

The Banking Systems of BRICS Countries and their Impact on Global Economic Stability

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ABSTRACT

The intergovernmental organization BRICS is made up of the most important economic powers globally, and its main goal is to maintain economic, military, and political cooperation. The economic potential of the BRICS countries can be observed from the analysis of GDP. The constant increase in GDP demonstrates the correct and efficient implementation of financial and monetary policies. Financial crises have demonstrated that BRICS countries have discussed and planned ways to further strengthen their economic cooperation to overcome the negative effects of the crisis, thereby promoting reform in the international financial system. The national banks and the Development Bank have managed to boost their internal economy and to intensify global trade.

Keywords: Cooperation, Development Bank, Trade, BRISC, Development

JEL Code: F10, F13, F53, G20

Introduction

BRICS is the intergovernmental organization formed by five states considered the largest developing economies, which represent a major power in the global economy. Until 2010, BRIC was made up of Brazil, Russia, India, and China, which were the countries with the largest share of global GDP. After South Africa joined, they became the countries that founded the BRICS organization with the aim of promoting both economic and military cooperation and interests. An essential role in supporting economic development is held by banking systems, as they promote the maintenance of global financial stability. The national banks of these economies, through structural reforms, have developed interregional cooperation. Due to digitalization and common policies, BRISC is based on a fiscal mechanism that helps develop international investments and withstand global crises.

Methodology

In 2001, right at the beginning of the 21st century, Jim O'Neill, a British economist, discussed in a report at Goldman Sachs, based on analyses, a group of four rapidly developing powers

compared to the G7. Following this report, it is argued that Brazil, Russia, India, and China are emerging countries with a very high potential for long-term economic growth, being convinced that by 2050 they will surpass the global economy. China at that time recorded the highest annual growth, approximately 10%, followed by India with 8%, Russia with approximately 5%, and Brazil with 1.3%, together having an average of 5.4%, while the G7, considered the most developed economies in the world, had an average of 1.4%.

O'Neill analyzed the probability of economic growth in four scenarios for the countries that are part of both BRIC and G7 over a decade. Following the analysis, O'Neill stated that the four scenarios "result in a relative position of China in the global GDP ranking much stronger than at present". The analyzed scenarios fully support O'Neill's hypothesis that China could very quickly become an economic superpower, reaching a share of 16.1% of the world's GDP, which signifies an enormous increase from the current 2001 GDP of 3.6%. In 2003, Roopa Purushotham and Dominic Wilson, two of O'Neill's colleagues, continued the analysis of the BRIC countries. The second report, although not authored by O'Neill, represented a more detailed analysis of one of his assertions, namely the belief that these countries would conquer the world by 2050. The report titled "Dreaming With BRICs: The Path to 2050" analyses the economic future of these countries, projecting various statistics

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on their development up to 2050. The authors stated that “in the next 50 years, Brazil, Russia, India, and China – the BRIC economies, could become a much greater force in the global economy” (Wilson and Purushotman, 2011: pg.2). At the same time, it is also stated that by 2025 “they could represent over half the size of the G6.” (Wilson and Purushotman, 2011: pg.2).

Results

The period we are currently in is characterized by a world where technology and globalization, monetary and financial policies hold significant importance. The global economy, being in a constant state of change, allows us to evolve more and more. The BRICS group was created to counterbalance the influence of other economies such as the G7 or G20 and to promote a new economic order based on balance. BRICS supports economic development and collaboration among partner countries in various fields such as trade, industry, and cultural exchange. An important factor that reflects the economic power of the BRICS countries is GDP. Considering that over the years the evolution and impact of the BRICS countries have been analyzed and demonstrated in comparison with the G7 countries, this comparison highlights the influence of these states on global economic changes. At the beginning, the G7 countries had a very beautiful and productive economic trajectory, as the USA, the United Kingdom, Canada, Germany, France, Japan, and Italy were one step ahead of other countries with a significant advantage. The reason these states were a step ahead in infrastructure, trade, and production is since they were some of the first countries to successfully go through the industrial revolution.

Over time and with the advancement of globalization, India and China have grown economically at a rapid pace due to the following factors:

- Economic modernization
- Accelerated industrial development
- The expansion of the production and technology sector

The BRICS countries have managed to shift global production from developed countries to developing countries by attracting investments. The main advantage being the large workforce and low production costs. The BRICS countries have invested in various fields, not limiting themselves to exports, thus they have diversified their economies by strategically investing in industries. China has focused on technology, India on IT services, and Russia and Brazil on the manufacturing sector. Regarding education and infrastructure, China and India have invested heavily, managing to reduce the imbalance between emerging and developed countries by forming their own sectors. These changes in the BRICS countries were also reflected in the share of global GDP adjusted for PPP, which saw a significant increase, at one point surpassing the G7, making it the group that dominated the global economy.

Figure 1 expresses the contribution of BRICS countries from 2000 to 2024 to the global GDP adjusted for PPP and their constant development, as well as the decline in the economic influence of G7 countries.

