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# China: Central Bank Swaps to Argentina, 2014<sup>1</sup>

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Yale Program on Financial Stability Case Study  
July 21, 2023

## Abstract

In 2014, Argentina's economy faced multiple crises: recession, currency devaluation, default, and inflation. In July 2014, the People's Bank of China (PBOC) and the Central Bank of Argentina (BCRA) entered into a bilateral currency swap agreement with a three-year term for 70 billion renminbi (RMB; USD 11 billion). The swap line was meant to promote trade and development, facilitate investment in the renminbi, and boost Argentina's foreign reserves. In December 2014, Argentina's central bank drew on the line for a total of USD 1.5 billion worth of renminbi. In 2015, the central bank made three draws for a total of USD 7.2 billion worth of renminbi. On December 16, 2015, the PBOC and BCRA signed a supplementary agreement that allowed the BCRA to convert up to RMB 20 billion in proceeds from draws under the swap arrangement through the PBOC into dollars to boost its US dollar reserves to help it manage its exchange rate. The two central banks renewed their swap arrangement in 2017, expanded it by RMB 60 billion in 2018, and renewed it for an additional three years in 2020. Media reports said in November 2022 that the parties agreed to expand the swap arrangement to 135 billion renminbi, but no press releases have been issued at the date of writing.

**Keywords:** Argentina, central bank swap line, China, renminbi, secondary swap, yuan

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<sup>1</sup> This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering central bank swap line programs. Cases are available from the *Journal of Financial Crises* at <https://elischolar.library.yale.edu/journal-of-financial-crises/>.

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## Overview

In 2014, Argentina's economy faced multiple crises: recession, currency devaluation, default, and inflation. At the time, China had already become one of the largest markets for Argentina's agricultural exports (Lifschitz 2014). In January, the Argentine peso (ARS) fell 14% in three days after the Central Bank of Argentina (BCRA) stopped trying to prop up the currency. On July 30, Argentina defaulted on a bond coupon payment to US investors after a US Supreme Court ruling mandated payment (Economist 2014). After the default, the Argentine government began restricting imports and concluded a deal with grain exporters to supply trade-generated foreign reserves. By the end of October, the BCRA's foreign reserves had fallen USD 2.3 billion in the span of 80 days (La Nación 2014; Russo 2014). Figure 1 shows the value of the Argentine peso in dollars from 2014 through 2021.

In July 2014, the People's Bank of China (PBOC) and BCRA entered into a new bilateral currency swap agreement. Like an earlier swap between the parties from 2009–2012,<sup>3</sup> the 2014 swap agreement had a three-year term and a limit of 70 billion renminbi (RMB), also known as yuan (USD 11 billion) The 2014 agreement also had a repayment period of 12 months. The swap line was meant to promote trade and development, facilitate investment in the renminbi, and boost Argentina's foreign

## Key Terms

Purpose:	The swap line was meant to promote trade and development, facilitate investment in the renminbi, promote financial stability, and boost Argentina's foreign reserves
Participating Parties	PBOC, BCRA
Type of Swap	Bilateral unidirectional
Currencies Involved	RMB, ARS, USD
Launch Date	July 2014
End date	Still in place
Date of First Usage	October 30, 2014
Interest Rate and Fees	Interest rate: 600-700 bps for ARS/RMB; SHIBOR plus 400 bps for RMB/USD; no information on fees
Peak Usage Amount and Date	Unavailable
Downstream Use/Application of Swap Funds	The swap proceeds were used to cushion foreign reserves and free US dollars to defend the peso
Outcomes	The facility has been amended, extended, and augmented by supplementary agreements
Notable Features	In 2015, the PBOC and BCRA signed a supplementary agreement allowing renminbi to be swapped for dollars. The BCRA used the swap in 2015 and converted some renminbi into dollars

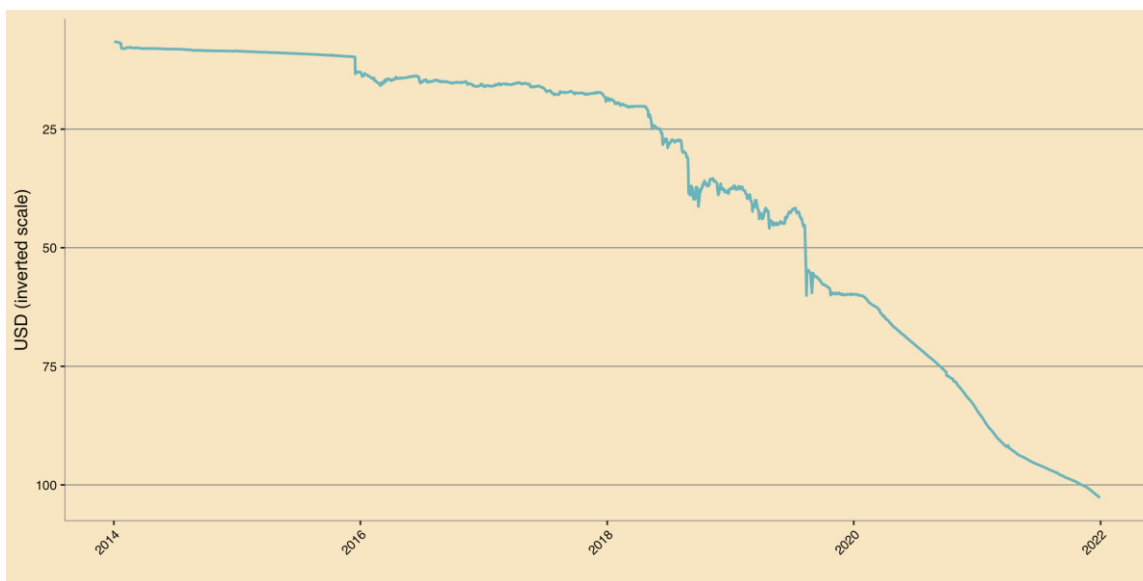
<sup>3</sup> In 2009, the PBOC extended a swap line to the BCRA for up to 70 billion Chinese renminbi (RMB) to allow Argentinean companies to receive renminbi rather than US dollars for their exports (BCRA 2009; BCRA 2013; Webber 2009). This swap agreement expired at the end of 2012. However, in its 2020 financial statements, the BCRA said that the 2014 agreement was an amended iteration of its 2009 PBOC swap agreement, indicating that the parties recognized some similarity between the terminated agreement and the 2014 agreement.

reserves (BCRA 2014a; BCRA 2014b; Lifschitz 2014; Nozahie and Ibrahim 2017).<sup>4, 5</sup>

On December 16, 2015, the PBOC and BCRA signed a supplementary agreement that allowed the BCRA to convert up to RMB 20 billion in renminbi proceeds through the PBOC from the peso-renminbi swap to dollars (BCRA 2016). That same day, the BCRA said that the BCRA and PBOC had agreed to a “partial conversion” of renminbi under their swap agreement. Under this partial conversion, the BCRA would receive USD 3.1 billion to boost its reserves for exchange rate management (BCRA 2015a; Heath and Bronstein 2015). Scholars have said that a likely explanation for the 2015 supplemental agreement was “extensive Chinese bank exposure and large debt repayments coming due,” citing debt from 2012- and 2014-vintage Chinese infrastructure development loans (Horn et al. 2023, 36). The PBOC held the renminbi in an account for the benefit of the BCRA (see Key Design Decision No. 9, Process of Drawing Under Swap). The BCRA has not, since 2015, again used the 2015 supplementary agreement to swap renminbi for dollars (Infobae 2022).

