributions came from household consumption (+3.1%) and exports (+9.1%). Household consumption benefited from a strong rise in households' disposable income, with expansions of both the overall labor income and government transfers, and from a decline in food prices. The expansion of exports mainly resulted from increased shipments of primary goods, in a year of significant growth in agriculture and mining.

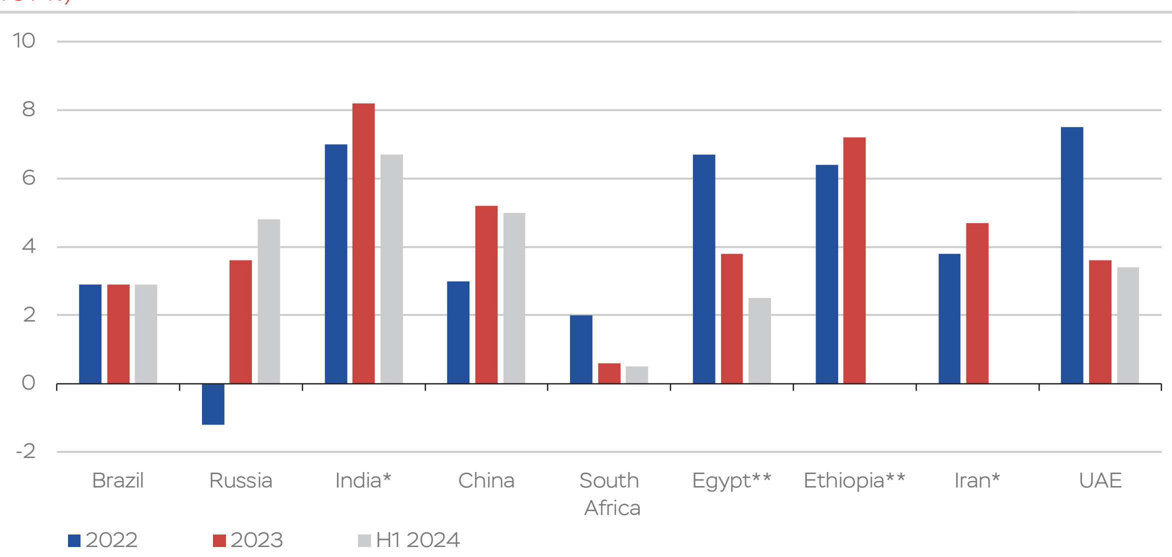
BRICS SHARE OF GLOBAL GDP

(%)

Chart 1



Sources: World Bank, BRICS team calculations.



* GDP growth is for Fiscal years (April–March) 2022–23 and 2023–24 as well as Q1 of Fiscal year 2024–25.
** GDP growth for Fiscal years (July–June) 2021–22 and 2022–23, and H1 of Fiscal year 2023–24.
Source: country data.

In 2023, the **Russian** economy continued its structural transformation notwithstanding challenging external conditions. The real GDP grew by 3.6% after declining by 1.2% in 2022. GDP accelerated to 4.7% y/y in H1 2024. Domestic demand demonstrated a significant recovery. Household consumption increased by 6.1% in 2023 and 6.4% in H1 2024, being propelled by the growth in real wages and retail lending. High investment demand from the private sector, additionally augmented by government support, increased gross fixed capital formation by 10.5% in 2023 and 9.6% in H1 2024. The rapid growth in domestic demand brought capacity utilization to record levels while unemployment declined to a new historical low.

Among the BRICS members, **India** remains the top performer, with real GDP expanding by 8.2% in 2023/24 on the back of buoyant domestic demand. This is the third successive year of growth exceeding 7%. Real GDP increased by 8.6% in Q3 and 7.8% in Q4 2023/24, with strong investment activity and a lower drag from net external demand. Growth in private final consumption expenditure (PFCE) – the mainstay of aggregate demand – improved to 3.5% in Q3 after a dip in Q2 and contributed 2.2 pps to the overall GDP growth. Steady urban consumption, coupled with improving income levels in the informal sector are supporting private consumption. Rural demand is gaining pace gradually, as exhibited by the high-frequency indicators. In the first quarter of 2024–25, GDP growth moderated to 6.7% mainly on account of decline in general government expenditure.

China's economy recovered at a fast pace after the lifting of COVID-19 restrictions. In 2023, China's GDP growth accelerated to 5.2% against 3% in 2022 and was higher than the government's target (5%). In Q1 2024, China's GDP growth accelerated to 5.3% YoY, beating market expectations and marking a good start of the year. Consumption remains the top driver of economic growth (74% of GDP growth in Q1 2024). Investment recovers steadily. It grew by 4.5% in Q1, i.e. 1.5 pps faster than last year. The additional CNY 1 trln (or USD 140 bln) in special central government bonds issued last year have been earmarked to 15 thousand projects and are expected to drive up investment. Foreign trade has stabilized. Imports and exports returned to growth and expanded by 8% in April. Imports of goods rose by 12.2%, and exports increased by 5.1%.

South Africa's economic activity has been negatively affected by internal challenges, which have exerted the largest drag, and the economic growth remains weak compared to both the country's peers and to its own historical averages. GDP growth slowed to 0.6% in 2023 after expanding by 2.0% in 2022. From the supply side, the economy was disrupted by frequent reductions in electricity supply (known as loadshedding) as well as logistical issues (which constrained exports and delayed the delivery of imports). On the demand side, the main detracting factor was household consumption spending which slowed down to 0.7% in 2023, mainly due to a contraction in spending on non-durable goods. Tight credit conditions, negative growth in real income and low consumer confidence pushed household spending even further down during the second half of 2023 and into the first quarter of 2024. Encouragingly though, in the Q2 2024 household spending increase by 1.4% compared to the preceding quarter. Gross fixed capital formation (GFCF) decelerated only moderately in 2023, down to 3.9% from 4.8% in 2022, supported by private sector spending on renewable energy projects. In Q2 2024 there was a turnaround in growth, with GDP expanding by 0.4% QoQ. Looking ahead, improvements in electricity supply combined with the power generated by alternative energy projects (and to some extent) a recovery in transport logistics raise hopes for better growth in 2024 and 2025, though demand remains generally weak.

Real GDP growth at market prices[1] in **Egypt** registered 2.5% during the first half (July/Dec.) of FY 2023/2024 against 4.2% during the corresponding period a year earlier. This came on the back of the remarkable fall in the share of net external demand to record negative 1.8 pps (from 5.1 pps in the same period a year earlier) as a result of the decline in exports by 7.3% and the hike in imports by 3.0%. On the other hand, the share of domestic demand grew to 4.3 pps (from negative 0.9 pps) due to higher contribution of both final consumption (government and private) reaching 5.5 pps (vs 2.7 pps) and capital formation registering negative 1.2 pps (from negative 3.6 pps). On the supply side, the main contributors were wholesale and retail trade, agriculture, communications and information technology, real estate and business services, social services, construction and building, and tourism.

In **Ethiopia,** real GDP was growing by 8.1% per year on average from 2014 to 2023. This makes it one of the fastest growing economies in Africa. During 2023, real GDP rose by 7.2% against an average growth rate of 3.4% for sub-Saharan Africa countries (WEO, April 2024). The main contributor to the growth was the service sector (43.8%), followed by agriculture (28.2%) and manufacturing (27.9%). Private consumption was the main driver of the aggregate demand and its share in GDP increased to 79% in 2023.

Iran's GDP in April 2023 – March 2024 increased by 5.7% at constant 2016/17 prices against a rise of 3.8% in April 2022 – March 2023. The non-oil GDP during the same period rose by 3.4% at constant 2016/17 prices. The economic activity was supported by strong results in private consumption expenditures (+4.2%) and gross fixed capital formation (4.5%) with "machinery" and "construction" subgroups being the main drivers. Rising exports (+17.9%) exceeded the growth of imports of goods and services (+5.3%). On the supply side, growth concentrated in the "oil and gas" group, which played a pivotal role in the improvement of the economic situation, with such groups as "services", "industry", and "agriculture, forestry, and fishing" also being quite important.

The UAE retains a strong growth trajectory, with real GDP growth of 3.6% in 2023 and the CBUAE projecting the real output to rebound to 3.9% in 2024. The non-oil sector's performance

[1] Source: Ministry of Planning and Economic Development.

remained strong with a 6.2% growth in 2023 (vs 7.1% in 2022). In particular, it is supported by the recovery in global travel and tourism, favorable results in real estate and construction sectors, increased profits in the financial sector (on the backdrop of high interest rates), an expanding manufacturing sector, and increased economic activity associated with events such as COP28.

2.2. CONSUMER PRICE INFLATION

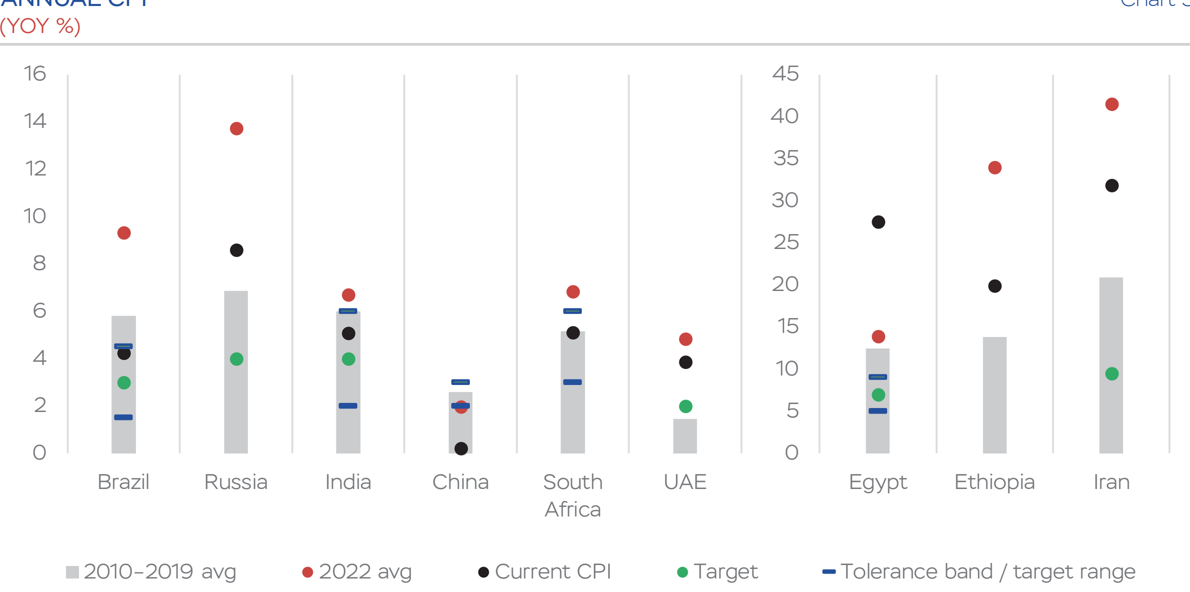
Contrary to previous periods, when most of EMs' central banks were tightening their monetary policies synchronously with AEs, in recent years the majority of EM economies began their tightening cycles ahead of AEs, and the tightening steps were more pronounced than was previously expected. Thanks to such preemptive interest rate hikes and the increasing independence of EMs' monetary policies the BRICS members were largely able to successfully suppress the increase of inflation in 2023.

