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China: Central Bank Swaps to Mongolia, 2011

Vincent Arnold

Yale Program on Financial Stability Case Study
July 21, 2023

Abstract

Starting in 2009, China began to rapidly expand its network of central bank swap lines. In May 2011, the People’s Bank of China (PBOC) and the Bank of Mongolia (BOM) agreed to a bilateral reciprocal swap line to promote trade and economic development and to stabilize financial markets with short-term liquidity. The agreement stipulated caps of 5 billion renminbi (RMB; USD 0.8 billion) when the BOM was the borrowing party and 1 trillion Mongolian tugrik (MNT; USD 0.8 billion) when the PBOC was the borrowing party. By 2020, the PBOC had expanded the caps to RMB 15 billion and the BOM to MNT 6 trillion. The BOM drew on the swap line every year from 2012 to 2021, with a peak outstanding amount of USD 1.8 billion from 2016 to 2021. It sold the renminbi from the PBOC in foreign exchange auctions to support the tugrik and prevent a shortage of renminbi on the market. The central banks most recently renewed the swap line on July 31, 2020; we have not been able to confirm a specific expiration date, but the swap line was renewed for a three-year period.

Keywords: China, foreign exchange, Mongolia, renminbi, swap line, tugrik

1 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/.

2 Research Associate, YPFS, Yale School of Management. The author wishes to thank Daniel McDowell for his comments.
Overview

Starting in 2009, China began to rapidly expand its network of central bank swap lines (McDowell 2019). In May 2011, the People’s Bank of China (PBOC) and the Bank of Mongolia (BOM) agreed to a bilateral reciprocal swap line to promote trade and economic development and to stabilize financial markets with short-term liquidity. Under the agreement, the BOM could request to borrow up to 5 billion renminbi (RMB, also known as yuan; equivalent to USD 0.8 billion at year-end 2011), and the PBOC could request up to 1 trillion tugrik (MNT; equivalent to USD 0.8 billion at year-end 2011) (BOM 2012).

From 2011 to 2020, the two central banks expanded the caps from RMB 5 billion to RMB 15 billion for the BOM, and from MNT 1 trillion to MNT 6 trillion for the PBOC. The parties also extended the usage period—the period within which the borrowing bank must repay the lending bank—from three to six months to one year (BOM 2012; BOM 2021). Figure 1 shows the value of the Mongolian tugrik from 2011 through 2021. Figure 2 shows the progression of the amounts that could be borrowed under the swap line from 2011 through 2020.

From 2012 to 2016, the BOM drew on the line each year to support the tugrik and prevent a shortage of renminbi in the market. Figure 3 shows the size of accumulated swap liabilities by year and the ratio of each year’s accumulation to the applicable swap line cap and to the BOM’s foreign reserves. By 2012, Mongolia’s export growth began to slow (BOM 2014b). In 2014, foreign investment dropped 87% and the Bank of Mongolia’s (BOM) foreign reserves dropped 27% year-on-year (Edwards 2015).

Key Terms

<table>
<thead>
<tr>
<th>Purpose: The swap line was established to “facilitate bilateral investment and trade and safeguard regional financial stability” (PBOC 2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating Parties</td>
</tr>
<tr>
<td>Type of Swap</td>
</tr>
<tr>
<td>Currencies Involved</td>
</tr>
<tr>
<td>Launch Date</td>
</tr>
<tr>
<td>End Date</td>
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<tr>
<td>Date of First Usage</td>
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<tr>
<td>Interest Rate and Fees</td>
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<tr>
<td>Amount Authorized</td>
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<tr>
<td>Peak Usage Amount and Date</td>
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<tr>
<td>Downstream Use/Application of Swap Funds</td>
</tr>
<tr>
<td>Outcomes</td>
</tr>
<tr>
<td>Notable Features</td>
</tr>
</tbody>
</table>
**Figure 1: Mongolian Tugrik Price (per USD), 2011–2021**

Note: Year-date markers represent the tugrik price on January 1 of that year. According to Bloomberg, USD 1 = RMB 6.3 on December 30, 2011, and USD 1 = MNT 1,394 on December 30, 2011.