In 2017, the BCRA and PBOC renewed their 2014 primary swap agreement for up to RMB 70 billion for another three years (BCRA 2017a; State Council 2017).

**Figure 1: Argentine Peso Spot Price in US Dollars, 2014–2021**



Source: Bloomberg.

In 2018, the two central banks signed a second supplementary swap agreement for up to RMB 60 billion, which brought the combined limit under their two swap agreements to RMB 130 billion (BCRA 2018a; BCRA 2019). The 2018 supplementary agreement was related to,

<sup>4</sup> The Chinese currency is the renminbi (RMB) and the onshore unit of account is the Chinese Yuan (CNY); both terms are found in the sources we consulted. For ease of understanding, except in very limited circumstances, this case study utilizes renminbi, which seemed to be the dominant term used.

<sup>5</sup> According to FRED, as of July 1, 2014, 1 RMB = 0.16 USD.

but distinct from, the 2017 renewed agreement—it could be terminated independently from, and prior to the expiry of, the 2017 agreement. Unlike the 2017 agreement, the 2018 supplementary agreement could not be renewed, although later it was in fact renewed—see Key Design Decision No. 6C, Communication (Ministry of Foreign Affairs 2018a). Of the RMB 130 billion authorized under the 2017 and 2018 agreements, up to RMB 20 billion drawn by the BRAC could be converted to dollars pursuant to the December 2015 supplementary agreement (BCRA 2016). Under the 2018 supplementary agreement, swap line draws—renminbi to dollars—were contingent upon the implementation of the Stand-by Arrangement with Argentina from the International Monetary Fund (IMF). This later requirement was eliminated in the subsequent 2020 renewal (Meanos 2020; Ministry of Foreign Affairs 2018a).

In 2020, the BCRA and the PBOC renewed the 2017 agreement for a term of three years, expiring on July 17, 2023, and their 2018 supplementary agreement for three years, expiring on September 17, 2023<sup>6</sup> (BCRA 2020a; BCRA 2021). (See also Key Design Decision No. 6C, Communication.)

In January 2022, the BCRA asked the PBOC to expand the swap line by RMB 20 billion, at which time the swap line represented more than half of the BCRA's foreign reserves (Olivera Doll 2022). In November 2022, Argentine president Alberto Fernández said that Chinese president Xi Jinping had approved an RMB 35 billion expansion to the swap facility, which the Argentinean economy minister said would provide more foreign currency for intervention in foreign exchange markets in defense of the peso (Raszewski and Heath 2022).

Figure 2 summarizes the BCRA-PBOC swap line history from 2009 through 2020.

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<sup>6</sup> Although there seems to be some confusion in the BCRA's reporting of these renewals, we rely on its specific reported expiration dates included in its Annual Reports. See Key Design Decision No. 6C, Communications.

**Figure 2: PBOC Swap Lines to Argentina, 2009–2020**

Year	Term (years)	Cap (RMB billion)	Type	Disposition
2009	3	70	Primary	Expired (2012)
2014	3	70	Primary	Renewed (2017)
2015	Not Available	20	Supplementary RMB/USD <sup>A</sup>	Not Available
2017	3	70	Primary	Renewed (2020)
2018	1.5	60	Supplementary	Renewed (2020)
2020	3	70	Primary	Active <sup>B</sup>
2020	3	60	Supplementary	Active <sup>C</sup>
2022	Not Available	35	Expansion	Active <sup>D</sup>

<sup>A</sup> The RMB 20 billion cap is not in addition to the existing RMB 70 billion cap for total swap draws; rather, it represents the maximum amount of the renminbi derived from the existing (peso for renminbi) swap that can be converted to dollars (BCRA 2016).

<sup>B</sup> The primary agreement expires on July 17, 2023 (BCRA 2021).

<sup>C</sup> The 2018 supplementary agreement was signed in December 2018 and was to terminate upon expiration of the primary swap agreement, which at the time of execution was due to expire on July 17, 2020. However, on September 17, 2020, the agreement was renewed for three years, giving it an expiration date of September 17, 2023.

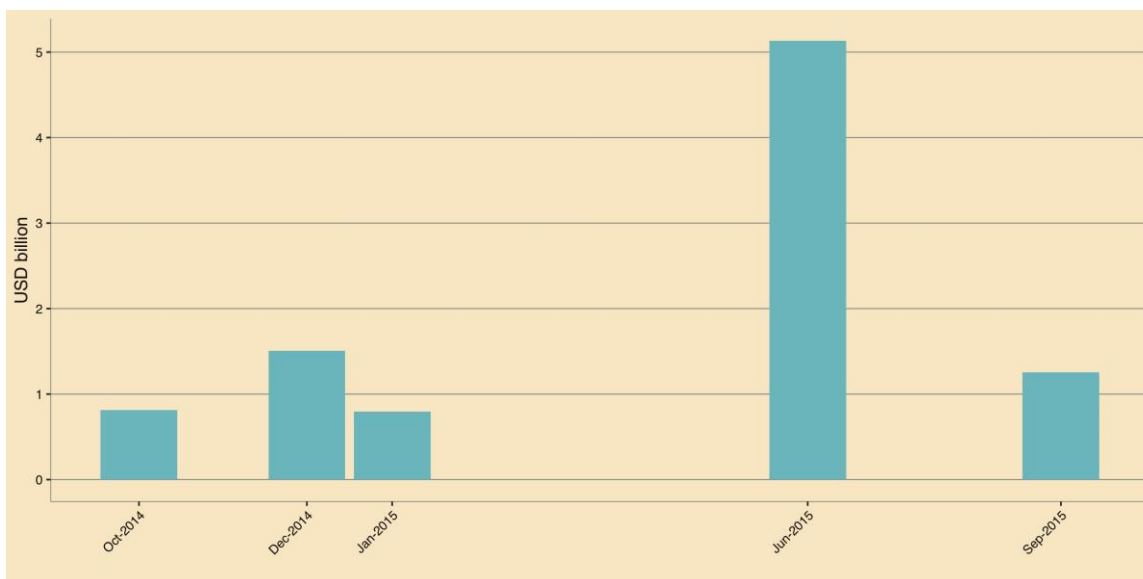
<sup>D</sup> The announcement of the expansion of the PBOC-BRC swap arrangement did not specify if it applied to the 2017 or 2018 line and did not specify a termination date.

Sources: BCRA 2009; BCRA 2014a; BCRA 2014b; BCRA 2015a; BCRA 2015b; BCRA 2018a; BCRA 2020a; BCRA 2021; Raszewski and Heath 2022; State Council 2017; Ministry of Foreign Affairs 2018a; Webber 2009.

The BCRA announced on October 30, 2014, that it had drawn on its swap with the PBOC for USD 814 million renminbi, which it said could be “freely converted into dollars, euros, or any other reserve currency, in international markets such as Hong Kong, London, or Singapore” (BCRA 2014b). Details of BCRA swap line use are confidential, and the BCRA has declined journalists’ requests for more information (Urien 2022). However, scholars have reported that in December 2014, the BCRA drew on the line for an additional USD 1.5 billion renminbi (Gentile, Musuruana, and Tessmer 2015). At least one media report said that Argentina subsequently converted renminbi to dollars in offshore renminbi markets (MercoPress. 2015).<sup>7</sup>

Scholars reported that the BCRA drew on the swap line in January, June, and September, 2015, for USD 0.8 billion of renminbi, USD 5.1 billion of renminbi, and USD 1.3 billion of renminbi, respectively, for a total of USD 7.2 billion of renminbi (Gentile, Musuruana, and Tessmer 2015). Figure 3 shows the BCRA’s swap line use in 2014 and 2015.