The inflation has slowed down or stayed low for almost all of the BRICS members, and remains in check thanks to monetary policy that continue to focus on price stability as well as fiscal and administrative measures that address supply and production issues in certain segments.

Brazil demonstrates good performance in terms of CPI deceleration, benefiting from early monetary policy tightening. Consumer inflation[2] decreased to 4.5% YoY as of July 2024 vs 4.6% in 2023 and 5.8% in 2022. However, for the components more sensitive to the business cycle and to the monetary policy stance, the inflation has been above the inflation target recently. Factors such as the fall in commodity prices (especially for oil), the exchange rate appreciation and the negative output gap in 2023 considerably offset the inflationary pressure from tax measures, inflation expectations, and the inertia of the 2022 inflation.[3] A contractionary and cautious approach to the monetary policy is still deemed warranted by the BCB given the uncertainty from spreading and escalating regional and global geopolitical tensions.

ANNUAL CPI
(YOY %)

Chart 3



Note. Current CPI is CPI YoY % as of June 2024.
2022 avg means annual average CPI YoY %.
Source: country data.

[2] As measured by the official IPCA.

[3] See BCB (2024). Inflation Report, Vol. 26, Number 1, March, Box: "2023 inflation decomposition", p. 59 (Downloadable at: https://www.bcb.gov.br/content/ri/inflationreport/202403/ri202403b4i.pdf).

MEAN INFLATION BY COUNTRY GROUPS

(%)

Note. BRICS: Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, UAE.
AEs: USA, euro area, Japan, UK, Canada, Norway, Sweden, Australia, New Zealand, Israel, Iceland, South Korea, Czech Republic.
Sources: Cbonds, World Bank, BRICS team calculations.

Inflation in **Russia** declined to 7.4% in 2023 after a surge to 11.9% in 2022. CPI growth dropped to just 2.3% YoY in April 2023 (the lowest figure in five years), mostly due to base effect, but later on started to gradually increase as sequential price growth began to deviate up from 4% target. Strong recovery in demand started to surpass the capacities to expand supply, and the rise in prices sped up. To curb inflation, the Bank of Russia sharply tighetened monetary policy in H2 2023 and having the key rate increased cumulatively through September 2024 by a total of 11.5 pps, from 7.5% to 19%.

A favorable CPI pattern is seen in **India** during FY 2023/24 with an inflation rate of 5.1%, 1.1 percentage points lower than a year ago. Headline inflation, after remaining steady at 4.8% during April and May 2024, increased to 5.1% in June 2024, primarily driven by the food component. Headline inflation moderated sharply to 3.5% in July 2024 from 5.1% in June 2024 mainly on account of downward statistical pull of base effects. Core inflation, which excludes food, fuel and electricity, declined to 3.3% in March, the lowest figure in this financial year. Core inflation at 3.1% in May–June touched a new low in the current CPI series, with core services inflation also at its lowest. Core inflation, however, showed an uptick to 3.3% in July 2024. Prudent monetary policy measures and supply-side interventions have aided in the disinflation process amidst unprecedented global challenges. The policy repo rate has remained unchanged at 6.5% since the last revision in February 2023, which shows the RBI's commitment to aligning the inflation rate with the target. In response to a 250 bps increase in the policy repo rate, the external benchmark-based lending rate (EBLR) increased by a similar magnitude. Concomitantly, the weighted average lending rate (WALR) on fresh and outstanding rupee loans increased by 181 bps and 119 bps, respectively, during May 2022 to June 2024.

With its modest inflation background and ongoing accommodative monetary policy, **China** is an exception among the BRICS nations. In Q1 2024, China's CPI maintained the same level YoY. The core CPI excluding the prices of food and energy grew by 0.7% YoY. The relatively low price

level reflects the lack of effective demand in the economy and the asynchrony in the recovery of aggregate supply and demand. In the future, as the base effect will gradually diminish and the demand for goods and services will continue to recover, it is expected that prices will rise moderately. The PBOC expects the accommodative monetary policy to continue. In 2023, the PBOC cut the Medium-Term Lending Facility (MLF) interest rate twice, by a total of 25 bps; besides, it has reduced the reserve requirement ratio (RRR) three times since the beginning of 2023 (March 2023, September 2023, and February 2024).

In **South Africa,** headline inflation has eased significantly from its peak in 2022. However, it remained volatile in 2023 due to fluctuations in food and fuel inflation. After picking up to 7.1% in March 2023, headline inflation gradually slowed and moved inside the 3–6% target range by the middle of the year. Subsequently, even though remaining within the target range, inflation generally picked up again towards the latter part of 2023 on the back of rising fuel as well as food and non-alcoholic beverages prices and core goods. These factors have since started easing, causing inflation to decelerate in 2024, to 4.4% in August 2024. The Monetary Policy Committee (MPC) lowered the repo rate to 8.00% in September 2024, the first adjustment in eight meetings (the monetary policy tightening cycle has started in November 2021). The policy stance is currently still regarded as moderately restrictive, especially as expectations are for inflation to continue easing in the coming months.

Another exception is **Egypt,** where annual inflation remains at double-digit levels since 2022. Egypt's inflation accelerated throughout 2023 due to disruptions to domestic supply chains, pressures on the exchange rate, which resulted in unanchored inflation expectations. Since then, exchange rate pressures have eased, and previous supply shocks have mostly reversed. Consequently, annual headline and core inflation rates have been on a downward trend since early 2024, declining from their peaks of 38% in September 2023 and 41% in June 2023, respectively, to ultimately reach 26.2% and 25.1%, respectively, in August 2024. Currently, food inflation continues to decelerate quickly, while non-food inflation remains rather sticky and reflects the impact of some fiscal consolidation measures implemented by the government to reduce the fiscal burden of energy subsidies. To curb inflation, the CBE raised interest rates by 300 bps in 2023 followed by a more aggressive hike of 800 bps in 2024 (noting that a tightening cycle had already started since March 2022). The MPC considers the monetary stance to be at sufficiently restrictive levels, consistent with bringing down inflation rates towards the CBE's medium-term targets.

Inflation remains double-digit in **Ethiopia**, however, in general it demonstrates a downward trend compared to 2022. CPI decreased to 23.3% as of April 2024, which is the lowest rate recorded in the last 12 months. Core inflation, which excludes food and non-alcoholic beverages, declined to 18.0% in April, which is the lowest figure in this fiscal year. This decline in inflation reflects the impact of monetary policy tightening, fiscal consolidation, and sector-specific initiatives focused on boosting production or addressing key product markets.

In **Iran,** the main role in containing inflation and stabilizing prices in 2023/24 was played by control of the broad money (M2) growth[4] and monitoring of the foreign exchange market. Thanks to adoption of such policies, the twelve-month inflation rate followed a decreasing trend from 45.8% in March 2023 to 40.7% in March 2024. This was mainly attributed to the fall in the inflation of the CPI's basket of goods (41.1% vs 55.9% in 2022/23), while CPI's basket of services accelerated during the same period (to 40.2% vs 34.7% respectively).

[4] The CBI managed to substantially control M2 growth through setting the target range of 25% for 2023/24.

UAE`s inflation has eased significantly, down to 1.6% in 2023 from 4.8% in 2022. Inflation developments in the UAE have been relatively benign since 2022 in the absence of significant supply-demand imbalances in either goods or services. In addition, the UAE has not experienced significant energy price volatility as an oil and gas exporting country. Inflation is projected to accelerate, albeit below the global average due mainly to higher non-tradeable inflation, while being moderated by the appreciation of the nominal effective exchange rate of the UAE dirham. The UAE pursued a restrictive monetary stance (due to the US dollar peg) and short-term interest rates in the UAE increased, following the trajectory of the effective US Federal Funds rate. The CBUAE raised the Base Rate from 4.4% at the end of 2022 to 5.4% in July 2023 and kept its key policy rate unchanged until the end of the year.

2.3. BALANCE OF PAYMENTS

With a few exceptions, current account balances (surpluses or deficits) in the BRICS countries have generally narrowed in 2023 after the 2022 geopolitical shock, as most commodities prices fell, and new supply and logistics chains emerged.

The trade relations between various BRICS members and the volume of their trade tend to increase steadily and has been additionally boosted by the deterioration of global supply chains, global trade fragmentation and rising geopolitical tensions. For some BRICS countries, the share of AEs in trade remains rather high, but is gradually diminishing in favor of the BRICS members and other non-AE countries with still much room for further trade and financial integration.

BRICS in general were better prepared than AEs for the period of high interest rates dominating the global economy, mainly due to preemptive monetary policy tightening and domestic financial stability measures. Given the structural differences in the balance of payments of EMs (net exporters/importers, different degrees of capital controls, FX regimes, etc.), the reaction of the BRICS members to AEs' interest rate hikes was diverse.