*Source: Bloomberg.*

**Figure 2: Permitted Borrowing Amounts Under PBOC Swap Line to Mongolia, 2011–2020**

<table>
<thead>
<tr>
<th>Year</th>
<th>Type</th>
<th>BOM Cap (RMB billion)</th>
<th>BOM Cap (USD billion)</th>
<th>PBOC Cap (MNT trillion)</th>
<th>PBOC Cap (USD billion)</th>
<th>Usage Period (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Initial Agreement</td>
<td>5</td>
<td>0.8</td>
<td>1.0</td>
<td>0.8</td>
<td>3–6</td>
</tr>
<tr>
<td>2012</td>
<td>Amendment</td>
<td>10</td>
<td>1.6</td>
<td>2.0</td>
<td>1.4</td>
<td>3–6</td>
</tr>
<tr>
<td>2014</td>
<td>Renewal</td>
<td>15</td>
<td>2.4</td>
<td>4.5</td>
<td>2.4</td>
<td>12</td>
</tr>
<tr>
<td>2017</td>
<td>Renewal</td>
<td>15</td>
<td>2.3</td>
<td>5.4</td>
<td>2.2</td>
<td>12</td>
</tr>
<tr>
<td>2020</td>
<td>Renewal</td>
<td>15</td>
<td>2.3</td>
<td>6.0</td>
<td>2.1</td>
<td>12</td>
</tr>
</tbody>
</table>

Note: All USD amounts provided for comparison only; no swap provided dollars as a swap currency or accepted dollars as collateral.

A All agreements (excluding the 2012 amendment) had three-year terms.

B Renminbi converted to dollars as of year-end.

C Tugrik converted to dollars as of year-end.

D In 2012, the PBOC and BOM amended their swap agreement to expand the facility from RMB 5 billion to RMB 10 billion for BOM draws and from MNT 1 trillion to MNT 2 trillion for PBOC draws (BOM 2013).

*Sources: BOM 2012; BOM 2013; BOM 2015; BOM 2018; BOM 2021.*
Figure 3: Bank of Mongolia, PBOC Swap Line Use, 2011–2021

<table>
<thead>
<tr>
<th>Year</th>
<th>Accumulated Swap Debt (RMB billion)</th>
<th>Annual Total Drawn (RMB billion)</th>
<th>Percentage of Cap</th>
<th>Accumulated Debt as Percentage of Foreign Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2012</td>
<td>2.1a</td>
<td>2.1</td>
<td>21.0</td>
<td>8.7</td>
</tr>
<tr>
<td>2013</td>
<td>6.0</td>
<td>3.9</td>
<td>60.0</td>
<td>48.9</td>
</tr>
<tr>
<td>2014</td>
<td>9.0</td>
<td>3.0</td>
<td>60.0</td>
<td>98.1</td>
</tr>
<tr>
<td>2015</td>
<td>11.5</td>
<td>2.5</td>
<td>76.7</td>
<td>149.6</td>
</tr>
<tr>
<td>2016</td>
<td>12.0</td>
<td>0.5</td>
<td>80.0</td>
<td>147.1</td>
</tr>
<tr>
<td>2017</td>
<td>12.0</td>
<td>0.0</td>
<td>80.0</td>
<td>66.6</td>
</tr>
<tr>
<td>2018</td>
<td>12.0</td>
<td>0.0</td>
<td>80.0</td>
<td>64.2</td>
</tr>
<tr>
<td>2019</td>
<td>12.0</td>
<td>0.0</td>
<td>80.0</td>
<td>54.2</td>
</tr>
<tr>
<td>2020</td>
<td>12.0</td>
<td>0.0</td>
<td>80.0</td>
<td>46.0</td>
</tr>
<tr>
<td>2021</td>
<td>12.0</td>
<td>0.0</td>
<td>80.0</td>
<td>51.3</td>
</tr>
</tbody>
</table>

Note 1: In its 2012 annual report (note no. 26 to the financial statement), the BOM said that it had used RMB 2.1 billion in the year, and none in 2011 (BOM 2013). In the same paragraph, it said that the “remaining” RMB 0.4 billion represented a credit-related commitment (BOM 2013). But of the RMB 10 billion cap, use of RMB 2.1 billion leaves RMB 7.9 billion remaining as a credit-related commitment. The BOM appears to have calculated its credit-related commitment on the prior year’s RMB 5 billion cap and counted the remaining RMB 2.5 billion (5 – 2.1 – 0.4) as an on-balance-sheet item, but not a “use” (rather an “opening of credit limit”), related to its 2011 RMB 2.5 billion purchase of renminbi at the PBOC (BOM 2013). We have followed the BOM here in reporting its total use as RMB 2.1 billion.

