CENTRAL BANKING

Central Bank of Argentina uses PBoC swap agreement for external financing

With Argentina suffering a default in July and without access to markets, its central bank is drawing on a swap agreement with the PBoC to bolster its reserves

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20 Jan 2015

The Central Bank of Argentina drew on its currency swap line with the People's Bank of China (PBoC) for the fourth time in as many months last week, with analysts suggesting it is a valuable source of finance for the country.

Since the agreement was signed in July, the Argentinian central bank has received the equivalent of $2.7 billion – including the last instalment worth $400 million on Tuesday – according to a central bank official.

The Central Bank of Argentina is one of the few institutions to ‘activate' its swap line with the PBoC, a result of the fact the country "has very limited access to external financing", according to Sebastian Vargas, a director at Barclays Research in New York.

The South American country is locked in a battle with a group of hedge funds over unpaid debt, and defaulted in July after a court ordered it to fully repay the $1.3 billion, plus interest.

"The voluntary markets are closed due to the litigation in the US," Vargas says, adding the "Chinese swap line helps to stabilise the reserves of [the] central bank".

Vargas says access to Chinese liquidity helps to "stabilise economic expectations" and "reduces the risks of an economic crisis" in Argentina.

With a further $8.3 billion available to the central bank between now and 2017 under the agreement, Vargas believes the central bank will continue using the line.

Nevertheless, "the reliance on that sort of financing will decline in the next administration if they pursue a line of returning to the markets", he notes.

Internationalisation of the renminbi

For countries like Argentina these agreements are vital for the central bank reserves, but there are others that do not need to activate their currency swap lines.

Transactions under the swap lines amounted to 294 billion yuan ($47.9 billion) in the third quarter and "played an active role in promoting bilateral trade and investment", the PBoC said in its third-quarter monetary policy report, the latest available.

Nevertheless, this represents only 10% of the total of currency swap agreements signed by the PBoC between 2009 and October 31, 2014, which amounts to a total volume of around 2.9 trillion yuan [$472 billion] across 26 central banks.

"Only very few [central banks] have activated them [and it] depends on the domestic liquidity of each country," argues Eddie Cheung, northeast Asia

FX strategist at Standard Chartered in Hong Kong.

For the PBoC, Cheung says, these currency swap lines "are part of the internationalisation process of the currency" while for the other central banks "it is a liquidity backstop".