Historically, monetary policy rate hikes in AEs led to increased capital outflows from EMs due to both increasing risk aversion of global investors and deterioration of domestic fundamentals (for example, increased inflationary pressure, currency instability, debt growth). To stabilize the situation central banks used a combination of tighter monetary policy and operations on the FX market. BRICS members in general demonstrated the ongoing tendency of FDI flows as being more resistant to external shocks compared to portfolio flows (equity and debt). In general, the BRICS countries experiencing capital outflows in 2023 demonstrated a strong ability to contain capital outflows, while those with historically positive financial accounts display stability in the FDI inflows, except for few countries with pronounced financial accounts pressures.

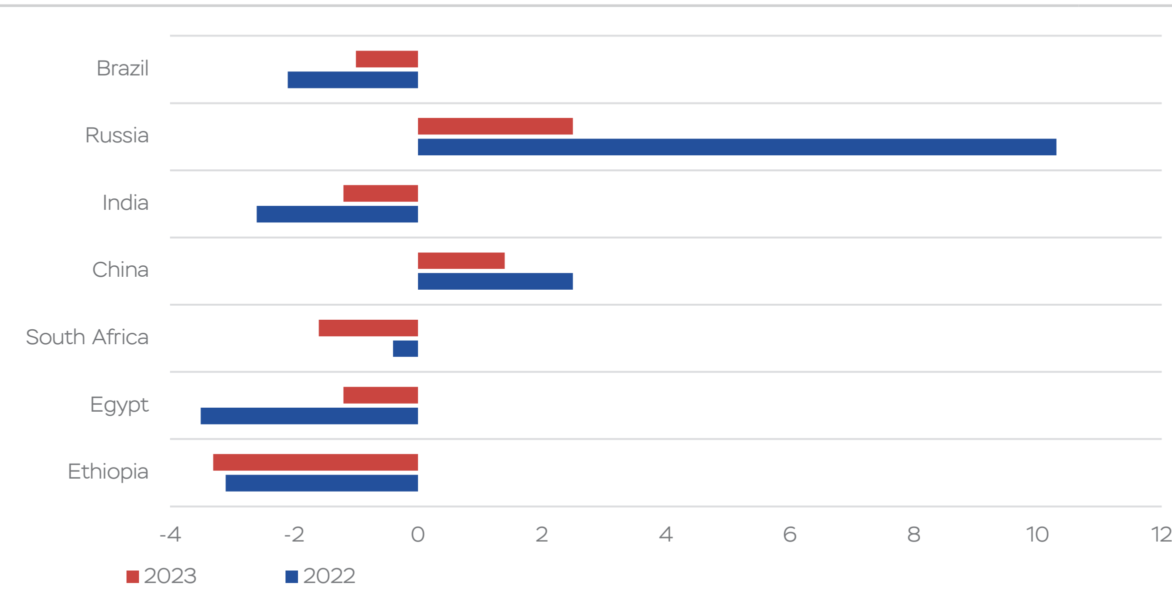
The current account (CA) balance of the **Brazilian** economy is historically negative.[5] In 2023 CA deficit reduced significantly against 2022 from USD 40.0 bln (2.1% GDP) and amounted to USD 22 bln (1.0% of GDP). Throughout the year, the CA negative trend was continuously waning and ultimately entered positive territory in the beginning of 2024.[6] Among the key factors behind the improvement was a stronger trade balance, only partially offset by the

[5] Due to the negative balance of the services and income accounts. A major exception in almost 30 years was the so-called period of "the commodities super cycle 2003–2007".

[6] After seasonal factors are withdrawn.

CURRENT ACCOUNT
(% OF GDP)

Chart 5



Note. Data is NA for Iran and UAE.
For Egypt Fiscal Years (July/June) 2023/2022.
For Ethiopia 2023/2022 vs. 2022/2021.
Sources: country data, BRICS team calculations.

expansion of net expenses in the primary income account.[7] The share of AEs (mainly the EU and the US) in the structure of Brazil's trade balance (both at the exports and imports side) is traditionally very high, but they have been losing ground since the emergence of China as a major global player.[8] Net inflows of direct investment liabilities only slightly decreased to USD 62 bln in 2023 vs USD 75 bln in 2022.[9] The positive net inflow of portfolio investments (USD 12 bln) reflected the demand by non-residents for Brazilian securities (government debt predominantly). The stable foreign appetite for Brazilian securities, despite the fall in the interest rate differential, reflects an improved external perception of the fiscal risk.[10]

The CA surplus in **Russia** decreased to USD 50 bln (2.5% of GDP, close to historical average) in 2023 after posting a record high of USD 238 bln in 2022 (10.3% of GDP[11]). This was mainly explained by a decrease in trade balance surplus from the elevated 2022 level to a level close to historical average (in terms of % of GDP). Exports of goods fell by 28% mainly due to a decline in the prices of crude oil, trade barriers and compliance with the OPEC+ agreement. Imports of goods, on the contrary, increased by 9.7% vs 2022, having exceeded the 2021 level as internal demand for international goods saw a strong recovery. The CA surplus increased to USD 40 bln in H1 2024 (USD23 bln in H1 2023) mainly due to decrease in imports of goods on the back of tight monetary policy and some complications in cross-border payments and logistics.

[7] BCB (2024). Inflation Report, Vol. 6, Number 1, March, p. 30 (Downloadable at: https://www.bcb.gov.br/en/publications/inflationreport).

[8] Among other emerging economies, Argentina is an important trading partner as well. Among the BRICS economies, Russia has gained importance lately as an importer of Brazilian goods.

[9] BCB (2024). Inflation Report, Vol. 6, Number 1, March, p. 31 (Downloadable at: https://www.bcb.gov.br/en/publications/inflationreport).

[10] It is also seen in the substantial decline in the country's credit default swaps (CDS) and in greater exchange-rate stability.

[11] Balance of payments, international investment position and external debt of the Russian Federation in 2023. http://www.cbr.ru/eng/statistics/macro_itm/svs/p_balance/.

Financial account balance has also narrowed to USD 43.3 bln in 2023 (2.1% of GDP) from USD 227 bln in 2022 (9.9% of GDP). Its structure was affected by new financial sanctions and Russia's countermeasures and was mainly comprised of financial assets accumulation (USD 35.2 bln in 2023) in the form of deposits held abroad and outward FDI, and continued decrease in external liabilities (by USD 8.1 bln). Reserve assets decreased mostly due to FX transactions carried out on the domestic market under the fiscal rule. Russia's international reserves stood at USD 614bln on September 1, 2024.

India's current account balance recorded a surplus of USD 5.7 bln (0.6% of GDP) in Q4:2023–24 as against a deficit of USD 8.7 bln (1.0% of GDP) in Q3:2023–24 primarily due to the significant growth in service exports and increased private transfer receipts. For the entire year 2023–24, India's current account deficit moderated to 0.7% of GDP from 2.0% of GDP during the previous year on the back of a lower merchandise trade deficit.

In India, gross FDI remained practically stable at USD 71.0 bln during 2023/24 against USD 71.4 bln a year before. Net FDI declined to USD 9.8 bln during 2023/24 from USD 28.0 bln a year before, mainly reflecting higher repatriation. India ranked fourth among EMEs in the 2024 FDI Confidence Index, reflecting continued optimism over its growth potential. Cumulatively, net FPI inflows at USD 41.0 bln in 2023/24 were the highest since 2015/16. The debt segment recorded net inflows of USD 14.2 bln during 2023/24, the highest since 2018/19. Net FPI inflows in the equity segment were at USD 25.3 bln, the highest among EMs. India's foreign exchange reserves reached a historical high of USD 689.2 bln as of September 6, 2024. India's foreign exchange reserves increased by USD 64 bln during 2023/24, the second highest increase among major holders of foreign exchange reserves.

In **China**, the CA surplus (USD 253 bln) in 2023 stood at 1.4% of GDP, lower than in 2022 (2.5%). It was the lowest level since the COVID-19 pandemic. Specifically, the surplus of merchandise trade was USD 594 bln, the highest level, only second to 2022, which reflects the resilience of China's supply chains during and after the pandemic and the strong momentum of its economic recovery. The deficit of service trade was much higher than in 2021 and 2022. It was mainly driven by the recovery of overseas travel after the post-pandemic reopening. The structure of China's export destinations has changed gradually during recent years. The share of the US and the EU in China's exports gradually fell (from 19.2% and 16.5% in 2018 to 14.8% and 14.7% in 2023), with the US remaining the largest trading partner of China. During the same period, the share of the ASEAN nations has significantly increased from 12.9% to 15.7%. The share of Africa slightly rose from 4.2% to 5.2%.

The deficit of the non-reserve financial account in 2023 slightly decreased to 1.2% of GDP from 1.4% in 2022. The reserve assets increased by USD 4.8 bln. By the end of 2023, China's foreign exchange reserves stood at USD 3.5 trln. The deficit of the financial account was mainly driven by the net FDI outflow that reached USD 142 bln in 2023: more and more Chinese companies invested abroad, yet inward FDI remains significant, reflecting foreign companies' willingness to invest in China's market. The net outflow of portfolio investment was USD 63 bln, much lower than USD 289 bln recorded in 2022. During the same period, the RMB exchange rate remained stable, especially against the basket of currencies.

South Africa posted a CA deficit of 1.6% of GDP in 2023, a significant deterioration compared to the 0.5% deficit in the previous year. The widening of the CA deficit was largely due to a considerable decline in the trade surplus, which weakened to 1.5% of GDP in 2023 from 3.3% in 2022. The latter broadly reflected lower commodity prices, domestic infrastructure constraints that weighed on export volumes, as well as higher energy-related imports. The lower trade

account balance outweighed the smaller deficit recorded in the services, income and current transfer account which had improved from a deficit of 3.8% of GDP in 2022 to -3.1% in 2023, dragging the CA balance down. The CA deficit is projected to improve in 2024 to 1.4% of GDP but then deteriorate to 2.7% by the end of the forecast period, in 2026. South Africa's export basket is heavily geared towards commodities, with mining products accounting for 55% of total exports on average in 2023.[12] These commodity exports are sensitive to Chinese demand. South Africa's exports to China nonetheless increased by 21.2% in 2023. That said, 41.3% of South African exports are dispatched to AEs, of which 45.7% to the EU and 18.4% to the US.