Note 2: Foreign reserves are provided as a scaling factor only; the vast majority of the renminbi acquired by the BOM was not absorbed into foreign reserves but rather auctioned on the open market (see Key Design Decision No. 10, Downstream Use of Borrowed Funds).


The BOM lent a relatively small amount of renminbi downstream to financial institutions operating in Mongolia via short-term commercial swap lines. It sold most of the renminbi in large-scale renminbi currency auctions (see Key Design Decision No. 9, Process for Utilizing the Swap Agreement).

Summary Evaluation

Some scholars have said that the Chinese central government used the swap lines with the BOM and other central banks to promote the internationalization of the renminbi. They note several motives: to reduce foreign exchange risk, gain political leverage, promote trade, reduce reliance on the US dollar, 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; M. Zhang 2015). A Chinese state media report said analysts expected the extension of the swap line to the BOM to promote investment using the renminbi (China Daily 2011). The PBOC referenced the initial agreement and subsequent renewals of the BOM swap line in the annual timelines of its 2021 renminbi internationalization report (PBOC 2021).
Figure 4 shows the growth in the BOM’s financial assets by currency, including the renminbi. The BOM accumulated only a small amount of renminbi-denominated assets from its tugrik-renminbi swaps with commercial banks operating in Mongolia. It typically sold most of the renminbi that it drew via the PBOC swap line on the foreign exchange market to defend the tugrik (see Key Design Decision No. 10, Downstream Use of Borrowed Funds).

**Figure 4: Share of the Bank of Mongolia’s Financial Assets by Currency, 2011–2021**

![Graph showing the share of the Bank of Mongolia’s financial assets by currency, 2011–2021](image)

Note: EUR = euros; SDR = International Monetary Fund Special Drawing Rights; XAU = gold; MNT = Mongolian tugrik; RMB = renminbi; USD = US dollars.


Other scholarship has 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). In 2013 (no data was available for 2011), China accounted for 86.7% of Mongolia’s exports and provided 28.1% of its imports (World Bank n.d.b). 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).

Perks et al. found that countries are more likely to enter swap agreements with China if they are large exporters to China (Perks et al. 2021). Meanwhile, scholars have shown an empirical effect of PBOC swap lines on expanded renminbi invoicing in recipient countries after they signed swap agreements with China (Georgiadis et al. 2021). Figure 5 shows import and export volume with China for countries with and without a PBOC swap line.
One scholar has called PBOC 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. He has described swaps as “a way to extricate the Chinese economy from structural dominance of the dollar by promoting RMB-based trade settlement” and a way to gain “loyalty and influence” globally (McDowell 2019). He referenced an incident in 2017 in which, before receiving the PBOC swap line renewal, the Mongolian foreign minister spoke with the Chinese foreign minister and “reflected deeply” on a visit by the Dalai Lama to Mongolia, promised he would not allow such a visit to occur again, confirmed that Mongolia maintained its one-China policy, and said that Mongolia believes Tibet is a part of China (Y. Zhang 2017).

In 2020, the Mongolian National Security Council (one of whose functions is to “increase the ability of the economy to develop independently based on its internal resources”) (Mongolia Congress 1992, art. 4) made recommendations with respect to the PBOC swap line, which were incorporated into the 2020 renewal (see Key Design Decision No. 6, Communication). We were unable to locate the 2020 swap agreement renewal or the recommendations.

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).

The BOM published numerous accounts of the swap line and its views on the utility of the swap line (see Key Design Decision No. 6, Communication).

Media reports have said that in 2014 the PBOC’s swap line helped the BOM to “stave off economic collapse” and was crucial in helping to maintain stability in financial markets (Edwards 2015; Financial Services Monitor 2014). In 2015, the International Monetary Fund (IMF) said that the PBOC swap line did not resolve the fact that the BOM’s drawdown of reserves was “unsustainable” and concluded that Mongolia was at “high risk of debt distress,” partially as a result of debt accumulated as a result of the PBOC swap line (which reached over 41% of the BOM’s total liabilities and over 15% of GDP that year) (BOM 2016, 115; IMF 2015; World Bank n.d.a). However, IMF staff members also said that the swap line had “play[ed] a crucial role in mitigating the impacts of the shocks” (IMF 2015, 85). Figure 6 shows the composition of the BOM’s total liabilities in two categories: PBOC swap line-generated liabilities and all other liabilities.