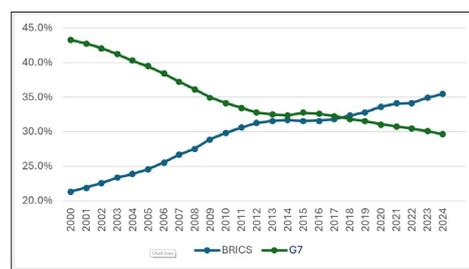


Figure 1: The share of BRICS and G7 in the world's total GDP in PPP from 2000 to 2024

Source: Compiled by the author based on the source <https://www.statista.com/statistics/1412425/gdp-ppp-share-world-gdp-g7-brics/>, accessed on April 10, 2025.

In the year 2000, the G7 globally had a share of 43.28%, while BRICS had 21.37%. From this, the G7 included states that dominated the economy, being 21.91 percentage points ahead of BRICS. This difference between the two groups was maintained, but over the years it became increasingly smaller. In 2014, the BRICS share of 31.68% came very close to that of the G7 countries at 32.4%, because emerging economies had grown considerably. China and India have contributed to this convergence due to economic changes and industrial development. The closest rapprochement between BRICS and G7 occurred in 2017, with a difference of only 0.53 percentage points between them. Since the value between the two weights was quite small, BRICS began to signify an important part in the economy and a strong competitor for the G7. The year 2018 highlighted the beginning of BRICS's economic progress; it marked the moment when developing economies managed to grow so much that they became a greater influence than the G7. In 2024, BRICS has "a total of 35% of the world's GDP, compared to the 30% held by G7 countries" (Statista Research Department).

Trade between BRICS and G7 signifies a great advantage for the global economy. Trade between the two powers positively influences capital flows as well as the world's trade balance. Recently, BRICS has gained increasing importance, and during this time, its trade relationship with G7 has continued to intensify. The economic dynamic that has emerged is primarily due to the way these two groups complement each other. BRICS is well-known for its natural resources, its industrial and technological capacity, especially from China and India. On the other hand, the G7 holds power over these economic sectors. BRICS has managed to stand out in a significant way in global trade. China and India through their very rapid economic growth, Russia by being the largest energy supplier, and Brazil from an agricultural perspective. They have managed to change international trade relations. For example, between China and Brazil, there is a progressively growing trade relationship, as "trade between Brazil and China has broken records every year and reached 150 billion dollars in 2022; between Brazil and India, there was a 63% increase from 2020 to 2021, reaching over 11 billion dollars" (A new global force wants to become a world leader: It has surpassed the power of the G7 Group). At the same time, we also see such progress in the trade relations between BRICS and G7, where BRICS economies are the main countries supplying manufactured goods and raw materials.

The trade exchange between these two major blocs is marked by the industries in which each country specializes. Table 1 highlights the specialization industries of each BRICS state as well as the GDP of the states for the year 2024.

Table 1: Growth Trends and Estimated GDP of BRICS Countries in 2024

| Country | GDP (estimated for 2024 trillion USD) | Tendencies of growth |
|--------------|---------------------------------------|---------------------------|
| China | 18,8 | Technology, production |
| India | 4,2 | Services, digital economy |
| Russia | 2,1 | Energy, agriculture |
| Brasilia | 2,0 | Agriculture, mining |
| South Africa | 0,4 | Mining, tourism |

Source: Created by the author based on the source <https://golden-mart.com/en/comparative-analysis-of-g7-vs-brics/>, accessed on 04/10/2025

Table 1 highlights the main sectors defining the trade growth of BRICS countries, estimating the GDP for each country in trillions of USD for 2024. For example, China has the highest GDP growth at 18.8 trillion USD, due to the technological and manufacturing sector. Followed by India, which is the most developed country in the IT sector, thanks to its very good digital services, recording a GDP value of 4.2 trillion USD for the year 2024. "India's electronics production has doubled in the past six years, reaching 115 billion dollars in 2024, making the country now the second-largest mobile phone producer in the world." (India axes import tax on some smartphone parts in boost to Apple, Xiaomi | Reuters). South Africa is the smallest BRICS country in terms of development, with a value of 0.4 trillion USD by the end of 2024. In 2024, BRICS had high trade compared to other states, but this progress has been visible since the period of 2013-2023. In these ten years, merchandise imports and goods exports have recorded a steady increase with minor deviations due to major crises.

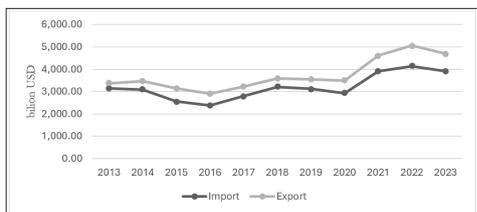


Figure 2: Imports of goods and exports of goods of BRICS countries from 2013 to 2023

Source: Created by the author based on the sources <https://de.statista.com/statistik/daten/studie/248755/umfrage/export-von-guetern-aus-den-bric-staaten/>, <https://de.statista.com/statistik/daten/studie/248762/umfrage/import-von-guetern-in-die-bric-staaten/> accessed on: 10.04.2025

The given chart reflects some more pronounced declines in the imports and exports of BRICS countries in 2016 and 2020 due to the decrease in global demand and the slowdown of domestic economies. These problems started due to external

crises, specifically the significant drop in raw material prices, Russia facing sanctions, and the COVID pandemic slowing down global trade. Internal crises such as political issues have largely affected imports. However, a moderate increase in both indicators is observed, which means that BRICS countries have managed to diversify their internal economy and to provide an increase in mutual economic ties globally.