South Africa's inflow on the financial account decreased to ZAR 53.0bln in 2023 from the ZAR 65.0 bln inflow in 2022. This deterioration was due to larger outflows in net portfolio investment which increased from ZAR 72.9 bln in 2022 to ZAR 116.0 bln in 2023. These outflows can be attributed to non-residents' net disposal of, first and foremost, equity securities and, to a lesser extent, debt securities. Furthermore, a significant decline in net other investment was recorded. These factors were only partially countered by a surplus in net financial derivatives as was as an increase in net direct investment which rose for the eighth consecutive quarter in Q4 2023. This resulted in a total inflow of ZAR 116.06 bln for the year, compared with ZAR 112.93 bln in 2022. These patterns were maintained during H1 2024 with a further inflow of net direct investment of ZAR 28.7 bln, while net portfolio investment recorded outflows of ZAR 93.2 bln during the same period.

In **Egypt** according to the available data, during the period July/March of FY 2023/24, the CA deficit widened to USD 17.1 bln from the corresponding figure of USD 5.3 bln. This rise in the current account deficit came on the back of the shift in the oil-trade balance to a deficit of USD 5.1 bln from a surplus of USD 1.7 bln, with the decrease in net oil exports by USD 6.8 bln. Suez Canal transit receipts decreased by 7.4% to USD 5.8 bln (against USD 6.2 bln). This retreat came during January/March 2024, as the Suez Canal transit receipts decreased by 57.2% to register USD 959.3 million (against USD 2.2 bln in the corresponding period a year earlier), due to the geopolitical tensions in the Middle East. Moreover, Remittances of Egyptians working abroad witnessed 17.1% retreat to reach only USD 14.5 bln (against USD 17.5 bln). Notably, Egyptian workers' remittances recorded in March 2024 – on a monthly basis – an annual increase of 11.1% for the first time after a 22-month slump – to stand at USD 2.1 bln (against USD 1.9 bln in March 2023), thanks to the economic decisions taken on the 6th of March 2024. However, the deficit in the CA balance was curbed by the improvement in the non-oil trade deficit by USD 1.5 bln to register USD 23.7 bln (against USD 25.2 bln), driven mainly by the retreat in the non-oil merchandise imports by 2.9% to only USD 43.2 bln (from USD 44.5 bln), while the non-oil merchandise exports increased by 1.1% to USD 19.5 bln (from USD 19.3 bln). Moreover, the tourism revenues increased by 5.3% to USD 10.9 bln (against USD 10.3 bln), due to the pickup in the number of both tourist nights and tourist arrivals.

In Egypt during the period July/March of FY 2023/24, the capital and financial account recorded a net inflow of USD 20 bln (against USD 8.1 bln). FDI in Egypt registered a net inflow of USD 23.7 bln (against USD 7.9 bln). FDI in non-oil sectors achieved a net inflow of USD 23.9 bln (against USD 8.9 bln). This was mainly attributed to the inflows of USD 15 bln during the period January/March 2024 due to the implementation of Ras-El Hekma agreement. Portfolio investment in Egypt shifted to a net inflow of USD 14.6 bln (against a net outflow of USD 3.4 bln). This was mainly attributed to regaining foreign investors' confidence in the performance of the Egyptian economy, especially after the economic decisions of

[12] Within these, iron ore, chromium ore, manganese represent a share of about 47%.

March 6, 2024. The change in the CBE's liabilities recorded a net outflow of USD 1.4 bln (representing a decline in liabilities), against a net inflow of USD 3.0 bln.

In **Ethiopia,** the CA deficit including official transfers widened to 3.3% of GDP (USD 4.9 bln) during 9M FY 2023/24 from 3.1% of GDP (USD 3.8 bln) recorded in the same period of the last year. This was due to a drop in net private transfers (by 18.9%) and in net official transfers (15.1%), coupled with a wider merchandise trade deficit (2.1%) and despite an improvement in the net services surplus (39.3%). The CA deficit widened despite the government's efforts to narrow the deficit by substituting essential items (like food imports) with domestically produced goods.[13] The impact of AEs' tighter monetary policy on Ethiopian trade is rather limited, as Ethiopia's trade performance is more heavily driven by supply-side factors and global commodity prices while its capital account remains relatively closed. The effect could be expected from lower aggregate demand.[14] AEs have a notable share in the country's trade patterns according to data for 9M 2023/24: up to 53% of total exports and 14% of total imports.[15]

In Ethiopia during 9M 2023/24, capital account showed a surplus of about USD 2.73 bln, roughly similar to the USD 2.71 bln surplus recorded a year earlier. This flat performance was due to a fall in net disbursements to the central government disbursement (by 33%) and a decline in private sector loans (31%) combined with an increase in net outflows from other public sector entities (22%) despite FDI registering a 4% annual growth. In practice, Ethiopia has not been significantly affected by elevated interest rates in AEs as private capital flows are still relatively limited and Ethiopia also receives significant FDI inflows from non-AE countries.

According to preliminary estimates, the current account of **Iran** ran a surplus of USD 6.3 bln in 9M 1402 (April – December 2023), a fall of 60% compared with the period of April – December 2022. Over the mentioned period, the surplus of the goods account fell by 28.9% to USD 15.0 bln, and the deficit of the services account rose by 52.1% to USD 8.0 bln. The value of exports transferred through Customs amounted to USD 49,329 mln over the period of April 2023 – March 2024, a reduction of 8.9% compared with the same period in the year before. It should be noted that despite a fall in global oil prices, oil exports enjoyed a favorable performance in 2023/24 compared with 2022/23. The share of the BRICS member states in the total value of Iran's exports through Customs was 48.4%. In the mentioned period, Iran's major trade partners in terms of exports included China, Iraq, the UAE and Turkey. In 2023/24, the value and weight of imports (through Customs) amounted to USD 66,204 mln and 39,016 thousand tons, respectively, increasing by 9.8% and 4.4% compared with 2022/23. The share of the BRICS member states in the total value of Iran's imports was 65.4%.

In 9M 1402 (April – December 2023), the debit to the capital account amounted to USD 20.3 bln, increasing by 25.4% compared with April – December 2022. The payments out of the capital account, along with an increase in the residents' net financial claims on the outside world, represent the main factor behind the debit to the capital account. The imposition of sanctions and constraints on international banking transfers prevented the free flow of capital between the Iranian economy and the outside world. Under these circumstances, economic

[13] For example, compared to the previous year, Ethiopia reduced its cereals imports by 40.5% to USD 476.9 mln during 9M 2023/24 from USD 801.3 mln recorded in the same period last year.

[14] For items such as flowers, leather and leather products, meat and meat products, and textile and textile products.

[15] The items exported to AEs include commodities such as coffee, flowers, oilseeds, pulses, gold, and textiles and garments. The items imported from AEs include machinery and aircraft, electrical materials, fertilizers, metal and metal products, petroleum products, and pharmaceuticals.

factors such as interest rate differentials among countries, resulting from revisions in monetary and financial policies, do not play a pivotal role in international capital transfers.

The **UAE's** external position remains robust and has held up quite well in response to the global monetary tightening cycle. In 2023, appreciation of the nominal effective exchange rate (due to the strengthening of the US dollar) supported imports, while the impact on terms of trade was more than offset by higher oil prices and strong tourism export receipts. Since the UAE's trade is mostly downstream in the value chain (outside large oil/gas), the J-curve effect is weak. The sum of non-oil exports and re-exports for 9M 2023 increased by 7.1% YoY, reaching AED 755.4 bln, up from AED 705.3 bln during the same period in 2022. Imports increased significantly by 18.1% YoY in 9M 2023 compared to the same period in 2022, reaching AED 1,042 bln. This increase was supported by robust growth in the non-oil sector and a slight appreciation of the currency *vis-à-vis* trading partners.

2.4. FISCAL SECTOR, DEBT SUSTAINABILITY

Almost all BRICS countries ran budget deficits higher than or close to historic averages in recent years as active fiscal support was required during and after the COVID-19 years. A number of BRICS countries, however, still have substantial fiscal space which enables proactive (yet very carefully executed) fiscal policy. On the other hand, some countries started to introduce fiscal consolidation measures to close the gap between elevated expenditures and revenues either under institutionalized fiscal rules or explicit mid-term targets for fiscal parameters.

The level of government debt among the BRICS countries differs, yet on average it is much lower than in AEs. Projected debt trends differ too, yet the importance of debt and fiscal sustainability is universally acknowledged among the BRICS countries.

In **Brazil**, after rising to 87% of GDP in 2020, when there was a significant fiscal expansion to combat the impacts of the pandemic, the general government's gross debt decreased in the following years and in 2023 reached 74% of GDP, a level similar to that observed before the pandemic. After two years of primary surpluses, the Brazilian public sector had a primary deficit of 2.3% of GDP in 2023, partly influenced by temporary spending and reduced revenues as a result of tax cuts implemented in 2022 and reversed throughout 2023. But for 2024 and the following years, the expectation is for a reduction in the primary deficit, as expenses and revenues follow the new sustainable fiscal regime. Even so, the expectation is that there will be some increase in public debt this year and in the coming years.

In **Russia,** the budget deficit expanded by 0.9 pp to RUB 3.9 trln (2.3% of GDP) in 2023, as total fiscal revenues have been growing slower (11.3% YoY, 34.5% of GDP) than total fiscal expenditures (14.1% YoY, 36.8% of GDP). At the same time, the structural budget deficit (excluding extra oil and gas revenues under fiscal rule) has decreased after peaking in 2022. Revenue grows on the back of a significant rise in non-oil revenues stemming from the weaker ruble, stronger business activity and consumer demand (including growing imports). One-off factors also positively contributed to fiscal revenues.[16] Additional expenditures ordered in the President's address to the Federal Assembly in February 2024 will be financed by additional revenues from sources other than oil and gas[17] in the coming years, cementing (in combination with the current fiscal rule) high fiscal and debt sustainability. In 2023, the government debt was at 17.1% of GDP, of which over four fiths was domestic debt.

[16] Tax for excess profits (more than RUB 0.3 trln) and increased non-oil tax revenues due to suspension of some anti-crisis measures.

[17] Of which the main source is the increase of basic profit tax rate from 20% to 25%.