**Figure 6: Composition of the Bank of Mongolia’s Liabilities, 2012–2021**

![Composition of the Bank of Mongolia’s Liabilities, 2012–2021](image)

Note: Total liabilities are the net on-balance-sheet liabilities accounted for in the BOM’s audited financial statements (and therefore exclude contingent liabilities of the unused swap line credit); swap line–derived liabilities were listed as part of the “liabilities due to foreign parties” line item and reported in notes to the financial statements.

*Sources: BOM 2012; BOM 2013; BOM 2014a; BOM 2015; BOM 2016; BOM 2017; BOM 2018; BOM 2019; BOM 2020; BOM 2021; BOM 2022.*

One scholar has said that the PBOC swap line helped Mongolia “avoid a collapse of the country’s central bank” (Reeves 2018, 182). Figure 7 shows the BOM’s foreign reserves balance from 2011 to 2021.
Figure 7: The Bank of Mongolia’s Foreign Reserves and Accumulated Swap Debt Outstanding, 2011–2021

Note: Year-date markers represent the reserves as of January 1 of that year.

Source: Bloomberg.
<table>
<thead>
<tr>
<th>Context: Mongolia 2011–2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (SAAR, nominal GDP in LCU converted to USD)</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>GDP per capita (SAAR, nominal GDP in LCU converted to USD)</strong></td>
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<tr>
<td></td>
</tr>
<tr>
<td><strong>Sovereign credit rating (five-year senior debt)</strong></td>
</tr>
<tr>
<td>2011</td>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>2012</td>
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<tr>
<td></td>
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<tr>
<td><strong>Size of banking system</strong></td>
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<tr>
<td></td>
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<tr>
<td><strong>Size of banking system as a % of GDP</strong></td>
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<td></td>
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<tr>
<td><strong>Size of banking system as a % of financial system</strong></td>
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<td></td>
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<tr>
<td><strong>Five-bank concentration of banking system</strong></td>
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<td></td>
</tr>
<tr>
<td><strong>Foreign involvement in banking system</strong></td>
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<td></td>
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<tr>
<td><strong>Existence of deposit insurance</strong></td>
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<tr>
<td></td>
</tr>
</tbody>
</table>

*Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.*
Key Design Decisions

1. Purpose and Type: The PBOC entered into a bilateral reciprocal swap arrangement with the BOM to promote trade, economic development, foreign exchange, and financial stability.

Starting in 2009, China began to rapidly expand its network of central bank swap lines (McDowell 2019). In 2011, the PBOC and BOM agreed to the swap line in order to promote trade and economic development and to stabilize financial markets with short-term liquidity. The BOM’s motivation for the swap line was to promote trade, defend the tugrik, and provide renminbi liquidity to the market (see Key Design Decision No. 10, Downstream Use of Borrowed Funds).

The PBOC-BOM swap line was bilateral and reciprocal (BOM 2012). The BOM’s primary mandate was to ensure the stability of the tugrik (BOM n.d.).

2. Part of a Package (A): The PBOC renewed the swap line within the framework of a larger International Monetary Fund package.

In 2017, the IMF, in partnership with regional partners and multilateral institutions, announced a three-year Extended Fund Facility arrangement for Mongolia for USD 434 million. As a part of this broader package, the PBOC agreed to renew its swap line to Mongolia for RMB 5 billion (USD 1.3 billion). The combined financing package for the BOM, including contributions from the IMF, PBOC, and other multilateral organizations, was USD 5.5 billion (IMF 2017).

   Part of a Package (B): The Mongolia swap agreements were part of a major effort by China to establish swaps with numerous trading partners to support the RMB.

In 2011, the PBOC extended swap lines to five countries. Figure 8 shows the PBOC swap lines extended in 2011. The 2011 extensions were part of a larger effort by the PBOC to expand its swap line coverage. By 2020, the PBOC had extended swap lines to 31 countries (Perks et al. 2021).
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 must be approved by the State Council, China’s highest administrative governing body\(^3\) (Law of the PRC on the PBOC 2003).