<sup>7</sup> These would be private foreign exchange markets in which the BCRA would enter into a foreign exchange swap with a non-central bank counterparty. Such an instrument would have increased the BCRA’s exposure to counterparty and default risk and would likely have been more expensive than a central bank swap. In at least one other case, scholars and journalists suspected that a PBOC swap line counterparty converted renminbi to dollars. In 2013, the State Bank of Pakistan reportedly used renminbi from its PBOC swap line and exchanged them on the open foreign exchange market for dollars to shore up its reserves (McDowell 2019).

**Figure 3: The BCRA's Swap Line Draws, 2014–2015**

Source: Gentile, Musuruana, and Tessmer 2015.

In 2018, media reports said that the BCRA drew USD 8.7 billion from the swap line on December 17, bringing the total swap line usage amount to USD 19 billion by December 19 (BBC 2018; M-Brain 2018).

The BCRA and PBOC announced on January 8, 2023 that they had activated the swap line, including a “special activation” of the 2022-vintage RMB 35 billion expansion to support foreign exchange intervention (BCRA 2023).

As shown in Figure 4, between 2014 and 2021, the BCRA maintained outstanding balances under the swap arrangement ranging from USD 2.6 billion to USD 20.5 billion.

**Figure 4: PBOC Swap Obligations Outstanding and Foreign Reserves, 2014–2021**

Year	Swap Obligations (USD billions)	Foreign Reserves (USD billions)	Swap Obligations as Percent of Foreign Reserves
2014	2.6	31.4	8.2
2015	10.8	25.6	42.2
2016	10.1	39.3	25.6
2017	10.8	55.1	19.5
2018	18.9	65.8	28.7
2019	18.7	44.9	41.6
2020	19.9	39.4	50.6
2021	20.5	39.7	51.6

Note: Foreign reserves and swap obligations as of the last day of the calendar year.

Sources: BCRA 2015c; BCRA 2016; BCRA 2017b; BCRA 2018b; BCRA 2019; BCRA 2020b; BCRA 2021; BCRA 2022; Bloomberg.

Communication about the swap line varied in quantity and transparency. On October 30, 2014, the BCRA published two press releases. The first (communication no. 50464) said that the two central banks “signed a new currency swap agreement.” The second (communication no. 50465), which “corrected and replaced” the first press release, said that the agreement had been signed in July 2014 and that it had been activated (BCRA 2014a; BCRA 2014b). The BCRA also announced that it had drawn on its swap with the PBOC for USD 814 million renminbi, which it said could be “freely converted into dollars, euros, or any other reserve currency, in international markets such as Hong Kong, London, or Singapore” (BCRA 2014b). The second communication also struck language from the first containing swap line details, including term length and repayment period (BCRA 2014a; BCRA 2014b). We were unable to locate any communications from 2014 from either the PBOC or the State Council regarding the PBOC-BCRA swap line (PBOC n.d.a; State Council n.d.).

### Summary Evaluation

Scholars have attributed several motives for the Chinese central government in setting up swap lines: to gain political leverage, promote trade, reduce reliance on the US dollar, reduce foreign exchange risk, and limit the accumulation of foreign reserves (Cao 2022; Espadinha 2015; Gao and Yu 2012; Gentile, Musuruana, and Tessmer 2015; Maziad and Kang 2012; McDowell 2019; Perks et al. 2021; Zhang 2015).

One scholar has called the PBOC’s swap lines a form of “financial statecraft” and has said that the PBOC’s extension of swap lines may be used as leverage to extract political concessions (McDowell 2019).<sup>8</sup> In press releases, the BCRA said that the renminbi was on its way to becoming one of the main world reserve currencies and was a very attractive investment currency for various reasons (BCRA 2014b).

<sup>8</sup> In the case of a PBOC swap line to Mongolia, media reports said that the swap line may have been used to extract concessions about China’s sovereignty over Tibet and gain support for the Chinese government’s stance on the Dalai Lama (McDowell 2019). (See also Arnold 2023.)

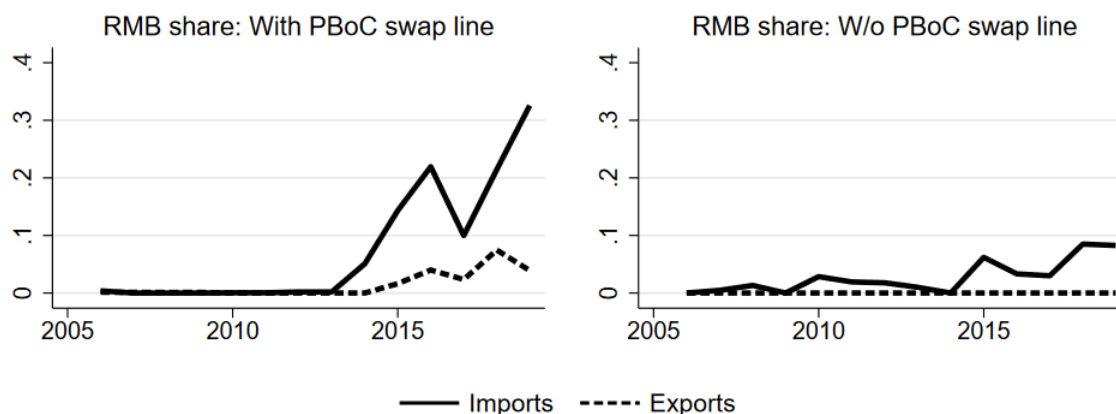


Horn et al. (2023) note that China uses its swap network as a form of “overseas bailout” that targets developing countries in situations of distress, often with low reserves and credit ratings. These scholars also show that China’s swap bailouts have targeted borrowers in the Belt and Road Initiative framework—low- and middle-income countries with significant debts owed to Chinese banks. The scholars found that PBOC swap lines had been drawn on by 17 countries under a variety of circumstances, 13 of 17 in times of crisis, including balance of payments crises, sovereign defaults, currency crises, sanctions, and geopolitical crises. Further, these scholars say, Chinese swap bailouts were frequently accompanied by other forms of lending, including lending through Chinese state-owned banks and commodity prepayment facilities. These scholars find that frequent rollovers meant that the swaps often resulted in borrowing terms exceeding one year. Because the swap lines often fall outside debt disclosure requirements due to their *de jure* short-term repayment structures, these scholars argue, the expansion of PBOC swap line drawings has exacerbated the challenge of accurate debt sustainability analysis in the developing world (Horn et al. 2023).

Other scholars have stated that trade is a key determinant in Chinese swap line extension and that China’s swap lines effectively promote trade with China when deployed (Liao and McDowell 2015; Perks et al. 2021). A former Bank of England official has said that “China’s objectives are not to do with crisis management, but promoting the use of the [renminbi] in international trade” (China Daily 2014).