In **India,** the gross fiscal deficit (GFD) of the Central Government (CG) is projected to be 70 bps lower than in 2023/24, pointing at 4.9% of GDP in 2024–25. This is in line with the medium term GFD-to-GDP target ratio of 4.5%, to be achieved by 2025/26. The CG's gross tax revenue recorded a robust growth, boosted by buoyant direct tax collections. In 2023/24, the growth in the CG's revenue expenditure excluding interest payments and subsidies remained subdued at 3.9% YoY. The capital expenditure, on the other hand, recorded a strong expansion of 28.4% YoY. State governments also continued enforcing fiscal prudence, while supporting growth with a focus on capital expenditure. States' GFD was budgeted at 3.1% of GDP in 2023/24 as against the limit of 3.5% set by the CG. In the Union budget for 2024/25, gross and net market borrowings are budgeted at INR 14.0 trln and INR 11.6 trln, respectively. The general government debt-to-GDP ratio is estimated to be 81.6% in 2023/24. With the recalibration of government expenditure, the general government debt-to-GDP ratio is expected to decline to 73.4% by 2030/31, which is lower than the IMF projection of 78.2%.

In 2023, **China** implemented a proactive fiscal policy. At the beginning of 2023, China's target of fiscal deficit ratio was 0.2 pps higher compared to the 2022 target set at 3%. Taking into account additional issuance of CNY 1 trln worth of government bonds in Q4, the fiscal deficit ratio is anticipated to rise to about 3.8% in 2023. Government support, with a focus on high-quality development of the manufacturing sector, scientific and technological innovation, rural revitalization, and regional and economic development, contributed to effective fiscal measures a lot. Moreover, additional issue of CNY 1 trln worth of government bonds spent on post-disaster recovery and reconstruction played a great role in disaster prevention, mitigation, and relief, as well as providing safeguards for people's livelihoods. In 2022, China's official debt burden (ratio of outstanding debt to GDP) was 50.6% or CNY 61 trln. This level is lower than the threshold of 60% commonly used internationally, and lower than the levels in major developed countries and some emerging markets. The shares of the central and local governments' debt are 42% and 58% of the total national government debt respectively.

South Africa has been facing a persistent budget deficit since 2008/09 (4.6% of GDP in both 2022/23 and 2023/24) which is continuing to raise the public debt. The gross loan debt has increased from 23.6% of GDP in 2008/09 to 70.5% of GDP in 2022/23. The accumulation of debt has led to a rise in debt service costs, which increased from 9.6% in 2013/14 to 17.4% of total expenditure in 2023/24 and have surpassed spending in several individual sectors. Gross loan debt is projected to peak at 75.3% of GDP in 2025/26, up from 74.1% in 2023/24, but then ease slightly to 74.7% in 2026/27.[18] The funding transfer from the GFECRA[19] of ZAR 150 bln over three years starting from 2024/25 is expected to improve the debt situation. The government plans a moderate fiscal consolidation,[20] but will continue to support economic growth through structural reforms, particularly in the energy and transport sectors, and public investment, while containing growth in public debt.

Egypt has been witnessing a slight increase in its debt-to-GDP ratio for the past couple of years due to both external factors (COVID-19 and elevated geopolitical tensions) and internal factors including historically high interest rates used to combat inflation coupled with consecutive devaluations of the national currency. The Ministry of Finance stepped in, implementing a variety of reforms on several fronts while maintaining its fiscal consolidation

[18] Gross debt figures are provided based on SARB accounting methodology, which show some small differences to that used by National Treasury in its budgetary data and projections.

[19] The Gold and Foreign Exchange Contingency Reserve Account.

[20] The government anticipates reducing non-interest expenditure as a share of GDP from 25.2% in 2023/24 to 23.0% by 2026/27, allowing for an average primary budget surplus of 1.3% of GDP over three years.

mainly through revenue mobilization and the rationalization of public spending. This allowed the overall trend of the primary surplus to significantly improve from 1.35% of GDP in FY 2020/21 to a budgeted target of 3.5% of GDP in FY 2024/25, in addition to targeting 1% of GDP of divestment proceeds to be transferred to the treasury to reduce the budget sector debt. Egypt is currently prioritizing and focusing on putting the debt-to-GDP ratio on a firm downward path and limiting the debt service burden. As the implementation of Egypt's divestment strategy continues, resources generated from the sale of public assets will be used first and foremost to reduce public debt and the associated debt service cost.

In **Ethiopia** the total revenue (including grants) for FY 2022/23 was about ETB 717.6 bln against expenditure of ETB 938.8 bln, which resulted in a budget deficit of ETB 221.2 bln. Around 97% of the budget deficit was covered by domestic borrowing and the remaining 3% was covered by external sources. The government continued tightening its fiscal policy in line with the budget target and the agreed level of deficit monetization. The capital expenditure recorded a strong expansion in FY 2022/23 with a growth of 35.8% YoY, while the recurrent expenditure growth was 12.7% YoY. The general government tax revenue rose by 24.2% and its ratio to GDP was 7.9% thanks to an increase of the indirect tax by 25.7%. In Ethiopia, the general government debt-to-GDP ratio was 38.8% in FY 2022/23, and is expected to decline to around 29.2% by 2023/24, which is marginally lower than initially projected. The external debt-to-GDP ratio decreased to 18.0% or ETB 1,518.6 bln as at 2022/23 vs 23.6% in FY 2021/22.

In **Iran,** the government issues debt instruments within the government's optimal debt ceiling to finance deficit through non-monetary and non-inflationary measures. In recent years, this policy has been set into operation and despite the notable decline in oil revenues in the aftermath of the imposition of sanctions, it has facilitated the provision of financial resources for the government's general budget, producing fewer monetary effects. The ratio of public debt to GDP was 31.7% for the period of April-December 2023, which is substantially lower than the first target level (40.0%).[21]

The **UAE** kept on registering fiscal surpluses. At the same time, consolidated fiscal surplus declined in 9M 2023 by 64.7% vs 9M 2022, posting USD 17 bln or 4.4% of GDP. It was primarily attributed to a reduction in oil-related revenues resulting from declines in both the value and volume of produced and exported crude oil. Total revenue fell by 18.4% YoY to USD 101 bln (26.9% of GDP). The recent introduction of a federal corporate tax is poised to further strengthen government finances, contributing to diversification of revenue sources away from the oil sector. The UAE aims to sustain a strong economy by issuing sovereign bonds as a federal tool, thereby supporting the UAE Government's efforts to finance various projects for economic and social development. The UAE's debt sustainability is supported by relatively low debt levels, strong economic growth, diversified revenue sources, monetary frameworks, prudent fiscal policies and strategic debt management practices. The ratio of public debt to GDP was 30% in 2022, below the Middle East & North Africa average of 40.7% of GDP. The Federal Government` of the UAE has thus far issued AED 23.9 bln and USD 10 bln under the domestic and international debt program respectively. The UAE bond issuances are normally 4 to 6 times oversubscribed, underscoring the UAE's commitment to maintaining its status as one of the world's most competitive and advanced economies.

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[21] Two target levels of 40.0 and 50.0% set in the Budget Law for the public debt-to-GDP ratio.

3. BRICS ECONOMIES IN A HIGHER RATE ENVIRONMENT

In 2021–2023, central banks in major economies reverted to considerable tightening of monetary policies in order to curb excessive inflationary pressures. Pro-inflationary risks had arisen against the background of a strong recovery in demand that followed the sharpest phase of the COVID-19 pandemic and the period of lagging expansion of supply. Cumulative rate hikes by the Fed since February 2022 have exceeded 500 bps, and the policy rate reached the 5.25%–5.50% range in May 2023, and has remained there until September 2024, when it was cut by 50 bps. Other AEs' central banks followed suit tightening monetary policy in 2022–23. As it proved difficult to bring down inflation in AEs, a longer period of higher interest rates was required. Even with rates now falling in most AEs, the view of the markets and economists' consensus is that rates are unlikely to decline to the low levels the prevailed in the pre-pandemic years. Higher foreign rates ceteris paribus have negative effects on EMs due to rising external debt costs and inflationary pressures from weaker exchange rates on the back of lower foreign investment inflows or higher outflows.

However, over the current period of tight monetary policies in AEs, most of the EMEs, and some of the BRICS members in particular, have clearly demonstrated higher resilience as compared to the previous episodes. For instance, the current tightening cycle significantly differs from the taper tantrum of 2013 and the 2016–2019 rate hikes episode for the BRICS countries, both in terms of structure and impact. In 2022–2023, the magnitude of the external shock was higher than before, yet its impact was lower.

This time, for several EMEs the interest rate path was relatively less synchronised with the dynamics of interest rates in AEs. Many EM countries have adopted and/or strengthened inflation targeting frameworks in recent years. This monetary policy regime implies more active domestic interest rate management for the purpose of ensuring price stability. In those BRICS countries where inflation started to accelerate in 2021–2022, the central banks began hiking their policy rates. This happened earlier than in AEs and with greater intensity, eventually. Importantly, the latest tightening cycle in AEs was less surprising for markets compared to the taper tantrum of 2013, when market investors had to rush into unwinding trades that had been premised on a continued accommodative US stance. As a result, the spillovers for EMs are estimated to be less pronounced. While this time the BRICS economies had significantly stronger macrofundamentals, their higher immunity to the new hiking cycle in AEs is also to some extent explained by a greater preparedness of world financial markets to such monetary policy steps in AEs, as inflation re-emerged globally.

At the same time, we should not underestimate the role of stronger fundamentals of the BRICS economies in their resilience during the new hiking cycle in AEs. In many BRICS economies, the determination of monetary policy paths and decision-making processes became more transparent and independent, limiting the need to strictly synchronise with the Fed's and other major central banks' decisions on the policy rates – expected initially. More

effective macroprudential tools at hand and the development of domestic financial markets accompanied the monetary policy tightening in the BRICS members as well. That said, the BRICS members managed to avoid an accumulation of excessive internal risks and imbalances, thus limiting the potential for spillovers from global shocks.