The BOM’s foreign exchange management policy is based on Article 21 of the Law on the Central Bank of Mongolia (BOM 2020; State Khural 2001). When the BOM drew on the line, it lent the renminbi proceeds downstream to commercial banks via foreign currency auctions. It also engaged in downstream short-term renminbi swaps with commercial banks. On June 30, 2016, the BOM passed the “regulation on the MNT and RMB currency swap agreement,” which established parties’ rights under the renminbi swaps provided to commercial banks (BOM 2012; BOM 2013; BOM 2014a; BOM 2015; BOM 2016; BOM 2017). (See also Key Design Decision No. 9, Process for Utilizing Swap Agreement.)

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\(^3\) The State Council is the equivalent to 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).
4. **Governance:** Swap line terms and use were governed by PBOC authorities.

Without access to the swap agreements, we could not determine which body approved entering into the swap agreements or made high-level governance and design decisions; however, the State Council authorized the 2012 supplemental agreement. The initial 2011 agreement between the PBOC and BOM was signed by the PBOC governor. The 2012 amendment was signed by the governors of the PBOC and BOM. In 2015 and 2018, the governors of the PBOC and BOM held a meeting to discuss the swap line (BOM 2012; BOM 2013; BOM 2016; BOM 2019).

The PBOC disclosed the dates and sizes of renewal/amendment of the BOM swap line in its 2021 renminbi internationalization report (PBOC 2021). The BOM disclosed in its annual reports, for each year, the amount drawn from the swap line, key swap line details (such as rates and fees, repayment term, and caps), and any renewals or revisions to the swap line (see Figures 2 and 3 at Overview).

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

The BOM made an advanced purchase of renminbi with tugrik, the proceeds of which stayed in its account with the PBOC until the BOM made a request for use. Once a request was made and the use of funds was approved, the BOM could use the renminbi funds in its PBOC account (BOM 2012). This is an unusual step in swap arrangements. Generally, funds are drawn and then made available for the borrower’s use without a secondary approval process. Our research was unable to determine the purpose of this advanced-purchase scheme.

6. **Communication:** The BOM communicated about the swap line in annual reports; the PBOC acknowledged the swap line.

The PBOC said it extended the swap line to “boost bilateral trade development and to provide short-term liquidity” (Qi 2011). In a press release in 2012, the PBOC said it agreed to a supplemental agreement in order to “facilitate bilateral investment and trade and safeguard regional financial stability” (PBOC 2012). In 2013, President Xi Jinping “identified Mongolia’s financial sector as one of three primary areas for economic cooperation” in a 2013 statement on Sino-Mongolian economic and trade relations (Reeves 2018). The prime ministers of China and Mongolia said that the implementation of the swap line was a feature of the China-Mongolia Strategic Partnership, which covered bilateral cooperation on political and economic issues (Xinhua 2013).

The BOM reported each use of the swap line and every renewal, amendment, or change to the swap line in its annual reports (see Figures 2 and 3 at Overview). The PBOC disclosed the dates and sizes of renewals and amendments of the BOM swap line in its 2021 renminbi internationalization report (PBOC 2021).
The BOM disclosed in detail in its annual reports its downstream use of the funds drawn from the PBOC swap line (see Key Design Decision No. 9, Process for Utilizing the Swap Agreement).

In 2011, the BOM’s deputy governor stated that the PBOC-BOM swap line would provide a “safety belt” to boost investor confidence in the local tugrik debt market and help with a five-year government bond auction (Choi 2011). In its 2012 annual report, the BOM said that the expansion of the PBOC-BOM swap line was “particularly significant” in providing renminbi liquidity and in permitting it to intervene in the foreign exchange market in order to maintain currency stability (BOM 2013, 37). The bank also said the downstream renminbi lending had prevented a potential renminbi shortage. In its 2014 annual report, the BOM said that the swap line extension was “significant in [balance of payments] recovery and a soft-landing for the economy” (BOM 2015, 41). The extension also had a positive impact on foreign trade finance, exchange rate risk management, regional economic cooperation, macroeconomic stability, and balance of payments issues. The BOM said that in 2015 the swap line contributed to the bank’s ability to mitigate the impacts of negative regional external shocks to the economy (BOM 2016). In 2015, the BOM’s chief economist, Sandagdorj Bold, said that the PBOC swap line was “one of the tools to absorb the shock of balance of payments pressures” (Edwards 2015). In its 2020 annual report, the BOM said that the extension of the swap line had “resolved the short-term external debt burden without compromising economic stability” (BOM 2021, 62).