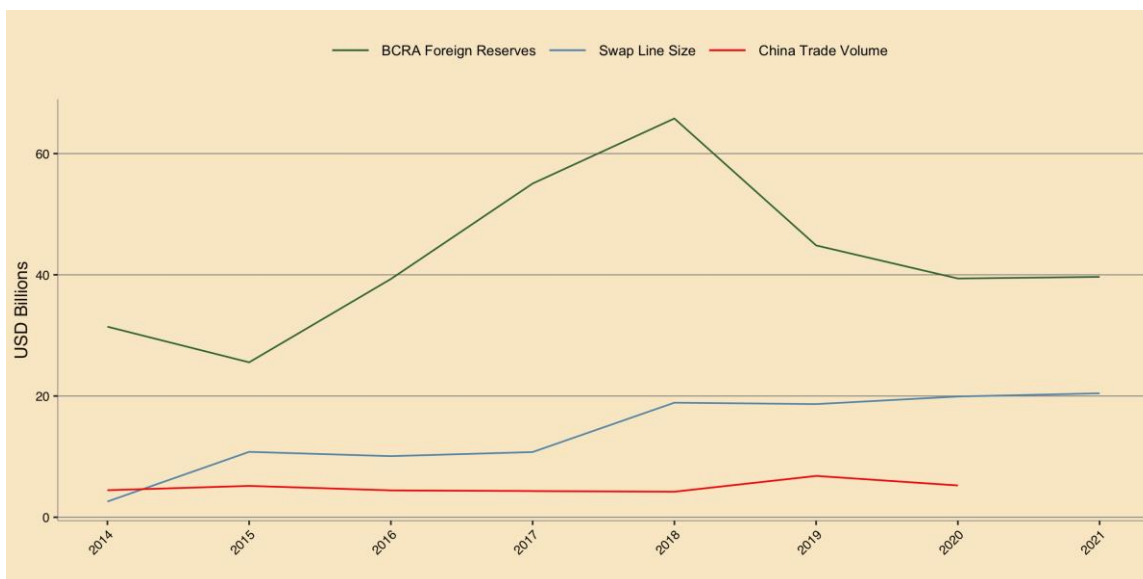
Scholars have shown an empirical effect of PBOC swap lines on expanded renminbi invoicing (that is, when exporters denominate their prices in renminbi) in the recipient country (Georgiadis et al. 2021). Figure 5 shows the contrast between the renminbi share of invoicing for countries with and without a PBOC swap line.

**Figure 5: Impact of PBOC Swap Lines on Renminbi Share of Invoicing**



Source: Georgiadis et al. 2021.

Figure 6 shows the relationship between Argentina’s trade with China, the PBOC-BCRA swap line size, and the BCRA’s foreign reserves. While the swap line size and foreign reserves move roughly in tandem, trade volume with China remains roughly constant.

**Figure 6: Argentina: Foreign Reserves, Swap Line, and Trade with China, 2014–2021**

Note: Data was not available for China trade volume in 2021; trade volume includes exports and imports. Data points represent figures as of year-end.

Sources: BCRA 2015c; BCRA 2016; BCRA 2017b; BCRA 2018b; BCRA 2019; BCRA 2020b; BCRA 2021; BCRA 2022; World Bank n.d.

Scholars have shown that when a nation enters into a PBOC swap agreement, it is more likely to use the renminbi. Specifically, scholars have shown that signing a PBOC swap line agreement results in an increase in the probability of using the renminbi by 14%, an increase in the renminbi's share of that country's payments by 1.3 percentage points, and a fall in renminbi borrowing costs by 0.8 percentage points (Bahaj and Reis 2022).

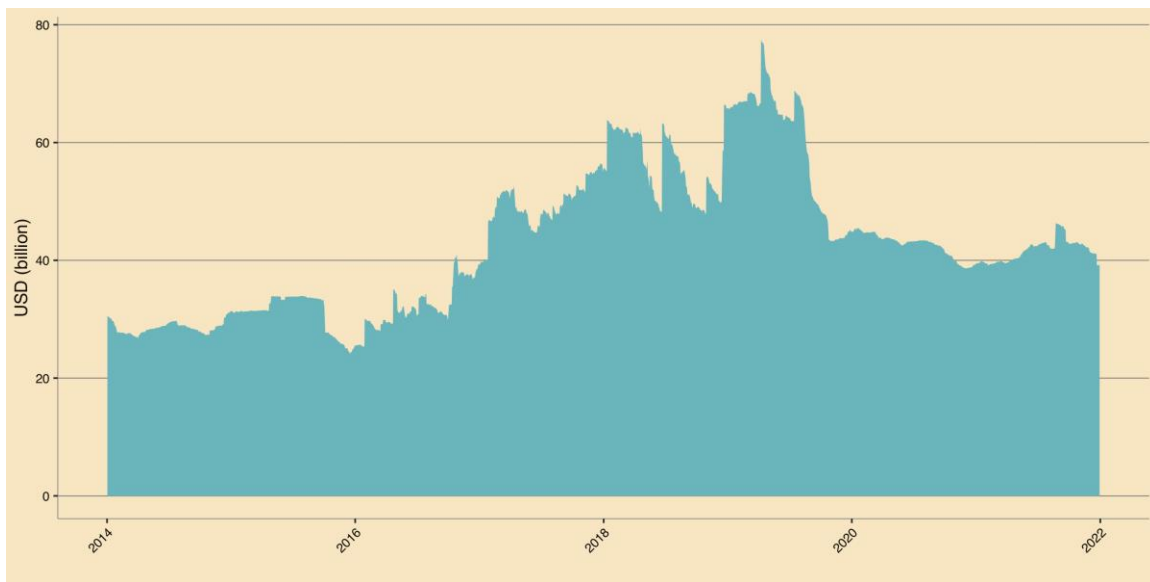
Scholars have documented other examples of PBOC swap line use to boost foreign reserves in Pakistan, Egypt, and Turkey. Scholars have said the use of swap lines to obtain a reserve currency and therefore boost foreign reserves is an example of “window dressing” (Bahaj and Reis 2021, 14). Some scholars have said that the BCRA's use of the swap line to further obtain dollars was an example of “misuse” (Bahaj and Reis 2021, 12). There was also ambiguity associated with Pakistan's use of its renminbi swap line to obtain dollars, with speculation that the exchange occurred in an offshore renminbi market (McDowell 2019).

Some scholars have said that the BCRA's conversion of renminbi into dollars directly contributed to its gross foreign exchange reserve, since the proceeds of the swap were converted into a reserve currency (Bahaj and Reis 2021). Another source argued that the renminbi-dollar swap did not affect the level of Argentina's foreign reserves, since renminbi were already included at their dollar value in the BCRA's foreign reserves. That report said that the benefit of having dollars is that they provided a currency that was easier to sell to defend the Argentine peso if needed (Buenos Aires Herald 2015). (For a discussion of the IMF's accounting treatment of central bank swap line-derived foreign currency assets, see Appendix.)

Others said that it was not the dollar proceeds from the swap line per se that mattered, but rather that they provided the BCRA room to use its existing dollar reserves for other purposes, such as defending the Argentine peso or paying for imports (Lerner 2022; Steil and Walker 2015). Others have described the swap proceeds as simply “exchange insurance” to access an international currency (Gentile, Musuruana, and Tessmer 2015, 2).

Figure 7 shows the balance of the BCRA’s foreign reserves between 2014 and 2021. While reserves dropped in early 2014, they began to grow again in late 2015 and peaked in 2019.