Therefore, many of the BRICS economies became more immune to AEs' spillovers. The same applies to the benefits from prudent fiscal policies in the post-COVID period as well as the focus on suppressing debt growth. As most BRICS countries had been engaged in debt consolidation throughout a long period before 2022, the adverse effects on debt in 2023 turned out to be less pronounced than initially expected. The development of domestic financial markets also contributed substantially, providing wider choice on the domestic markets for investors and limiting capital outflows.

Monetary policy decisions of AEs can have additional spillover effects for the BRICS countries via two main channels: trade and capital flows. Many BRICS countries are net exporters. Therefore, a global slowdown in demand (which may result from efforts to bring down inflation) can have an impact on the domestic economy and inflation due to lower exports. Besides, if the trajectory of AEs' interest rates is higher than expected, this may trigger additional investment outflows. Countries with high current account deficits are more exposed to this risk.

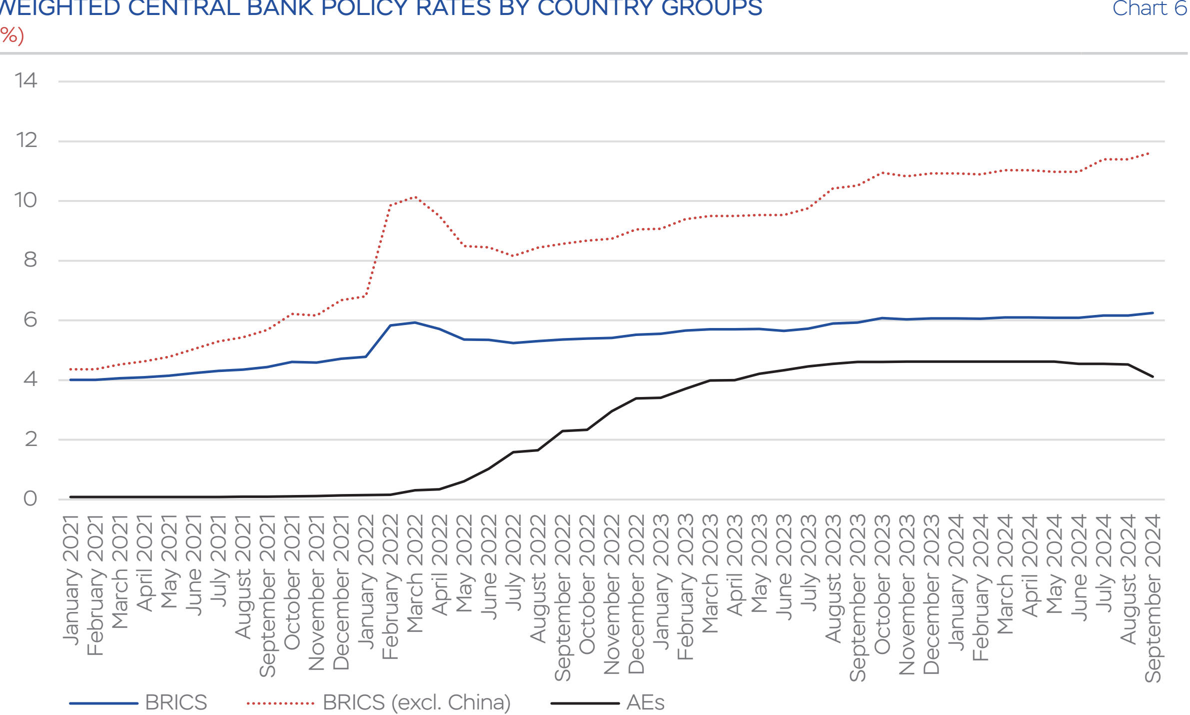
The economic size of the BRICS members has substantially increased, which raises the question of potential spillbacks from domestic economic developments to AEs. There are three channels:

1. **Import prices channel.** Although the BRICS members' intra-block trade is increasing, the volume of their trade with developed economies remains high. This means that inflation

WEIGHTED CENTRAL BANK POLICY RATES BY COUNTRY GROUPS

(%)

Chart 6

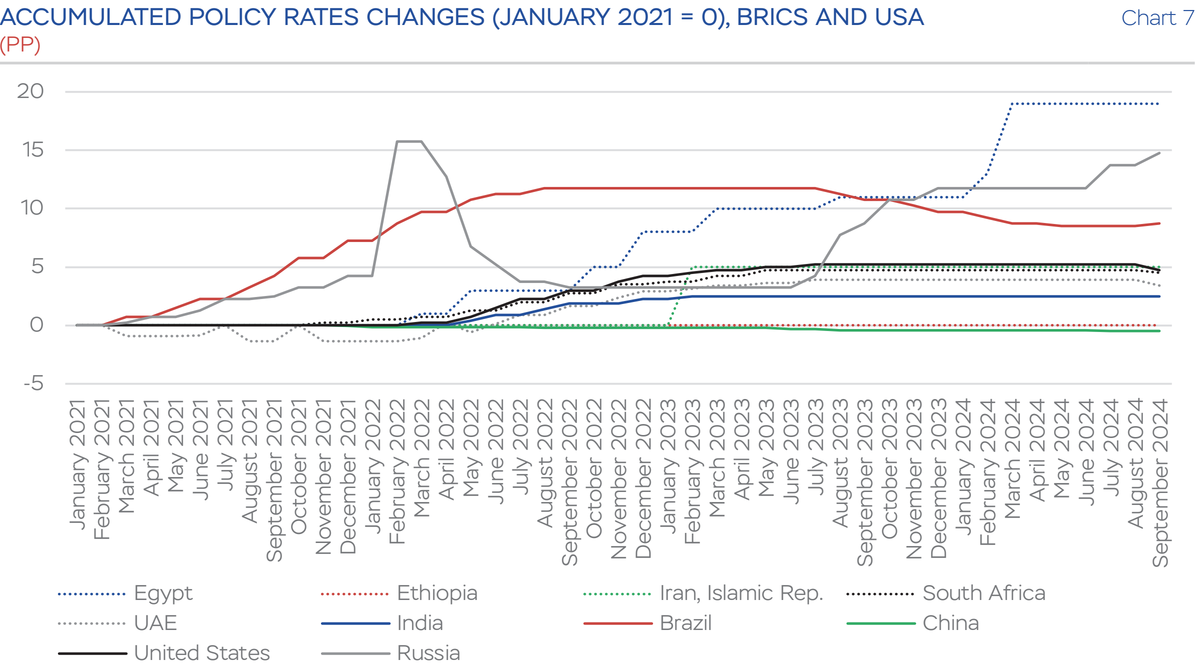


Note. BRICS: Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, UAE.
AEs: USA, euro area, Japan, UK, Canada, Norway, Sweden, Australia, New Zealand, Israel, Iceland, South Korea, Czech Republic.
Group's policy rate is weighted by the size of the country's GDP in the region (in current prices in USD for the corresponding year, 2023 weights are used for 2024).
Sources: BIS, Cbonds.

dynamics in large and net exporting economies (e.g. China) can have an impact on prices in their trading partners.

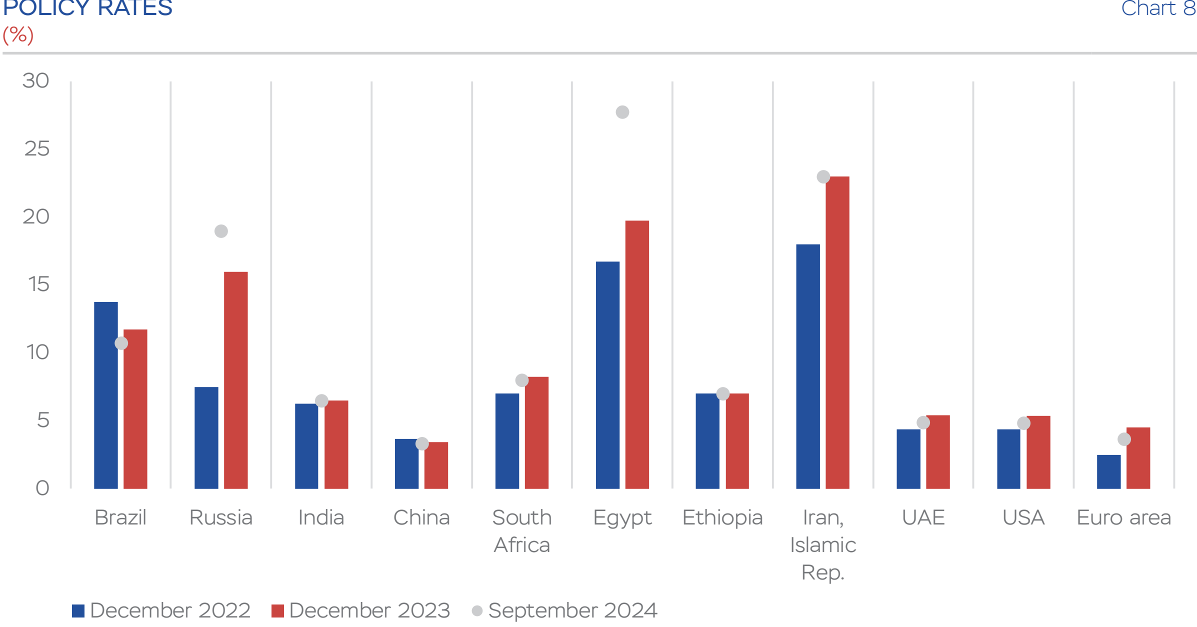
2. **Commodity price channel.** Some BRICS countries are major producers and exporters of commodities (oil, gas, agricultural products, metals and ores). Domestic supply conditions, including the effects of climatic events, have the potential to influence price dynamics in these markets worldwide.

ACCUMULATED POLICY RATES CHANGES (JANUARY 2021 = 0), BRICS AND USA Chart 7
(PP)



Note. For USA – the middle of the target range for the federal funds rate. Data as of 30 September 2024.
Sources: Cbonds, BIS, BRICS team calculations.

POLICY RATES Chart 8
(%)



Note. For USA – the middle of the target range for the federal funds rate. Data as of 30 September 2024.
Sources: Cbonds, BIS.

3. **Financial channel.** Deepening domestic capital markets, internationalization of some EM currencies and the development of a new international financial architecture are the goals which can significantly limit the spillover effects from AEs' policies and even generate possible spillbacks in the medium and long term.