In 2018, anonymous senior financial analysts at the BOM said they were “uneasy” over Mongolia’s debt burden to China (Reeves 2018, 185).

The BOM’s accounting treatment of the swap line varied over time. In 2012 through 2015 (the BOM did not report in 2011), the BOM included swap line–generated liabilities under the “liabilities due to foreign parties” line item as an unsecured loan. After 2015, the BOM described such liabilities only as “financing” from the PBOC (BOM 2013; BOM 2014a; BOM 2015; BOM 2016; BOM 2017; BOM 2018; BOM 2019; BOM 2020; BOM 2021; BOM 2022).

Consistent with the IMF’s Balance of Payments and International Investment Position Manual (Sixth Edition), the BOM does not account for its tugrik at the PBOC (the “forward leg” of the swap) as a reserve asset (BOM 2013; BOM 2014a; BOM 2015; BOM 2016; BOM 2017; BOM 2018; BOM 2019; BOM 2020; BOM 2021; BOM 2022; IMF 2009).

The swap line was accompanied by some political controversy in Mongolia. In 2017, before the PBOC swap line was renewed, the Mongolian foreign minister spoke with the Chinese foreign minister and “reflected deeply” on a visit by the Dalai Lama to Mongolia, promised

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4 Scholars have said that, in many cases, central bank swap lines are in fact close to an unsecured loan to the extent that the collateral is an unsecured deposit—which is, in effect, currency that the depositing central bank has “printed” and that may have little transactional value to the counterparty central bank (Aizenman, Jinjarak, and Park 2011; Bahaj and Reis 2022). The BOM offered no explanation in its annual reports for why it changed its treatment of the swap line–derived liability over the years.
he would not allow such a visit to occur again, confirmed that Mongolia maintained its one-China policy, and said that Mongolia believes Tibet is a part of China (Y. Zhang 2017). In 2020, the Mongolian National Security Council made recommendations with respect to the PBOC swap line, which were incorporated into the 2020 renewal (BOM 2021). The BOM did not disclose the recommendations, but the Mongolian National Security Council’s enabling law said that one function of the council was to “increase the ability of the economy to develop independently based on its internal resources” (Mongolia Congress 1992). Mongolia’s national security concept included numerous financial directives, including that Mongolia must “maintain national foreign exchange and gold reserves at a level not less than the amount of annual import requirement” (MOFA n.d.).

7. **Eligible Institutions: The BOM was the only party to this PBOC swap line.**

The PBOC extended and renewed this swap line only to the BOM.

8. **Size: The parties expanded the swap line four times.**

The PBOC and BOM signed their currency swap agreement in 2011 and expanded it four times, in 2012, 2014, 2017, and 2020. The BOM’s ability to draw under the agreement was limited to RMB 5 billion in 2011 and grew to a limit of RMB 15 billion by 2020. The PBOC’s ability to draw under the agreement began at MNT 1 trillion in 2011 and grew to MNT 6 trillion by 2020. (For further detail, see Figure 2 at Overview.)

9. **Process for Utilizing the Swap Agreement: Draws on the swap line required mutual consent and approval of the use of funds.**

Each central bank maintained a special non-interest-bearing account for the other central bank into which currency was deposited with respect to draws under the swap line—the BOM had an off-balance-sheet renminbi account at the PBOC and the PBOC had a tugrik account at the BOM (the tugrik assets of which the BOM also accounted for as off-balance-sheet). Upon the request of the borrowing bank and the approval of the lending bank, either bank could purchase the other’s currency by depositing an equivalent amount of its own currency as collateral with the lending bank, for example: buy renminbi with tugrik or buy tugrik with renminbi, for an agreed-upon period. At the end of the period, the corresponding repurchase/resale transaction would occur, and the borrower would return the foreign currency borrowed to the lender in exchange for the return of its domestic currency collateral (BOM 2012).

