BRICS Passes G7 in Economic Power While Debt Plagues U.S. Economy

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This week, media company Bloomberg reported that the quick ascendency of the BRICS group of countries is transforming the global economy, with the group's share of world GDP in terms of purchasing power parity (PPP) poised to increase beyond of that of the Group of Seven (G7) major advanced economies.

BRICS presently consists of Brazil, Russia, India, China, and South Africa, but the bloc will welcome new members Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE in January.

The G7 club of industrialized and developed countries comprises the United States, Canada, the U.K., France, Italy, Germany, and Japan.

Notably, the Bloomberg report pointed out that the expanded BRICS alliance has surpassed the G7 in terms of size. In 2022, the BRICS bloc accounted for 36 percent of the global economy, as compared to 30 percent for the G7.

"Our forecasts suggest an expanding workforce and ample room for technological catch-up will boost the BRICS+ share to 45% by 2040, compared with 21% for G7 economies. In effect, BRICS+ and the G7 will have swapped places in relative size between 2001 and 2040," Bloomberg indicated.

The outlet also highlighted that the expanded BRICS economic group will include some of the world's largest oil exporters, namely Saudi Arabia, Russia, UAE, and Iran, as well as some of its largest importers — China and India.

"If it [BRICS] succeeds in shifting some settlement of oil transactions toward other currencies, that could have a knock-on effect on the share of the dollar in international trade and global foreign exchange reserves," the report elaborated, emphasizing that BRICS members have been working actively to ditch the U.S. dollar in their trade.

Although the report extolled the advantages of BRICS, such as its size, diversity, and ambition, the report also indicated some of the difficulties beleaguering the group, including China's economic slowdown, the group's inability to pivot away from the petrodollar in the near future, as well as a "reluctance" to advocate for a single alternative to the American dollar.

"The BRICS will change the world, but perhaps more because of their rising share of GDP and divergent political and economic systems than through the realization of policymakers' grand plans," Bloomberg concluded.

While BRICS nations might be slow to replace the U.S. dollar, the currency is facing its own problems at home. Bloomberg mentioned that U.S. interest payments on its national debt were estimated to have risen above $1 trillion on an annualized basis as of the end of October.

These figures were according to U.S. Treasury data, which reveals the government's monthly outstanding debt balances and the average sum of interest it pays.

The past 19 months have shown that the annualized cost of debt has doubled, amid soaring interest rates that have made borrowing more costly, the outlet said, stating that the annualized cost of debt amounted to 15.9 percent of the entire federal budget for fiscal year 2022 as of last month.

"This high proportion of interest payments as a share of federal spending has precedent, as the portion before 2000 was over 14% in most years," Bloomberg analysts penned.

"The challenge for the government is tempering mandatory spending and trying to reduce the need to issue more debt. That's the reason we see interest payments climbing even though we forecast lower Treasury yields."

Fears are mounting over U.S. fiscal policy amid widespread government borrowing and escalating interest payments on the debt pile, Bloomberg added. In August, such worsening dynamics already prompted Fitch Ratings agency to downgrade U.S. government debt. Fitch highlighted concerns over the state of U.S. finances and the national debt burden when lowering its rating for the country.

Likewise, on November 10, international credit rating agency Moody's amended its outlook on the United States from "stable" to "negative," quoting huge fiscal deficits and a considerable decrease in debt affordability as major reasons for its change.

Nonetheless, Moody's did affirm the long-term issuer and senior unsecured ratings of the United States at AAA.

"Continued political polarization within the US Congress raises the risk that successive governments will not be able to reach consensus on a fiscal plan to slow the decline in debt affordability," the agency declared in a statement seen by Reuters.

Moody's analysts have predicted that given higher interest rates, and without effective fiscal policy measures to decrease government spending or raise revenues, U.S. fiscal deficits will remain large, significantly undermining debt affordability.

Fitch had maintained the highest U.S. credit rating since 1994, while S&P, another credit rating major, downgraded the United States from AAA to AA+ back in 2011 in wake of a debt-limit crisis. Of the three main credit companies, Moody's remains the sole firm with a top rating for the United States.

In September, the U.S. national debt hit an all-time high of $33 trillion. The previous record of $32 trillion had been set in June, when Washington forestalled a technical default by passing a law that temporarily abolished the national debt ceiling until 2025.

"Interest rates have shifted materially and structurally higher," William Foster, a senior credit officer at Moody's, revealed in an interview with Bloomberg.

"This is the new environment for rates. Our expectation is that these higher rates and deficits around 6% of GDP for the next several years, and possibly higher, means that debt affordability will continue to pressure the US."

On September 18, the U.S. Treasury reported that the amount of money borrowed by the federal government to address operating expenses was $33.04 trillion.

The debt ceiling, which was legally set at $31.4 trillion, was exceeded in January 2023.

The total output of the U.S. economy was only $25.46 trillion, meaning that the U.S. economy would have to grow by 33.5 percent to cover the national debt.

The White House has been putting pressure on Congress to lift the limit. On June 3, U.S. President Joe Biden signed a bipartisan debt bill that permitted the limit to be lifted until January 2025, thus avoiding an economically catastrophic default.

For weeks, Republicans and Democrats vehemently disputed the deal on raising the debt limit. The prolonged disagreements over spending priorities put the measure’s approval at risk amid concerns that the Republicans, who hold a majority in the House, would refuse to back the Fiscal Responsibility Act.

A default would have restricted the U.S. government’s ability to borrow or pay its bills, possibly sparking financial chaos abroad, with a huge fallout on prices and mortgage rates in other countries.