BRAZIL

Globally, **Brazil** was expected to be rather sensitive to external shocks compared to other core BRICS members. However, it has actually demonstrated both its ability to adopt a more autonomous monetary policy stance and its resilience to spillovers from the recent monetary policy tightening cycle in AEs. Before the announcement of the Fed's policy tapering in 2013, Brazil had already started tightening its monetary policy and was able to turn to rate cuts earlier than other economies. In 2016–2019, the Brazilian economy was affected by risks common for EMEs as well as some country-specific risks. Having dealt successfully with all challenges by 2022, Brazil, however, experienced the aftermath of these risks, amplified by high post-COVID inflation expectations. The country launched its monetary policy response before other BRICS members (in H1 2021), managing to successfully contain demand-driven inflationary risks. That allowed Brazil to turn to a more accommodative monetary stance in August 2023.

As for the financing of the BoP, with the exception of 2013–2016 (and a short period in 2020), the FDI, as a typically more stable source of external financing, significantly outweighed the current account deficit. Additionally, Brazil has a comfortable level of international reserves, which translates into a strong balance of payments' position.

BCB recognizes the upside risks to the inflation convergence scenario, stemming from a continued persistence of global inflationary pressures and a stronger-than-expected resilience of services inflation due to a possibly tighter domestic output gap. External shocks could both distort the capital flows to Brazil and amplify idiosyncratic inflationary risks. However, recent assessments show that Brazil has become considerably less vulnerable to the monetary policy tightening in AEs, specifically in terms of effects transferred through capital flows and the financial channel. Such risks as capital flight and/or depreciation of the national exchange rate, as well as risks of a significant drop in prices of domestic financial assets, are also considered to be on a downward trajectory.

Brazil is a major global exporter of primary products (soya, iron ore and meat), and domestic supply conditions – including the effects of climatic events – can influence price dynamics in respective markets worldwide. Disruptions in Brazil's financial markets, as one of the most sophisticated among EMDEs, have the potential to spillback onto AEs. The channel transmission may be amplified when EMDEs are seen as a sole specific asset class by international investors in moments of stress, which translates into a "flight to quality" from EMDEs to AEs assets.

RUSSIA

In the case of Russia, the instant shock of the 2013 taper tantrum and the global monetary policy tightening in 2022–2023 significantly differed in both their magnitude and their ultimate impact on the economy. In 2013, Russia faced sharp but very short-lived excessive volatility of the national currency and risks of financial destabilization due to negative trends in the domestic economy, and a need for liquidity injections and high spending of international reserves. However, Russia entered 2022 with a strong GDP growth, restored consumer demand and investments, without imbalances in the BoP, with a strong liquidity surplus in the banking system and a prudent budget policy, as well as low debt. Last but not least, the Bank of Russia moved to a fully flexible exchange rate regime in late 2014, and officially introduced the inflation targeting regime in early 2015, later building up substantial credibility after the 4% inflation target for 2017 was met. Gradual monetary policy normalization after the COVID-19 easing (the key rate had been at record low of 4.25% since July 2020) began in March 2021, and by the beginning of 2022, the key rate reached 8.5%. The short-term increase in the key rate to 20% in 2022 (vs. the increase to 17% in 2014) in response to a sharp change in external conditions was sufficient to maintain the stability of the financial system. Through June 2023, the Bank of Russia had kept the key rate at 7.5% to promote the conditions for economic recovery and increased it up to 19% afterwards as inflation pressure built up starting from H2 2023 following a rapid expansion of demand.

The monetary policy tightening in AEs coincided with the introduction of financial sanctions and domestic anti-sanction restrictions on capital flows, whereas the influence of global financial conditions on the BoP and FX weakened. The floating exchange rate regime is a major prerequisite for inflation targeting, enabling the economy to efficiently adjust to changes in the external environment. There was a clear change in the pass-through effect of the key rate on major macroeconomic variables, specifically the ruble exchange rate. Before 2022, when there were no restrictions on cross-border capital flows, decisions on the key rate translated into the ruble exchange rate directly through prices for financial instruments and financial account flows. Presently, a change in the key rate works primarily through the domestic demand and, afterwards, the demand for imports and the ruble exchange rate. The influence through the capital flows channel remains in place, but is materially weaker than it was before 2022.

Further tightening of AEs' monetary policies can have a spillover effect, predominantly via the trade channel. After 2022, the response of domestic variables to external monetary policy shocks is limited to the sensitivity of Russian exports (price and volumes) to lower external demand. Previously, an external monetary policy shock could have entailed a considerable depreciation of the national currency and a subsequent pass-through of the weaker exchange rate to prices, which required responding with a key rate increase.

In 2023, the trade of Russia with fellow BRICS members reached about USD 294 bln or 41.4% of the total Russia's trade, which is 2.4 times more than in 2019–2020. In 2022–2023, there was a significant improvement in logistics and transactions among the BRICS members. Moreover, the BRICS members have recently been putting emphasis on promoting further dedollarization. The share of national currencies in the transactions of Russia with the BRICS members in the beginning of 2023 reached 85% *vis-à-vis* 26% two years ago. Deepening the BRICS countries' domestic capital markets and increasing use of national currencies in foreign trade could further limit spillovers from AEs' policies in the future not only for Russia per se, but for BRICS more generally.

INDIA

In 2022–2023, **India** was a significantly more resilient economy with strong fundamentals *vis-à-vis* the 2013 taper tantrum episode, when India was labelled as one of the "fragile five". Although in 2022–23 the RBI had to raise the policy rate cumulatively by 250 bps and turn from an accommodative policy towards 'withdrawal of accommodation', this happened in a completely different and strong macroeconomic environment. While in 2013, the CPI inflation in India was 10.1% against 1.4% in AEs, in 2022; the CPI differential of India compared to AEs was negative. Though the CA deficit widened to 4.8% of GDP in 2012–13, clearly above the sustainable level, in June 2022 it came down and remained within the sustainability threshold at 2.8% of GDP. Fundamental factors that drove the exchange rate had also shifted distinctly in favour of India since 2013. Given the increase of the reserves to total external debt ratio to 95.5% in June 2022, the debt service ratio substantially improved to 4.9% against 5.9% in 2012–13. The corporate sector balance sheets are strong; the banking system is well capitalised; credit growth is in double digits; and the growth momentum is steadily improving[1].

CPI inflation in India averaged 3.9% during the shift of the regime to flexible inflation targeting (October 2016 – March 2020). The domestic factors and circumstances primarily determine the course of the monetary policy, although the dynamics of the interest rate in the US and AEs' policy rates are observed very keenly. If we look at the situation before 2020, the RBI's policy rate followed a trend unlike those of the Fed and AE's central banks. It is the global nature of the current crisis that has put central banks across different jurisdictions in the similar and precarious situation.

India is on its path toward decreasing the current account deficit. This tendency limits the economy's vulnerability to external shocks. Compared to significant fluctuations during earlier crises, in 2023 Indian rupee seemed rather stable, with only moderate depreciation.

In India, spillovers from hawkish shifts in AEs could lead to outflows of foreign portfolio investments (FPI). This will result in an appreciation of the US dollar and increased volatility of the exchange rate.[2] The BRICS central banks are able to keep volatility in check by the means of their monetary policy frameworks, reserves management and interventions. India's domestic investment to GDP is higher[3], so the overall investments are less likely to be adversely affected by an outflow of FPIs. Strong macroeconomic fundamentals and the relative stability of financial markets will insulate India from the adverse impacts of such spillovers.

India plays an important role in the BRICS programs devoted to developing and promoting commercial, technological and financial integration, improving trade cooperation between the members of the block, and promoting digitalization and financial markets improvement.

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[1] Source: Governor's speech in November 2022.

[2] Chaudhari et al. (2023) RBI working paper series DEPR 08/23.

[3] Seth et al. (2020) RBI occasional paper vol 41-no 2- 2020.

CHINA

China continued to strengthen its role as an engine for global development with high growth rate among major economies and leading position in terms of world`s GDP share and GDP in PPP terms. With strong macrofundamentals and more integration into the global trade and financial system, the sensitivity of Chinese economy to external shocks decreased very significantly. This facilitated the decrease of interdependence between the developments in the Chinese economy *vis-à-vis* the major AEs. China has been experiencing overall positive macroeconomic trends characterized by price stability, expanding domestic demand, relatively low debt burden and high resilience of the financial sector. The latter factor allowed China to disconnect its monetary policy decisions from changes in the policy stance among major AEs, as this may largely contribute to decreasing spillovers for other BRICS economies.

China's monetary policy stance has always depended mainly on the domestic macroeconomic and price situation, showing a high degree of autonomy. When the Fed entered the interest rate cycle in 2018, the People's Bank of China (PBOC) did not follow suit, and the 7-day reverse repo rate remained unchanged after a small increase of 5 basis points at the beginning of 2018. Afterwards, the PBOC began to take counter-cyclical adjustment measures, including the lowering of the RRR, to guide money market interest rates moderately downward. These measures were forward-looking and played an important role in responding to the downward pressure on the economy. After the outbreak of COVID-19 in 2020, China's 7-day reverse repo rate was only cut by 20 basis points, compared to the Fed's sharp cut by 150 basis points. While the majority of EMs have tightened their monetary policy conditions since 2022, the PBOC cut interest rates in a timely and moderate manner to help stabilize the macro economy and support growth, with the 7-day reverse repo rate lowered by 30 basis points.

In China, the renminbi exchange rate has remained basically stable at an adaptive and equilibrium level, and the liquidity situation has also improved. First, China has implemented a managed floating exchange rate regime based on market supply and demand, with reference to a basket of currencies. This flexibility of the renminbi exchange rate has played its role as an automatic stabilizer in adjusting the macro economy and the balance of payments. Second, the FX market has been more resilient, with the renminbi accounting for about 30% of China's cross-border settlements of trade in goods, which seriously limits enterprises' need to urgently buy or hold foreign exchange. Third, there is no significant currency mismatch. Compared to the period before 2015, when domestic households and firms borrowed large amounts of foreign debt, domestic firms' cross-border assets and liabilities are more balanced this time, which prevents large capital outflows.

