

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is centered in the narrow neck of the hourglass. The text is overlaid on the hourglass.

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Report RS22331

Foreign Holdings of Federal Debt

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March 12, 2008

Abstract. This report presents current data on estimated ownership of United States Treasury securities and major holders of federal debt by country. Federal debt represents the accumulated balance of borrowing by the federal government. To finance federal borrowing, United States Treasury securities are sold to investors. Treasury securities may be purchased directly from the Treasury or on the secondary market by individual private investors, financial institutions in the United States or overseas, and foreign, state, or local governments. Foreign investment in federal debt has grown in recent years, prompting questions on the location of the foreign holders and how much debt they hold.

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Foreign Holdings of Federal Debt

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Summary

This report presents current data on estimated ownership of United States Treasury securities and major holders of federal debt by country. Federal debt represents the accumulated balance of borrowing by the federal government. To finance federal borrowing, United States Treasury securities are sold to investors. Treasury securities may be purchased directly from the Treasury or on the secondary market by individual private investors, financial institutions in the United States or overseas, and foreign, state, or local governments. Foreign investment in federal debt has grown in recent years, prompting questions on the location of the foreign holders and how much debt they hold.

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Federal debt represents, in large measure, the accumulated balance of federal borrowing of the United States government. The portion of gross federal debt held by the public consists primarily of investment in U.S. Treasury securities.¹ Investors in the United States and abroad include official institutions such as the United States Federal Reserve, financial institutions such as private banks, and private individual investors. **Table 1** provides December 2007 data, available as of March 2008, on estimated ownership of U.S. Treasury securities by type of investment and the percentage of that investment attributable to foreign investors.²

As the table shows, during the past five years, foreign holdings of debt increased by just over \$1 trillion to more than \$2.3 trillion from December 2002 to December 2007. During the same period, total privately held debt increased by approximately \$1.4 trillion to \$4.4 trillion.

In December 2002, total foreign investment in U.S. federal debt was approximately \$1.2 trillion (41.3%) of the total \$3 trillion in privately held debt. By December 2007, total foreign investment in U.S. federal debt grew by 11.8% to approximately \$2.335 trillion (53.1%) of all debt held by private investors.³

Table 1. Estimated Ownership of U.S. Treasury Securities
(in billions of dollars)

End of Month	Total Public Debt Held by All Private Investors	Total Debt Held by Foreign Investors	Foreign Holdings as a Share of Total Privately Held Public Debt
Dec. 2007	\$4,395.7	\$2,355.3	53.1%
Dec. 2006	\$4,122.1	\$2,105.0	51.1%
Dec. 2005	\$3,970.6	\$2,036.0	51.3%
Dec. 2004	\$3,690.6	\$1,853.4	50.2%
Dec. 2003	\$3,377.9	\$1,533.0	45.4%
Dec. 2002	\$3,018.5	\$1,246.8	41.3%

Source: Table OFS-2: Estimated Ownership of U.S. Treasury Securities from the March 2008 *Treasury Bulletin*. See link for "Ownership of Federal Securities" tables at <http://www.fms.treas.gov/bulletin/index.html>. Data in the table above represent estimated figures current as of March 5, 2008. For the most current data, connect to the link listed above. Percentage shares calculated by CRS.

Notes: Although gross federal debt is the broadest measure of the debt, it may not be the most important one. The debt measure that is relevant in an economic sense is debt held by the public. This is the measure of debt that has actually been sold in credit markets and has influenced interest rates and private investment decisions. This table reflects that portion of public debt held by all private investors in federal securities and the portion of

¹ Figures on federal debt held by the public are available on the Department of Treasury Bureau of Public Debt website, "The Debt to the Penny and Who Holds It," at <http://www.treasurydirect.gov/NP/BPDLogin?application=np>.

² This report discusses foreign holdings of U.S. federal debt. Foreign investors also hold U.S. private securities. For data on foreign holdings of U.S. private securities, see "Survey of Foreign Holdings of U.S. Securities," at <http://www.ustreas.gov/tic/shlhistdat.html>, produced by the Treasury Department International Capital System.

³ Data are excerpted from Table OFS-2 in the March 2008 *Treasury Bulletin*. Table OFS-2 presents the estimated ownership of U.S. Treasury securities. Information is primarily obtained from the Federal Reserve Board of Governors Flow of Funds data, Table L209. State, local, and foreign holdings include special issues of nonmarketable securities to municipal entities and foreign official accounts. They also include municipal, foreign official, and private holdings of marketable Treasury securities.

that debt held by foreign investors. See CRS Report RL31590, *The Federal Government Debt: Its Size and Economic Significance*, by Brian W. Cashell.

Data on major foreign holders (investors) of federal debt by country are provided in **Table 2**. According to the data, the top three estimated foreign holders of federal debt by country, ranked in descending order as of December 2007, are Japan (\$581.2 billion), China (\$477.6 billion), and the United Kingdom (\$157.4 billion). Based on these estimates, Japan holds approximately 24.7% of all foreign investment in U.S. privately held federal debt; China holds approximately 20.3%; and the United Kingdom holds approximately 6.7%.