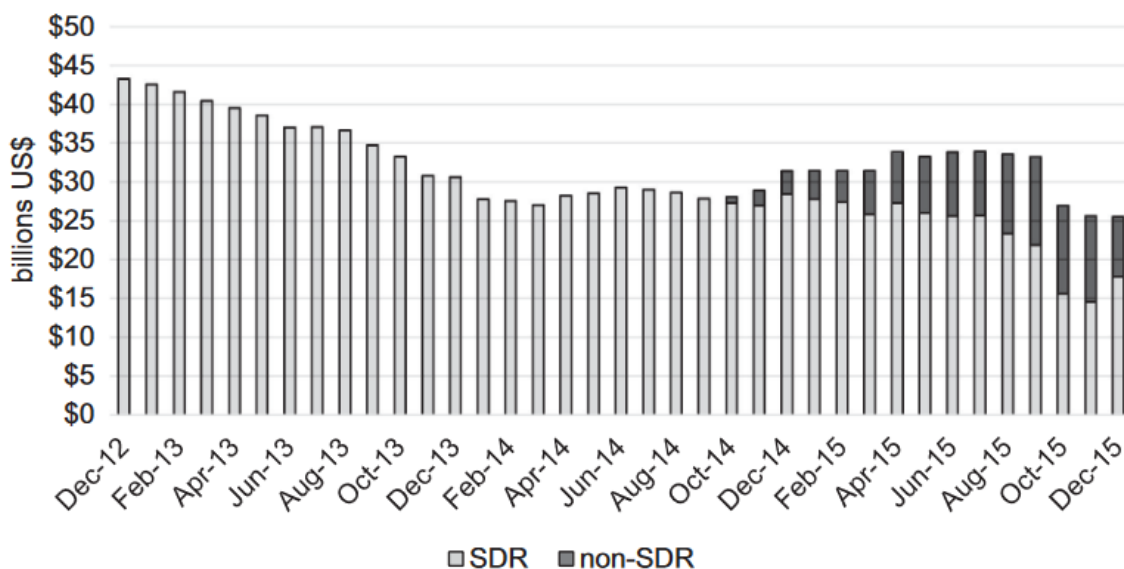
**Figure 7: Argentina’s Foreign Reserve Balance, 2014–2021**



Source: Bloomberg.

Figure 8 shows the composition of the Argentina’s foreign reserves by SDR and non-SDR currencies in the period between 2012 and 2015.<sup>9</sup>

<sup>9</sup> The renminbi did not join the SDR currency basket until 2016, so all renminbi would be counted as non-SDR during 2014–2015; while the BCRA did not disclose all its non-SDR holdings as renminbi, information about the size and chronology of swap line draws suggest that they were (McDowell 2019).

**Figure 8: Argentina's Foreign Reserves Composition, 2012–2015**

Note: The renminbi joined the SDR basket in 2016.

Source: McDowell 2019.

Some scholars said that the 2015 agreement pursuant to which the PBOC agreed to convert for the BRAC a certain amount of renminbi drawn under the swap arrangement into dollars undermines the very internationalization of the renminbi that the PBOC intended to engender with its swap lines and further reinforces dollar dominance (McDowell 2019).

Sebastian Vargas of Barclays Research said that the BCRA's decision to draw on the PBOC swap line was a result of it having very limited external financing options and that the PBOC-provided liquidity "reduce[d] the risks of an economic crisis" in Argentina (Espadinha 2015). Other commentators said that swap line draws were responsible for the boost in Argentina's foreign reserves in 2014 and 2015 (Buenos Aires Herald 2014; Mander 2014). Jose Luis Espert, an economist and member of the Chamber of Deputies, said the swap line boosted reserves, but would only have a temporary effect (Russo 2014).

<b>Context: Argentina 2014–2015</b>		
<b>GDP (SAAR, nominal GDP in USD)</b>		\$526.3 billion in 2014
		\$594.7 billion in 2015
<b>GDP per capita (SAAR, nominal GDP in USD)</b>		\$12,335 in 2014
		\$13,789 in 2015
<b>Sovereign credit rating (five-year senior debt)</b>	2014	Moody's: WR
		S&P: CCC+u
		Fitch: WD
	2015	Moody's: WR
		S&P: CCC+u
		Fitch: WD
<b>Size of banking system</b>		\$115.7 billion in 2014
		\$135.1 billion in 2015
<b>Size of banking system as a % of GDP</b>		22% in 2014
		22.7% in 2015
<b>Size of banking system as a % of financial system</b>		98.3% in 2014
		98.5% in 2015
<b>Five-bank concentration of banking system</b>		54.4% in 2014
		66.3% in 2015
<b>Foreign involvement in banking system</b>		Data not available in 2014
		Data not available in 2015
<b>Existence of deposit insurance</b>		Yes in 2014
		Yes in 2015
<i>Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.</i>		

## Key Design Decisions

### **1. Purpose and Type: The PBOC entered into a bilateral unidirectional swap with the BCRA to promote trade and development, to boost the BCRA's foreign reserves, and to promote financial stability.**

The PBOC and BCRA entered into a bilateral currency swap agreement in July 2014 with a three-year term for up to RMB 70 billion (USD 11 billion) and a repayment period of 12 months (BCRA 2014a; BCRA 2014b). The swap line was meant to promote trade and development, facilitate investment in the renminbi, and boost Argentina's foreign reserves (BCRA 2014a; Lifschitz 2014; Nozahie and Ibrahim 2017). The PBOC and BCRA renewed the swap line in 2017 and again in 2020 (BCRA 2019; BCRA 2020a; BCRA 2021; Merco Press 2020).

The two banks revised the swap line with supplementary agreements in 2015 and 2018 to permit the conversion of up to RMB 20 billion received under the swap line into US dollars and to increase the authorized amount by RMB 60 billion, respectively (BCRA 2015a; BCRA 2015b; Ministry of Foreign Affairs 2018a).

We have not been able to secure a copy of the 2017 swap agreement and have found no other information that states whether the PBOC could also draw on the swap line to borrow pesos. However, the 2018 supplementary agreement was available from Argentina's Ministry of Foreign Affairs. It only discusses the BCRA making drawings under the agreement. The 2018 supplementary agreement also states that its purpose is to promote financial stability (Ministry of Foreign Affairs 2018a).

### **2. Part of a Package (A): China and Argentina announced the swap agreements within the framework of a Comprehensive Strategic Association Agreement.**

The swap line was part of a package of 20 trade and investment deals between China and Argentina signed in July 2014 (Buenos Aires Herald 2014). The two governments signed the deals within the framework of a comprehensive strategic association agreement,<sup>10</sup> which comprised infrastructure funding and cultural projects (Casa Rosada 2014).

