Economics Briefs

Russia and India Show Credit Is Key to Trade in National Currencies

Because it is massive, and involves two founding national powers of the BRICS group of nations, Russia-India trade with national currencies since 2022 has provided a very valuable lesson. The two nations have discovered and proven that new productive credit and investment is the way—more or less the only way—that trade in national, non-reserve currencies can be successfully sustained. This points to the principles of productivity and progress of Lyndon LaRouche's inimitable 2000 work published in *EIR*, "Trade without Currency." A Feb. 29 editorial column in the "Business Line" section of *The Hindu* makes this clear.

The editorial states a useful truth: "The major impediment to settling India's global trade in rupees is the trade deficits it runs with most countries." As India's oil imports from Russia grew from nothing to 2 million bpd during 2022–23, Russian exporters piled up large reserves of rupees that Russia thought it could not use, at one point reaching over $40 billion equivalent. Russian Foreign Minister Sergey Lavrov himself proclaimed at the G20 meeting in Delhi in early September 2023, that these rupee reserves were a serious problem and that Russia wanted payment in another currency, preferably China's RMB. India rejected that, and letting India pay in the United Arab Emirates' dirham was introduced, but did not help much. India and Russia famously had opened *vostro* accounts in Indian banks for the Russian exporters to place their rupee surpluses, and India had created a new settlement platform. But then, what?

India proposed that Russia's (export companies') rupee reserves be invested in Indian government bonds and the securities of major Indian construction/engineering companies.

The Hindu editorial described how: "Russia has reportedly used the rupees held by it to pay for imports from India; [to] invest in infrastructure projects; in equity markets and for purchase of government securities. Both governments seem to have worked together to identify projects, such as the joint venture to make and maintain 120 trains for Indian Railways, or the prospective deal to build 24 cargo ships in Goa shipyard for operating in the Caspian Sea." What are these, but elements of building the International North-South Transportation Corridor? The *Hindu* could have continued naming recent projects by Indian infrastructure engineering companies in the Eastern Maritime Corridor, and in Russia's Northern Sea Route infrastructure developments.

Now, the rupee surpluses reportedly are down to $8 billion—although Russian exports to India are still 1.6 mbd and the price of Russian oil, once $25–30 below "market," is now discounted by just $2–4/barrel.

The editorial added that with these investments—productive credit—India's engineering exports to Russia more than doubled in the nine months to December 2023. This is trade in LaRouche's currency: Productivity.

Commercial Real Estate Delinquencies Promise More Bank Failures

The news Feb. 29, that an office building on Park Avenue in New York City had sold for $1 (plus its debts, of course), accentuated the commercial real estate (CRE) bubble threat to both U.S. and European funds and banks. The CRE loan delinquency rate, which rose throughout 2023, jumped more sharply in the fourth quarter of the year; according to the *Financial Times* Feb. 20, CRE loan losses began to exceed loan loss reserves even at the biggest U.S.-based banks. The "regional" and mid-sized U.S. banks have a larger share of CRE loans in their total assets, however, and that is where bank failures are likely to result.

At the end of the third quarter 2023, office building loans delinquent more than 30 days were 5.1% of all such loans; by the end of the fourth quarter they were 6.5%. And some office building loans have blown out spectacularly, with the buildings in downtowns such as San Francisco, Baltimore, and Philadelphia being sold in foreclosure for 25% or less of their previous sale price. Therefore, the loan losses are greater than the rising delinquency share would indicate, and the "Big Six" Wall Street banks' loan-loss reserves, which at the start of 2023 were $1.60 per dollar of loans delinquent over 30 days, are now just 90 cents, according to the FDIC. Those delinquent and distressed CRE loans went from $11.2 billion to $24.3 billion during 2023.

An analyst is quoted by the *Financial Times*, "There are banks that may have looked fine six months ago, that are going to look not so good next quarter," meaning at the end of March 2024.