The BOM made an advanced purchase of renminbi with tugrik, the proceeds of which stayed in its account with the PBOC until the BOM made a request for use (but see note to Figure 3 at Overview). Once a request was made and the use of funds was approved, the BOM could use the renminbi funds in its PBOC account (BOM 2012). This is an unusual step in swap arrangements. Generally, funds are drawn and then made available for the borrower’s use without a secondary approval process. Our research was unable to determine the purpose of this advanced-purchase scheme.
10. **Downstream Use of Borrowed Funds: The BOM auctioned tugrik to commercial banks and entered into foreign exchange swaps with commercial banks.**

When the BOM drew on the line, it sold most of the renminbi proceeds in foreign exchange auctions to ease the pressure on the tugrik against the US dollar and prevent a shortage of renminbi on the market (BOM 2013; BOM 2014a; BOM 2015; BOM 2016; BOM 2017).

In 2011 and 2012, the BOM also lent a relatively small amount of renminbi downstream to commercial banks via foreign currency auctions (BOM 2012; BOM 2013). From 2013 through 2016, it lent renminbi through downstream short-term renminbi swaps with commercial banks (BOM 2014a; BOM 2015; BOM 2016; BOM 2017; Choi 2011).

Figure 9 shows the BOM’s draws on the PBOC swap line each year with its foreign exchange interventions (renminbi auctions) and commercial swaps (short-term renminbi swaps with commercial banks) for the years in which it actively drew on the line. (See also Figures 10 and 11 at Appendix.)

**Figure 9: BOM Draws on Swap Line and Foreign Exchange Intervention by Type, 2012–2016**

![Diagram showing BOM draws on swap line and foreign exchange intervention by type, 2012–2016.](image)

*Sources: BOM 2013; BOM 2014a; BOM 2015; BOM 2016; BOM 2017.*
11. Duration of Swap Draws: For both parties, draw periods could last three to six months until 2014; thereafter, they could last up to 12 months.

The usage period for draws by either bank was three to six months until 2014, when the usage period was extended to up to 12 months for both parties (see Figure 2 at Overview). Our research was unable to uncover specific draw periods.

12. Rates and Fees: The PBOC charged the BOM 200 basis points above SHIBOR for any draws; the BOM charged the PBOC the Interbank MNT Weighted Rate for any draws.

In the 2011 agreement, there were two interest rates depending on the drawing party. If the BOM requested a draw from the PBOC, it would pay the Shanghai Interbank Offered Rate (SHIBOR) for renminbi deposits with a corresponding usage period plus 200 basis points. If the PBOC requested a draw from the BOM, it would pay the Interbank MNT Weighted Rate with a corresponding usage period. The borrowing party would pay interest owed on the date of repayment of the draw amount (BOM 2012). Some scholars have said that China’s swap rate spreads appear to take account of the risk profile of the recipient country (Perks et al. 2021). Our research did not uncover whether the PBOC paid any interest on the BOM’s special account at the PBOC resulting from its advanced purchase of renminbi (see Key Design Decision No. 9, Process for Utilizing the Swap Agreement).

13. Balance Sheet Protection: The PBOC received tugrik as collateral.

A standard swap agreement involves the borrowing central bank purchasing the lending central bank’s currency with its own; the two banks then engage in subsequent repurchase and resale transactions—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). Under the PBOC-BOM swap, when the PBOC lent renminbi to the BOM, it received an equivalent amount in tugrik; the reverse was also true if the BOM lent to the PBOC (BOM 2012).

14. Other Restrictions: The PBOC said that Mongolian authorities’ policies could influence whether or not it renewed the swap line.

In 2017, before receiving the PBOC swap line renewal, the Mongolian foreign minister spoke with the Chinese foreign minister and “reflected deeply” on a visit by the Dalai Lama to Mongolia, promised he would not allow such a visit to occur again, confirmed that Mongolia maintained its one-China policy, and said that Mongolia believes Tibet is a part of China (Y. Zhang 2017).

In 2017, the PBOC “indicated that if the Mongolian authorities’ policies under the [swap] program remain on track,” it would be reasonable to renew the line again in 2020; the PBOC did not indicate what the relevant policies were (IMF 2017, 21). The leaders of both nations recognized the swap line as a part of the broader China-Mongolia Strategic Partnership,
which provided a framework for economic cooperation (see Key Design Decision No. 6, Communication).

15. Other Options: Information regarding other options is unavailable.

The PBOC did not disclose other options that it considered.