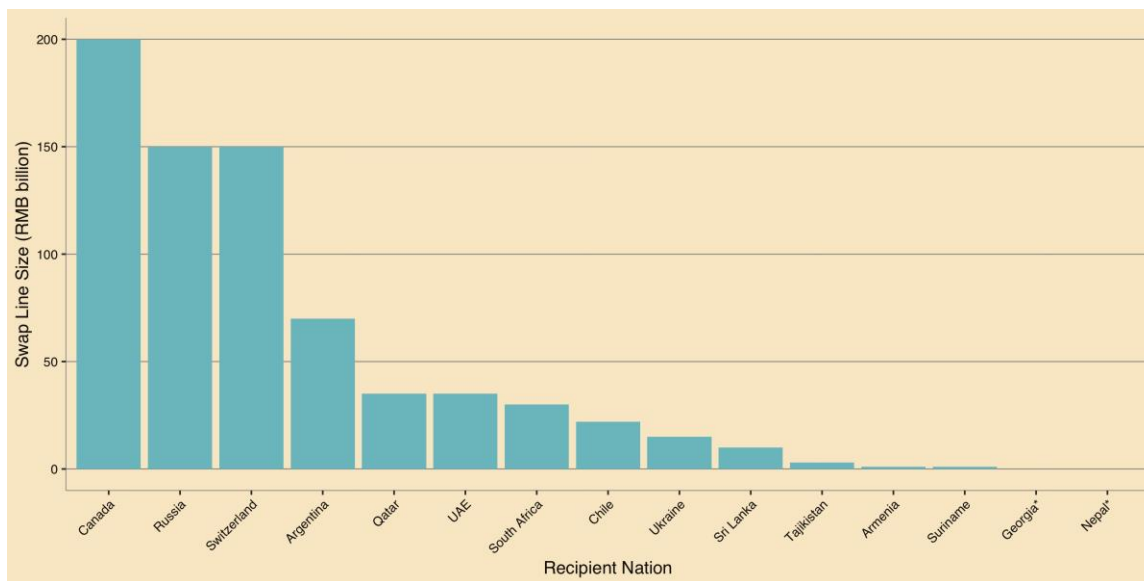
### **Part of a Package (B): The Argentina swap agreements were part of an effort by China to establish swaps with 15 trading partners to support the renminbi.**

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<sup>10</sup> The "comprehensive strategic partnership" was defined by Xi Jinping as a promotion from a "strategic partnership," and would include "reciprocal cooperation and strategic coordination" and "push[ing] for a more equitable and reasonable world order" (Xinhua News 2014). We were unable to secure a copy of the agreement itself, but cooperation deals included cooperation in agriculture, mining, gas, and nuclear power (Xinhua News 2014).

The BCRA was one central bank among a group of 15 that entered into PBOC swap lines in 2014–2015 (McDowell 2019). Figure 9 shows the nations that received PBOC swap lines and their sizes in 2014 and 2015.

**Figure 9: PBOC Swap Lines Extended to Central Banks, 2014–2015, as of 2017**



Note: No data were available for Georgia and Nepal; swap line sizes are as of 2017.

Source: McDowell 2019.

### **3. Legal Authority: The PBOC's enabling law gives the PBOC power to handle international financial activities.**

The PBOC's enabling law provides that the PBOC will have the authority to issue the renminbi, dictate and implement monetary policy, regulate foreign exchange markets, and engage in "relevant international financial activities" (Law of the PRC on the PBOC 2003). Any non-monetary policy decisions (and many monetary policy decisions) must be approved by the State Council (Law of the PRC on the PBOC 2003).<sup>11</sup> The PBOC is a branch of the State Council and thus is not independent from it (People's Daily n.d.).

### **4. Governance: Swap line terms and use were governed by PBOC authorities and other government officials.**

In the absence of the swap agreements, it is not clear which body approved entering into the swap agreements or made high-level governance and design decisions. However, in 2017, the State Council announced in a press release that "China's central bank on July 18 renewed a currency swap agreement with the Central Bank of Argentina" (State Council 2017). The

<sup>11</sup> The State Council is China's executive cabinet; the head of the State Council is the premier, who is commonly the second-most powerful member of the ruling Chinese Communist Party. It is primarily in charge of running the "day-to-day affairs of the state" (Wright 2015, 32).

State Council approved a similar 2022 enhancement of the PBOC's swap line with the Hong Kong Monetary Authority (Cao 2022). The PBOC governor<sup>12</sup> signed the 2018 Supplementary Agreement between the PBOC and BCRA (Ministry of Foreign Affairs 2018a)

Some scholars have said that certain details of the 2014 agreement—such as associated fees—were agreed to at the highest level of government, between national leaders Cristina Fernández de Kirchner and Xi Jinping. Scholars have also reported that 2015 bilateral talks on the swap agreements happened at the level of central bank presidents (Gentile, Musuruana, and Tessmer 2015). 2022 media reports said that the presidents of Argentina and China held negotiations on swap line extension (Lerner 2022; Olivera Doll 2022). Argentinean president Fernández said that Chinese president Xi had authorized the November 2022 RMB 35 billion expansion of the swap line (Raszewski and Heath 2022).

Neither the PBOC nor the BCRA disclosed any details about mandated reporting, oversight, or audits. In its annual financial statements and notes thereto, the BCRA published details of the swap line including: renewals; expansions; drawing rights; outstanding obligations to the PBOC; and deposits in Argentine pesos at the PBOC (BCRA 2015c; BCRA 2016; BCRA 2017b; BCRA 2018b; BCRA 2019; BCRA 2020b; BCRA 2021; BCRA 2022).

**5. Administration: Our research was unable to uncover details about the administration of the swap arrangement.**

Neither the PBOC nor the BCRA disclosed details regarding the low-level management of the swap line. There was no reported downstream lending.

**6. Communication (A): In 2014, the BCRA announced the swap line and usage while the PBOC did not.**

Upon signing the swap agreement within a package of deals with China in July 2014, then-Argentine president Fernández de Kirchner said that the swap would provide “stability in exchange rates, at a time when we as a country suffer speculative attacks by vulture funds” (Lifschitz 2014). In October 2014, when reserves had fallen 10.5% in the year, BCRA president Alejandro Vanoli said the level of reserves was not a concern (Russo 2014).

On October 30, 2014, the BCRA published two press releases regarding the establishment and activation of its 2014 swap line with the PBOC; the second communication corrected and replaced the first (BCRA 2014b; BCRA 2014a). The first press release (communication no. 50464) said that the two central banks “signed a new currency swap agreement,” while the second press release (communication no. 50465) said that the agreement had been signed in July 2014 and that the BCRA had made draws under it in the same month (BCRA 2014a; BCRA 2014b). In its first communication, the BCRA described the swap line as a significant improvement on the original 2009 PBOC-BCRA swap agreement, saying that it lowered costs, expanded uses, and made terms more flexible (BCRA 2014a).

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<sup>12</sup> The PBOC Management Team is comprised of the governor, five deputy governors and a chief inspector (PBOC n.d.b).



The second press release struck language from the first that described the use of the funds (to promote trade and development and to boost foreign reserves) and details of the swap line (term and repayment period) (BCRA 2014b; BCRA 2014a). In its second communication, the BCRA described its October 30, 2014, activation of the swap line as a demonstration of BCRA and PBOC's "close relationship" and the two countries' "comprehensive strategic partnership" (BCRA 2014b). In the same communication, it described the renminbi as "a very investment currency" (BCRA 2014b).

Details of BCRA swap line use are confidential and the BCRA has declined to disclose details when asked by journalists (Urien 2022). A media report cited some analysts who criticized the BCRA's decision to not report the swap interest rate and what the swap was being used for (Urien 2022).

Scholars have said the PBOC's communication about its swap lines is generally inconsistent.<sup>13</sup> In 2014, neither the PBOC nor the State Council released any extant public communications regarding the PBOC-BCRA swap line (PBOC n.d.a; State Council n.d.).

**Communication (B): In 2015, the BCRA acknowledged swap and secondary dollar swap use while the PBOC acknowledged the swap draws.**

When it drew on the line in 2015, the BCRA said in a press release on the day it signed the 2015 supplementary agreement that the PBOC—not international markets—had converted the renminbi proceeds into dollars at a cost of 400 basis points above the Shanghai Interbank Offered Rate (SHIBOR) (BCRA 2015a; BCRA 2015b). Some scholarship has said that the renminbi received from Argentina's peso-renminbi swap may have been converted to dollars in an offshore market (McDowell 2019).