SOUTH AFRICA

In **South Africa**, the effect of the synchronised global tightening cycle on portfolio flows in 2022–2023 was rather unique, reflecting the impact of a deteriorated domestic investment landscape beyond what other EMs were experiencing. Other negative factors include the reduction of South Africa's credit rating to sub-investment grade, a change in the composition of the foreign investor base (South Africa fell out of Citi's WGBI[4]), the greylisting of the country by the Financial Action Task Force and a relatively large exposure of foreign investors compared

[4] World Government Bond Index now referred to as the FTSE WGBI.

to other EMs[5]. Multiple sources of inflation (supply constraints, global pressures) in 2022–2023 compared to previous episodes (2013 and 2016–2019) increased the pass-through of FX depreciation, which appeared to be more significant. As real rates in South Africa started from a significantly lower level (the real prime rate[6] in 2022–23 averaged 3.6%), the latest tightening period (November 2021 to May 2023) was much steeper (a total of 475 basis points) than the previous one (125 basis points from June 2015 to April 2016). In part because of the need to bring the policy stance back to neutral, the South African Reserve Bank (SARB) responded to rising price pressures sooner than during previous cycles. As price pressures and expectations started lowering, however, the MPC lowered the repo rate by 25 bps at their latest meeting in September 2024. Risks to inflation are currently seen as balanced.

As a country mostly running CA deficits and not receiving significant net FDI or equity portfolio inflows, South Africa is dependent on bond portfolio inflows to finance domestic investment. To contain potential capital outflows and the inflationary risk associated with the resulting currency depreciation, the SARB has raised rates and maintained a tight monetary policy stance since around May 2023. The trade balance of the BoP is sensitive to growth of demand in AEs and the impact of their monetary policies, with a lag of about 12 to 18 months. Around 41.3% of South Africa's exports are destined for AEs.[7] Moreover, domestic supply constraints and low productivity have led to a loss of the market share of South African exporters in major economies. Higher commodity prices assisted South African mining exports, as the country is one of the world's leading producers of platinum group metals and coal. During 2022–2023, the trade account remained in an average surplus of 2.4% of GDP (higher than the 2016–2019 average of 0.7%), but has generally come down from 5.9% in Q1 2022 to as low as 1.3% at the end of 2023 as commodity prices retreated.[8]

At times when the global markets scaled back their expectations for the Fed's rate cuts in 2024–25, the rand has tended to weaken. Potentially, this means that in the face of any significant upside inflation surprises and/or hawkish pivot by major central banks, South Africa could face renewed portfolio outflows and FX depreciation, even though the rand already appears undervalued on a REER basis and has recently made some gains against the USD.

EGYPT

In **Egypt,** the tightening of AEs' monetary policies along with balance of payments pressures, emanating from global supply chain disruptions and significant capital outflows following the increased geopolitical risks in 2022 exacerbated already existing domestic inflationary pressures in 2022 and 2023. The combined impact of external and domestic supply shocks elevated inflation. Moreover, the aggressive monetary policy tightening in AEs contributed towards increased capital outflows from emerging markets, including Egypt and hence, heightened exchange rate pressures. Consequently, the CBE started its tightening cycle rather early and more aggressively, compared to other BRICS members, serving as a defense tool against exchange rate fluctuations.

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[5] Approximately 40% non-resident holdings of local currency bonds at its peak.

[6] In South Africa, the prime rate (which serves as reference for the pricing of loans) has for decades been at a constant spread of 350 bp over the SARB's policy rate.

[7] Within these, 45.7% go to the European Union (EU), 18.4% to the United States (US), and 11.8% to the United Kingdom (UK).

[8] The trade surplus subsequently picked up to 2.6% of GDP in Q1 of 2024. While commodity prices have declined, they remain supportive of external trade as they are still above pre-COVID-19 levels.

In order to diminish spillovers from surprising changes in AEs' rates, in recent years Egypt adopted multipronged approach to safeguard macroeconomic stability while supporting vulnerable household. On the fiscal side, it includes reducing budget deficits, lowering the debt-to-GDP ratio on a downward path and extending the average time to maturity of debt. As for fundamentals, Egypt aims to reduce the state's footprint through the State-Ownership Policy document and asset divestment program. To address social vulnerabilities, the government has implemented a cash transfer program to the most vulnerable (expanding the Takaful and Karama program), raising minimum wages and pensions, and offering tax breaks.

However, the Egyptian economy remains susceptible to fluctuations in global inflation. As is the case for other EMs, inflation surprises and hawkish policies of AEs' central banks could lead Egypt to experience tighter financial conditions and more adverse outcomes,[9] including wider sovereign spreads, declining capital flows, decreasing equity prices, and depreciating real exchange rates.

Egypt is a small open economy with minor role in possible spillbacks to AEs. However, given the trade ties between Egypt and the US as well as the importance of the Suez Canal in trade, a disruption of trade in key commodities like oil due to geopolitical risks could contribute to higher global prices.

ETHIOPIA

In **Ethiopia**, measures taken by the national bank (NBE) to tighten the monetary policy in August 2023 were based primarily on domestic price developments and the need to reduce both the monetization of deficits and the very fast growth in lending to the private sector. Therefore, these decisions were largely driven by domestic factors and not by the monetary policy actions taken by the Fed or AEs' central banks. The NBE has been working on strengthening the resilience of the financial sector through regulatory reforms, risk management enhancements, and capacity building. This includes measures to improve supervision, governance, and the stability of financial institutions.

The linkages between AEs' monetary policies and developments in the Ethiopian economy remain limited, and the same goes for the still under-developed and relatively closed financial markets of the country. Therefore, there was not much of direct impact or difference resulting from various episodes of AEs' monetary tightening (2013, 2016–2019 and 2022–23). Ethiopia is not prone to being affected by AEs' inflation surprises, being a small economy that only has limited connections with AEs via trade and financial channels.

IRAN

In **Iran**, there are seriously limiting external sanctions imposed on the monetary system and restrictions on the banking sector, particularly with regard to correspondent banking relationships. Therefore, financial exchanges between the Iranian banks and the outside world are severely constrained. Iran has a relatively closed capital account, and its correspondent banking relationships with the outside world have been disrupted, which makes the impact of AEs' monetary policies on the capital account insignificant.

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[9] World Bank research, Global Economic Prospect, June 2023.

The Iranian economy is governed by fine-tuned monetary and financial policies. The interest rate developments in the country are not affected by the monetary policy tightening in AEs. All factors behind the interest rate are endogenous and are related to the macroeconomic situation in Iran.

UAE

For the **UAE**, the tightening cycle of 2022–2023 has been benign in terms of its effects on domestic financial markets compared to previous tightening cycles. The increasing geopolitical fragmentation and rising oil/gas prices have supported net capital inflows, while significant surplus liquidity and low inflation have preserved a strongly positive credit impulse supporting domestic consumption and investment. Domestic equities have held up reasonably well, corporate bonds have tracked rate expectations (with little movement in credit spreads). The tightening cycle also coincided with the introduction of new programs for domestic sovereign debt issuance,[10] which have been issued at relatively narrow spreads to US Treasury Bills.

In the UAE, the central bank (CBUAE) implements its mandate of monetary stability by safeguarding the exchange rate regime pegged to the US dollar. As a result, the CBUAE's monetary stance aligns to that of the US Fed, and, thus, is largely driven by the inflation dynamics in the US (rather than in the UAE). However, the CBUAE proactively manages domestic liquidity conditions through the Dirham Monetary Framework (DMF), which comprises the full range of monetary operations affecting changes in the monetary impulse – and by extension, the financing conditions (and inflation developments) via the bank lending/interest rate channel. In the UAE, the interest rate channel of transmission prevails. Large net capital inflows have allowed the UAE to manage strong growth despite a restrictive monetary stance (due to the US dollar peg); however, the sizeable (and unevenly distributed) surplus liquidity in the banking sector, which increased by more than 10% to 124.8 bln dirhams at the end of 2023, has somewhat reduced the efficacy of monetary policy transmission. While the pass-through of changes in the policy rate (Base Rate) to money market rates remains highly efficient, the gap between the overnight interbank rates and the policy rate is still material (albeit diminishing).

While interest rate movements in the United States can influence certain sectors within the UAE economy due to the dirham's peg to the dollar, the UAE's robust financial system and diversified economy are well-positioned to navigate these fluctuations. Sectors such as banking, real estate, and corporate borrowing, which have close ties to international markets, benefit from the UAE's stable currency and strong regulatory framework. Several key trade sectors in the UAE are very sensitive to interest rates (and financing conditions at large) – the banking sector, real estate, and corporate borrowing. These sectors closely track US interest rates due to the UAE's currency peg to the dollar, impacting household and corporate debt servicing capacity, credit demand, capital flows, banks' balance sheets, and the cost of servicing debt for government-related entities. Nonetheless, capital account developments have been positive so far, investment remains strong, and corporate balance sheets are resilient. The UAE economy has proven to be resilient to both tighter global monetary policy and higher global inflation over the past two years. This resilience reflects a range of reforms enacted over recent years, seeking to enhance both the fiscal position and achieve further economic diversification. While additional adverse impacts of global spillovers can never be ruled out, we expect the UAE's resilience in the face of global challenges to continue.

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[10] Including the CBUAE's Monetary Bills as well as the Federal Government's Treasury Bonds and Sukuk.

4. CONCLUSION

The external environment for the BRICS economies has changed significantly in recent years, with rising global trade fragmentation and significant geopolitical tensions. Yet the BRICS in general have made significant progress in making their economies more immune to external shocks, including the latest cycle of monetary policy tightening in AEs. The independence and credibility of domestic monetary policies have significantly increased, which has dampened, albeit not fully prevented, capital outflows.

The resilience of the BRICS economies during the latest global shock revealed the major role of macroeconomic stability. Strong monetary policy framework, lower volatility of national currencies and prudent fiscal policies maintained lower vulnerability to global shocks and to AEs' policy decisions in particular. The focus on supporting economic growth and development of local policies reduced the accumulation of excessive imbalances in the economy, which limited spillovers from external turbulences.