International Financial Infrastructure

Trade within the BRICS economies has a significant power of influence on economic globalization. For the group to continue to expand and evolve increasingly, the partner countries have established several strategic projects that allow them to further enhance their influence on the world. In 2015, during the 7th BRICS Summit held in Ufa, Russia, the leaders of the BRICS countries announced the establishment of two important financial institutions. The New Development Bank (NDB) and the second being the Contingent Reserve Arrangement (CRA). NDB is a bank created for developing countries, primarily with the aim of supporting and financing various infrastructure projects, promoting sustainable economic development, and reducing dependence on institutions dominated by Western countries, such as the IMF and the World Bank. NDB emphasizes project financing (Areas of Interest - New Development Bank) in certain important fields that offer long-term development, such as:

- Clean energy and energy efficiency
- Transport infrastructure
- Water and sewage
- Digital infrastructure
- Environmental protection
- Social infrastructure

One of the projects supported by BRICS within the framework of the New Development Bank (NDB) is the DBSA Sustainable Infrastructure Project. DBSA is the acronym for the Development Bank of South Africa, which is a separate institution from the NDB aimed at supporting infrastructure development in Africa, but it also supports the objectives of the BRICS countries by participating in the development of emerging economies. South Africa is a country with good infrastructure, but it needs to modernize and expand it to be able to contribute to and support both economic and social development. In this case, the DBSA sustainable infrastructure project aims to attract as many investments as possible to modernize the important infrastructure sector in South Africa. The biggest changes that the project aims to achieve are:

- Increasing energy sources such as solar or wind to further reduce climate change
- To modernize hospitals and create easier access to medical points
- More decent and affordable living spaces as well as more job opportunities
- To improve technological sources for simpler communication

All these objectives contribute to a more advanced economic growth for South Africa, which will provide it with more developed trade and more foreign investments. By diversifying solar and wind energy, there would no longer be a need to depend on fossil fuels. Regarding health-related changes, the country would have a much stronger workforce, and the modernization of technology would lead to better international collaboration.

Considering that South Africa is the least developed BRICS member country, this project not only modernizes the state itself but also contributes to the development of better trade relations and investments among BRICS countries, which adds to the overall economic growth of the entire group. NDB, in addition to this infrastructure project, also supports other projects, such as energy expansion in India and other countries, and transportation modernization. Through these projects, BRICS gains significant influence and grows substantially in the global economy.

But despite all this, BRICS does not rely solely on infrastructure projects. This group has created an agreement regarding contingent reserve arrangements (CRA), which aims to stabilize the economy in the face of emerging crises, strengthening cooperation among BRICS countries and reducing dependence on the International Monetary Fund. The agreement functions by providing support to the BRICS group in times of economic crises. The BRICS countries have established a common fund, to which each contributes individually, and in case of need, these countries can withdraw a certain amount of money based on their contribution to the common fund. For example, BRICS contributes to this agreement with the sum of 100 billion dollars, specifically "China with 41 billion dollars, Russia, Brazil, and India each with 18 billion dollars, and South Africa with 5 billion dollars (BRICS Contingent Reserve Arrangement Agreement begins operations), and at some point, they can request loans from this fund for various issues that arise due to economic or financial crises. Additionally, if there are significant changes in the value of a country's currency, the CRA provides certain resources through which the respective country can stabilize its internal economy without needing external financial assistance.

So far, no state has used the common funds, even though in 2020 the crisis caused by COVID-19 was a significant global issue; however, the BRICS states were not affected enough to request help from the CRA.

Conclusions

The significant evolution of the BRICS international organization has been very visible and rapid. Economic growth and the development of global geopolitical relations are the main goals of the founding states (Brazil, Russia, India, and China). For a rebalancing of global economic power, South

Africa was invited to join the organization, developing a balanced strategic partnership. Goldman Sachs reports, through the economic analyses conducted, correctly predicted the increase in the economic power of the member countries. This trend was confirmed as GDP values were in continuous ascent. The global GDP and the increasing contributions have led to the strengthening of trade relations between BRICS member countries and the rest of the world. The year 2008 was the moment of test, as the financial crisis was present globally. The stability and resilience of economies to major shocks were tested, but BRICS members demonstrated that the growth trend can be maintained through cooperation and support. The integration of South Africa has completed the global character of the group. In this way, it has stabilized international cooperation, providing access to a larger market [1-5].

Currently, BRICS is a symbol where emerging economies are increasingly present in the composition of the global economy, cooperation, development, and defence.

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