The central banks most recently renewed the swap line on July 31 2020; we have not been able to confirm a specific expiration date but the swap line was renewed for a three-year period (BOM 2021).
References and Key Program Documents

Legal/Regulatory Guidance

*Legislation delegating PBOC authorities.*
https://ypfs.som.yale.edu/node/21995

*Law delegating powers to the National Security Council (in Mongolian).*
https://ypfs.som.yale.edu/node/22169

*Law granting powers to the Bank of Mongolia.*
https://ypfs.som.yale.edu/node/22170

Media Stories

*Article discussing China’s 2022 swap line with Hong Kong (in Chinese).*
https://ypfs.som.yale.edu/node/21956

*Article discussing RMB internationalization's role in swap line extension.*
https://ypfs.som.yale.edu/node/21957

*Article discussing 2011 PBOC-BOM swap line announcement.*
https://ypfs.som.yale.edu/node/22171

*Article discussing Mongolia's use of PBOC swap line.*
https://ypfs.som.yale.edu/node/22172/
Newspaper article discussing Argentina’s use of swap agreement with PBOC to bolster reserves.
https://ypfs.som.yale.edu/node/22173

Article discussing 2014 swap agreement between PBOC and BOM.
https://ypfs.som.yale.edu/node/22174

Article discussing 2011 PBOC-BOM swap agreement.
https://ypfs.som.yale.edu/node/22175/

Article discussing 2017 China-Mongolia swap arrangement.
https://ypfs.som.yale.edu/node/22295

Press Releases/Announcements

Press release announcing 2012 supplemental agreement to PBOC-Mongolia swap line.
https://ypfs.som.yale.edu/node/22178

https://ypfs.som.yale.edu/node/22176

Reports/Assessments

The Bank of Mongolia’s annual report for 2011.
https://ypfs.som.yale.edu/node/22179

The Bank of Mongolia’s annual report for 2012.
https://ypfs.som.yale.edu/node/22180

The Bank of Mongolia’s annual report for 2013.
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China: Central Bank Swaps to Mongolia

IMF 2015 Article IV consultation report for Mongolia.
https://ypfs.som.yale.edu/node/22206

The International Monetary Fund’s Article IV report discussing the state of Mongolia’s economic recovery.
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Public memorandum describing Mongolia’s national security concept.
https://ypfs.som.yale.edu/node/22217

Report from the People’s Bank of China on renminbi internationalization.
https://ypfs.som.yale.edu/node/22208

Key Academic Papers

https://ypfs.som.yale.edu/node/22211

https://ypfs.som.yale.edu/node/22212

https://ypfs.som.yale.edu/node/22296

https://ypfs.som.yale.edu/node/21983
https://ypfs.som.yale.edu/node/22297/

Study analyzing the role of PBOC swap lines in renminbi invoicing in the context of international trade.
https://ypfs.som.yale.edu/node/22216

Working paper discussing China’s swap lines as part of a broader network of Chinese lender-of-last-resort operations.
https://ypfs.som.yale.edu/node/22943

https://ypfs.som.yale.edu/node/22168

Study discussing RMB internationalization.
https://ypfs.som.yale.edu/node/21987

Study discussing the onshore and offshore markets’ roles in RMB internationalization.
https://ypfs.som.yale.edu/node/21988

Study evaluating the driving factors and efficacy of Chinese swap lines.
https://ypfs.som.yale.edu/node/21989

Study documenting existence of and roles of international swap lines.
https://ypfs.som.yale.edu/node/21990/
*Book chapter discussing the Bank of Mongolia in the context of Sino-Mongolian relations.* 
https://ypfs.som.yale.edu/node/22214/

*Book discussing the political system of post-Mao China.* 
https://ypfs.som.yale.edu/node/22345/

*Study examining RMB internationalization.* 
https://ypfs.som.yale.edu/node/21993

**Other**

*Dataset of gross domestic product for Mongolia compiled by the World Bank.* 
https://ypfs.som.yale.edu/node/22209

*Dataset containing Chinese import volume to Mongolia time series.* 
https://ypfs.som.yale.edu/node/22210
Appendix

Figure 10: Bank of Mongolia's Tugrik Auctions, 2014–2016

Note: The BOM disclosed charts of this type only for 2014, 2015, and 2016.

Sources: BOM 2015; BOM 2016; BOM 2017.
Figure 11: Bank of Mongolia’s Tugrik Commercial Swaps, 2014–2016

Note: The BOM disclosed charts of this type only for 2014, 2015, and 2016.