U.S. Raises New Concerns Over Chinese Lending Practices

A Treasury official will call for greater transparency over emergency currency "swap" loans to struggling countries by China's central bank.

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By Alan Rappeport
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The United States is raising new concerns about China's practice of making emergency loans to debt-ridden countries, warning that a lack of transparency surrounding such financing can mask the fiscal predicaments facing fragile economies that have turned to China for help.

A senior Treasury official, Brent Neiman, publicly aired concerns about the practice in a speech on Tuesday in which he urged the International Monetary Fund to push China for greater clarity about its lending terms. The Biden administration broached the issue directly with Chinese officials in Washington this year during a meeting of a recently created bilateral economic and financial working group.

Chinese loans to countries already struggling to repay their debts are being made through China's central bank using so-called swap agreements. These agreements allow countries to borrow Chinese renminbi and keep those funds in their central reserves while using the U.S. dollars that they hold to repay foreign debts.

The financing is essentially a line of credit, in which a country swaps its own currency for renminbi and agrees to pay Beijing a high interest rate. The arrangement allows those countries to use their dollar reserves to finance trade or other government needs. They can also use the funds to pay debts owed to Chinese banks or to make purchases from China, creating even deeper ties to its economy.

China has provided more than $200 billion in emergency financing in recent years. Chinese state media reported this year that the central bank had 31 currency swap agreements in force worth a combined $586 billion. Chinese currency loans tend to come with higher interest rates than those offered by the Federal Reserve or the I.M.F.

Such currency loans do not always appear on the balance sheet of the borrowing nation, obscuring the extent of its liabilities. That lack of information can make it harder for other investors to know how deeply in debt a country is and has fueled criticism that the Chinese loans could leave the recipients worse off.

In a speech at the Official Monetary and Financial Institutions Forum in Washington, Mr. Neiman laid out how the I.M.F. had struggled to assess the fiscal health of countries such as Laos, Suriname and Argentina because of the murkiness of the Chinese currency loans.

“This confusing and inconsistent treatment partly reflects a lack of reporting by the P.B.O.C. on the details of each of its swap arrangements,” Mr. Neiman said, referring to the People’s Bank of China.

A lack of clarity about how much money China’s central bank has lent to a country, what it can be used for and what has been repaid makes it difficult for investors and the I.M.F. to make their own decisions about new financing or debt relief.

“Collectively, we should continue to cultivate enthusiasm and secure commitments from the official sector to invest in support of Fund programs,” Mr. Neiman said on Tuesday, three weeks before the I.M.F. and the World Bank plan to hold their annual meetings in Washington. “But we must make sure the result is the expansion of transparent, credible and on-budget financing flows or debt relief to countries undertaking reforms, not potentially damaging forms of lending.”

For years, China has faced criticism from the United States and other Western nations that it saddled poor countries with excessive debt through its Belt and Road Initiative, which included nearly $1 trillion of construction lending. International policymakers have been pressuring China to restructure hundreds of billions of dollars of debt owed by poor countries that are facing defaults, but progress has been slow.

Eswar Prasad, a former head of the I.M.F.'s China division, said the U.S. focus on Chinese currency lending reflected the Biden administration's frustration with China's management of its exchange rate and the subsidies it provided to both state-owned and private enterprises.

"These are relevant in signaling the overall tough stance that the U.S. is taking against China on every issue, including economic ones," Mr. Prasad said.

In some cases, China has been extending currency loans to countries that owe money to its state-owned banks, protecting them from losses.

Brad Setser, a senior fellow at the Council on Foreign Relations, suggested that China should follow the same reporting practices of other major central banks that provide currency swaps. He noted that the opacity surrounding the accounting of the loans raised questions about whether countries that had already borrowed too much owed "hidden debt" to China.

"I think the P.B.O.C. has not been very transparent," Mr. Setser said.

Alan Rappeport is an economic policy reporter, based in Washington. He covers the Treasury Department and writes about taxes, trade and fiscal matters. More about Alan Rappeport

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