Neither the PBOC nor any other organs of the Chinese government said they had facilitated the secondary renminbi-dollar swap in 2015. When asked about the BCRA's December 2015 draw, Chinese foreign ministry spokesperson Hong Lei said, "the [renminbi] is a freely usable currency. If the Argentine side prefers to convert part of its [renminbi] reserves into US dollars or other reserve currencies, that is their decision to make" (Foreign Affairs 2015). The Chinese embassy in Argentina released a communication saying the same (PRC Embassy Argentina 2015).

**Communication (C): After 2015, the BCRA suspended communications about swap line draws in press releases.**

From the end of January 2015 onwards, the BCRA ended official communications announcing swap line draws (Gentile, Musuruana, and Tessmer 2015).

Some of the BCRA's communications regarding its swap arrangement with the PBOC have been less than clear. In its August 6, 2020 press release, the BCRA said that it had signed new

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<sup>13</sup> Email correspondence between the author and Daniel McDowell, September 12, 2022.

swap agreements with the PBOC that would expire on August 6, 2023 (BCRA 2020a). However, its later 2020 and 2021 Annual Reports appear to conflict this statement in part:

During this year, the terms and conditions of the currency swap master agreement between both central banks were renewed for a term of 3 years. On July 17, 2020, the People's Bank of China renewed the original agreement making available CNY 70,000,000. Subsequently, on September 17, 2020, it renewed a complementary agreement making available CNY 60,000,000. Thus, the total agreement still amounts to CNY 130,000,000, the original tranche falling due on July 17, 2021, and the supplementary tranche in January, April, and September 2021.

... The Master agreement expires on August 6, 2023. (BCRA 2021)

We have not been able to confirm the existence of a Master Agreement nor other information regarding the tranches mentioned. We have relied on the annual reports for the expiration dates of the 2017 agreement (July 17, 2023) and the 2018 supplementary agreement (September 17, 2023).<sup>14</sup>

Details of BCRA swap line use are confidential and the BCRA has refused to disclose details when asked by journalists, who have said the swap line operates under a cloak of secrecy (Urien 2022). However, in its annual reports in 2020 and 2021, the BCRA reported two three-month uses of RMB 300,000 for undisclosed purposes (once in 2020 and once in 2021) (BCRA 2021; BCRA 2022).

In 2018, the Sino-Argentinean Joint Plan of Action for 2019–2023 said that both governments would promote the use of local currencies in bilateral trade and promote the use of currency swaps to improve financial conditions and bilateral trade (Ministry of Foreign Affairs 2018b).

In November 2022, Argentinean president Fernández said that Chinese president Xi had approved an RMB 35 billion expansion to the swap facility, which the Argentinean economy minister said would provide more foreign currency for intervention in foreign exchange markets in defense of the peso (Raszewski and Heath 2022). Neither the BCRA nor the PBOC issued a press release regarding the expansion.

## **7. Eligible Institutions: The BCRA was the only party to these swap lines.**

The PBOC extended and renewed these swap lines only to the BCRA.

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<sup>14</sup> It is possible that the BCRA let the swap lines lapse on July 17, 2020 and then signed “new” agreements on August 6, 2020 that were identical to the lapsed agreements and referred to them in its annual financial statement as renewals. It is also interesting to note that the 2018 supplementary agreement said that it could not be renewed under any circumstance (BCRA 2021; Ministry of Foreign Affairs 2018a).

**8. Size: The swap line was authorized for up to RMB 70 billion but was expanded by a 2018 supplementary agreement, which authorized an additional RMB 60 billion, and then by a 2022 RMB 35 billion supplement.**

The 2014 swap line was authorized for RMB 70 billion (BCRA 2014a). In 2015, the BCRA and PBOC agreed to allow RMB 20 billion of the swap line proceeds in renminbi to be further swapped into dollars with the PBOC (BCRA 2015a; BCRA 2015b). The 2018 supplementary agreement authorized an additional RMB 60 billion, bringing the total to RMB 130 billion (Ministry of Foreign Affairs 2018a). (See Figure 2 at Overview.) Due to the inaccessibility of the swap agreement, any limits on individual draws are publicly unknown. While the publicly available 2018 supplementary swap agreement prohibits any total outstanding draw amount from exceeding RMB 60 billion, it does not include any per-draw maximums (Ministry of Foreign Affairs 2018a). In November 2022, Argentinean president Fernández said that Chinese president Xi had approved an RMB 35 billion expansion to the swap facility, bringing the total authorized amount to RMB 165 billion (Raszewski and Heath 2022).

**9. Process for Utilizing the Swap Agreement: The BCRA would request a swap draw and, upon approval from the PBOC, funds would be placed in the BCRA's account at the PBOC.**

Upon the BCRA's request—and with the PBOC's agreement—renminbi would be deposited into the BCRA's account at the PBOC (BCRA 2015b; Ministry of Foreign Affairs 2018a). When the PBOC lent renminbi to the BCRA, it received an equivalent amount in Argentine pesos. After a period of no more than a year the BCRA would repurchase the Argentine pesos with renminbi (BCRA 2014a; BCRA 2014b).

Under the 2018 supplementary agreement, swap line draws (renminbi to dollars) could be outstanding for up to 370 days but were contingent upon the implementation of the IMF's Stand-by Arrangement with Argentina. This later requirement was eliminated in the subsequent 2020 renewal (Meanos 2020; Ministry of Foreign Affairs 2018a).

In the 2015 renminbi-dollar swap, the BCRA said that the PBOC and BCRA agreed on fees before completing the swap and after direct talks between the banks' presidents (BCRA 2015a; BCRA 2015b).

**10. Downstream Use of Borrowed Funds: The BCRA used proceeds to shore up foreign reserves, sometimes after converting renminbi for dollars.**

While the accounting treatment of the renminbi in the BCRA's official foreign reserves is disputed in the literature (see Summary Evaluation), it is clear that the BCRA counted both SDR and non-SDR currencies in its foreign reserves in 2014 and 2015 (McDowell 2019). The PBOC and BCRA's 2018 supplementary agreement explicitly states that renminbi funds derived from the swap line may be counted as foreign reserves at the BCRA (Ministry of Foreign Affairs 2018a). One of the stated purposes of the swap line was to provide the BCRA with foreign reserves (see Key Design Decision No. 1, Purpose and Type).

Scholars have reported that in December 2014, the BCRA drew on the line for an additional USD 1.5 billion of renminbi (Gentile, Musuruana, and Tessmer 2015). At least one media report said that Argentina subsequently converted renminbi to dollars in offshore renminbi markets (MercoPress. 2015). In 2014, the BCRA may have used some of the renminbi proceeds from its PBOC swap line to pay for imports, thereby preserving dollar reserves (McDowell 2019).

On December 16, 2015, the BCRA said that the BCRA and PBOC had agreed to a “partial conversion” of renminbi under their swap agreement. Under this partial conversion, the BCRA would receive USD 3.1 billion to boost its US dollar reserves for exchange rate management (BCRA 2015a; Heath and Bronstein 2015).

In 2021, the BCRA recorded USD 39 billion in gross foreign reserves, but when the IMF calculated its net international reserves (see Appendix for discussion of net versus gross reserves), it found that all but USD 2.3 billion of it was from the BCRA’s swap line with the PBOC (IMF 2022).