Real estate assets were 48% of all assets in the U.S. banking system on the verge of the global financial crash, as detailed in a March 17, 2007 *EIR* cover story which precisely forecast the coming crash. Now the ratio is 25%. The CRE debt bubble is not comparably large to the one which imploded over 2007–08, but it compounds the "unrealized capital losses" the U.S. banks already have, and will generate bank failures.

Israel's Economy Contracted by 20% As It Attacked Its Own Workforce

CNBC reported on Israel's release of economic data for the first quarter on Feb. 20. It quotes a City of London analyst saying that the contraction of Israel's GDP "was much worse than had been expected and highlights the extent of the hit from the … war in Gaza." GDP fell by 20%, in spite of the obvious big increase in "public consumption" (of weapon systems and ammunition, etc.), from the previous quarter; private consumption dropped by 26.9%; fixed investment disappeared, down 68%—no construction without 150,000 Palestinian workers from the West Bank, who are now barred from Israel.

Global Debt Grew $15 Trillion in 2023, U.S. Federal Debt Exploded

Data released on Feb. 28 by the megabanks' international lobby, the Institute of International Finance, showed that total global debt had grown during 2023 by $15 trillion, reaching a total of $313 trillion; and that total world debt had exploded by 50% in the decade to 2023, from $210 trillion in 2013. The increase in the year 2023, by 5%, was an acceleration of the 10-year trend despite sharply higher interest rates set by the Federal Reserve and European central banks.

The United States economy provided a glaring example of the dependence of major trans-Atlantic economies on this immense debt bubble. In the fourth quarter of 2023, U.S. Federal government debt alone—not total debt in the economy, just U.S. Treasury debt—shot up by $834 billion, according to the Treasury, *two and one-half times* the growth in the U.S. gross domestic product in that quarter, which was equal to $334 billion.

Glazyev Names Pathway—and Obstacles—to BRICS Financial Architecture

Leading Russian economist Sergey Glazyev has called for the BRICS New Development Bank (NDB) to play the leading role in the establishment of a new reserve currency system to replace that of the dollar. Glazyev, the Minister for Integration of the Eurasian Economic Commission (EEC), was interviewed by journalist Pepe Escobar, who published the exchange on ZeroHedge.com March 1.

Glazyev stated that, although the process of de-dollarization and the shift to trade in national currencies has advanced substantially over the last two to three years, the central challenge remains: How to construct a new financial architecture, including a new currency, which can function for trade, settlement of accounts, and most importantly, for productive investment on a global scale? For the currency, Glazyev proposes a "two basket" model—linking stable pricing for major commodities based on long-term state-to-state contracts, with a basket of participating currencies such as those of the BRICS nations.

"You need someone who's responsible," he elaborated. "In BRICS there is such an organization—the NDB. If the heads of state decide to appoint the NDB as an institution which will elaborate the new model, the new currency, organize an international conference with the draft of an international treaty, this can work…. They have to reorganize this institution in order to make it workable. Now, it works like an ordinary international development bank under the American framework."

Glazyev noted that the central banks of the BRICS nations are a major obstacle to the new architecture, insisting that any arrangement has to maintain the central role of the dollar. For that reason, the discussions of his and similar proposals remain at the "technical" level; they have not yet been approved at the "political" level of heads of state and their finance ministers. He gave examples:

"We presented [the proposal] to Chinese experts, our partners at Renmin University. We had good feedback—but I did not have the opportunity to present it on a political level. Here in Russia, we promote the discussion via papers, conferences, seminars, but there's still no political decision on introducing this mechanism even on the BRICS agenda…. The President [Putin] understands. I personally promoted this idea to him. But the chairman of the Central Bank, and ministers are still thinking in the old IMF paradigm.

"I discussed this issue with Mrs. [Dilma] Rousseff [the former Brazilian President, currently president of the NDB] at the St. Petersburg Forum. I gave her a paper about it…. Dilma should find time to organize these discussions at a high level. A political decision is needed."