On January 8, 2023, the BCRA said that both parties had activated the swap line and made a “special activation” of RMB 35 billion to “offset foreign exchange operations” (BCRA 2023).

### **11. Duration: The durations of swap transactions are only partially available.**

Our research was unable to uncover specifics about the duration of swap transactions between the BCRA and PBOC, but the 2017 swap line had a repayment period of one year (BCRA 2014a; BCRA 2014b; Russo 2014). The 2015 supplementary agreement’s term and repayment period were not publicly disclosed (BCRA 2015b). The 2018 supplementary agreement had a repayment period of up to 370 days (Ministry of Foreign Affairs 2018a). In 2020, at least one draw was made with a duration of three months (BCRA 2021).

### **12. Rates and Fees: The PBOC charged 600-700 basis points on a primary draw and 400 basis points above SHIBOR for a draw on dollars.**

The Argentine government said that the swap line interest rate was between 600 and 700 basis points (Gentile, Musuruana, and Tessmer 2015). In 2015, the BCRA said that the PBOC swapped renminbi that it had drawn under the PBOC swap to dollars under the 2015 supplementary agreement at a cost to the BCRA of SHIBOR plus 400 basis points (BCRA 2015a; BCRA 2015b).

For comparison, the 2009 PBOC-BCRA swap line had an interest rate of SHIBOR plus 600 basis points, which, at the time, resulted in a total rate of 850 basis points (Urien 2022).

### **13. Balance Sheet Protection: The PBOC received Argentine pesos as collateral.**

A standard swap agreement involves the borrowing central bank exchanging its own currency for an equal amount of the lending central bank’s currency; the two banks then swap the currency back at a future date—in essence, the borrowing central bank’s currency acts as collateral against the loaned currency (Perks et al. 2021). Generally, it is possible that

the lending central bank in a swap arrangement could impose a haircut on the borrowing central bank (Bahaj and Reis 2021). In the PBOC-BCRA swap, when the PBOC lent renminbi to the BCRA, it received an equivalent value in Argentinean pesos (BCRA 2014a; BCRA 2014b). The 2018 supplementary agreement said that Argentinean pesos would be deposited with the PBOC for repurchase at the expiration of the draw period (Ministry of Foreign Affairs 2018a). The BCRA's annual financial statements show that Argentine pesos were deposited with the PBOC each year (BCRA 2015c; BCRA 2016; BCRA 2017b; BCRA 2018b; BCRA 2019; BCRA 2020b; BCRA 2021; BCRA 2022).

**14. Other Restrictions: In at least some years, the BCRA's use of the swap line was contingent on implementation of an IMF program.**

Due to the inaccessibility of the 2017 swap agreement, information about any swap line restrictions on the BCRA are publicly unavailable. Under the 2018 supplementary agreement, swap line draws were contingent upon the implementation of the IMF's Stand-by Arrangement with Argentina. The parties eliminated this requirement in the subsequent 2020 renewal (Infobae 2022; Ministry of Foreign Affairs 2018a).

To draw under the swap arrangement, the BCRA would inform the PBOC what it intended to use the drawn funds for and the PBOC would authorize the draw or decline it. For example, if an Argentinean company had an import order denominated in renminbi, the BCRA would report the order to the PBOC and request permission to draw on the swap line for the specified amount of the import invoices (Urien 2022).

**15. Other Options: Our research was unable to uncover other options considered by the PBOC regarding financial support to the BCRA.**

Due to the generally limited communication from the PBOC with respect to its swap line agreements with the BCRA, no public statements regarding further financial aid—particularly in renminbi—to Argentina were available.

**16. Exit Strategy: The swap line was renewed twice, in 2017 and in 2020, and expanded in 2022.**

On July 17, 2017, the BCRA and PBOC renewed the 2014 primary swap agreement for up to RMB 70 billion for another three years (BCRA 2017a; State Council 2017). We have not been able to determine the term of the 2015 supplementary agreement.

On December 2, 2018, the two central banks signed a supplementary swap agreement for up to RMB 60 billion, which brought the total draw limit to RMB 130 billion (BCRA 2018a). The supplementary agreement would terminate upon termination of the 2017 swap agreement and could not be renewed. However, either party could terminate the supplementary agreement earlier by giving thirty days written notice to the other party of its intent to terminate (Ministry of Foreign Affairs 2018a).

On August 6, 2020, the BCRA renewed its primary swap agreement with the PBOC for RMB 70 billion and its 2018 supplementary agreement for three years (see Key Design Decision No. 6(C), Communication) (BCRA 2020a; BCRA 2021; Merco Press 2020).

In January 2022, the BCRA asked the PBOC to expand the swap line by RMB 20 billion, at which time the swap line represented more than half of the BCRA's foreign reserves (Olivera Doll 2022). Argentinean president Alberto Fernández said that China had agreed to expand the swap in March 2022, but the two banks had not yet signed agreements. At the time of writing, no press releases covering a 2022 expansion were available (Lerner 2022). In November 2022, Fernández said that Chinese president Xi Jinping had approved an RMB 35 billion expansion to the swap facility, which the Argentinean economy minister said would provide more foreign currency for intervention in foreign exchange markets in defense of the peso (Raszewski and Heath 2022).

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## Appendix

### IMF Accounting Treatment of Central Bank Swap Lines in Foreign Reserves

According to the IMF's Balance of Payments and International Investment Position Manual, foreign currency deposits received in a central bank swap agreement are treated as reserve assets so long as the deposits are denominated in a reserve (convertible) currency. Scholars discussing Pakistan's PBOC swap line said that the renminbi drawn from that swap draw could not be recorded as official reserves at the State Bank of Pakistan because the renminbi was not considered a convertible reserve currency.<sup>15</sup> They noted, however, that the Argentinean case may have been different as a result of the 2015 supplemental agreement that provided for secondary renminbi-dollar swaps through the PBOC (IMF 2009; Nozahie and Ibrahim 2017).

The question of whether or not renminbi deposits should be counted as central bank foreign reserves therefore rests on the determination of the renminbi's status as a reserve currency, a determination that itself rests largely on convertibility of the renminbi (IMF 2009; Nozahie and Ibrahim 2017). There is some disagreement in the scholarship on this question with respect to (1) the future impact of capital-account convertibility to the renminbi's future reserve status and (2) the status of the renminbi in the SDR basket (Eichengreen et al. 2022; Nozahie and Ibrahim 2017). It is clear that the BCRA counted both SDR and non-SDR currencies in its foreign reserves in 2014 and 2015 (McDowell 2019). The PBOC and BCRA's 2018 supplementary agreement explicitly states that renminbi funds derived from the swap line may be counted as foreign reserves at the BCRA (Ministry of Foreign Affairs 2018a).

Gross and net foreign reserves may also differ in calculation. For example, some central banks may exclude from *net* reserve calculations "assets that are pledged, collateralized, or otherwise encumbered" or "claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options)" and non-convertible currencies. Other deductions from net reserves may include forward legs of foreign exchange swap agreements (IMF n.d.).

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<sup>15</sup> These scholars, however, treated the case of the PBOC-Central Bank of Egypt swap line differently, describing it as a case of "reserve currency for non-reserve currency" and stating that the swap line-derived renminbi at the Central Bank of Egypt should be counted as official reserves; it is possible that the different treatment is a result of the RMB's status in the Special Drawing Rights (SDR) basket at that time (Nozahie and Ibrahim 2017).