Table 2. The Top 10 Foreign Holders of Federal Debt, by Country

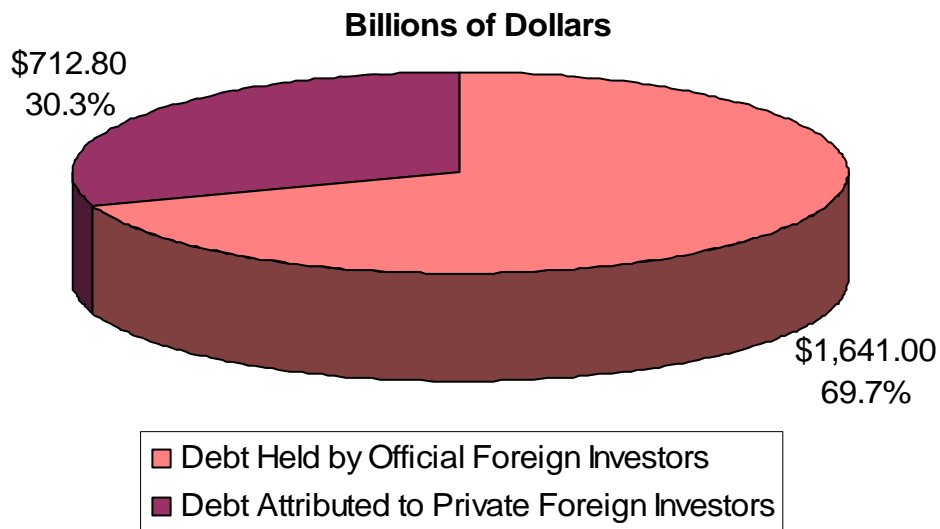
(Data current as of March 5, 2008)

Country	Amount Held (\$ in billions; as of Dec. 2007)	Percentage of all foreign holdings in federal debt	Country	Amount Held (\$ in billions; as of Dec. 2007)	Percentage of all foreign holdings in federal debt
Japan	\$581.2	24.7%	Japan	\$378.1	30.6%
Mainland China	\$477.6	20.3%	Mainland China	\$118.4	9.6%
United Kingdom	\$157.4	6.7%	United Kingdom	\$80.0	6.5%
Oil Exporters	\$137.9	5.9%	Caribbean Banking Centers	\$50.3	4.0%
Brazil	\$129.9	5.5%	Oil Exporters	\$49.6	4.0%
Caribbean Banking Centers	\$116.7	5.0%	Hong Kong	\$47.5	3.8%
Luxembourg	\$69.7	3.0%	Korea	\$38.0	3.1%
Hong Kong	\$51.1	2.2%	Taiwan	\$37.4	3.0%
Germany	\$41.7	1.8%	Germany	\$37.3	3.0%
Singapore	\$39.8	1.7%	Switzerland	\$34.0	2.8%
Total Top 10 Countries of Foreign Investors in Federal Debt	\$1,803.0	76.6%	Total Top 10 Countries of Foreign Investors in Federal Debt	\$870.6	70.5%
Total All Foreign Investment in Federal Debt	\$2,353.8	100%	Total All Foreign Investment in Federal Debt	\$1,235.6	100%

Source: The Treasury Department International Capital System provides data on estimated foreign holders of federal debt historically by month on its website at <http://www.treas.gov/tic/mfhhis01.txt>. Current monthly estimates are available at <http://www.treas.gov/tic/mfh.txt>.

Notes: Data, including historical data, in these Treasury Department tables are periodically adjusted. Data in the table above represent estimated amounts current as of March 5, 2008. For the most current data connect to the link listed above. Percentage approximations calculated by CRS. Percentages may vary slightly due to rounding.

Foreign investment as estimated by the Treasury Department can be divided into official (governmental investment) and private sources. **Figure 1** provides data on the current breakdown of estimated foreign holdings in U.S. federal debt. As the figure shows, 69.7% of foreign holdings in U.S. federal debt are held by governmental sources. Private investors hold the other 30.3%.

Figure 1. Breakdown of Official vs. Private Foreign Holdings of U.S. Federal Debt

Source: Treasury Department International Capital System, <http://www.treas.gov/tic/mfhhis01.txt>.

Notes: Data in the chart represent estimated figures current as of March 5, 2008. Data in the Treasury Department tables are periodically adjusted. For the most current estimates, click on the URL address listed above.

The estimated combined total of all foreign holdings for December 2007 was \$2,353.8 billion. Data consist of reported December 2007 figures from the Treasury Department International Capital System <http://www.treas.gov/tic/mfh.txt>. The breakdown between estimated official and private holdings is not publically available on a country-by-country basis. Percentages approximated by CRS.

Foreign Investment in U.S. Federal Debt: Why Is It an Issue of Concern?

Foreign ownership of federal debt has become a growing concern among some Members of Congress because of the nation's large and rising trade deficit. During the past three decades, U.S. national saving has not been adequate to finance its capital investment needs and borrowing from abroad has covered the gap. In order for foreigners to invest in the U.S. economy on net, the United States must import more than it exports (run a trade deficit). When the government runs a budget deficit, as it has done since 2002, it reduces the national saving rate. This implies that domestic investment must fall, unless private saving rises or borrowing from abroad increases.⁴

As seen in **Table 1**, as the national debt has increased, foreign ownership of U.S. Treasuries has followed closely, suggesting that the budget deficit has been financed, in part, through borrowing abroad. By June 2004, foreigners held more than 50% of the public debt held by private investors for the first time. Although this percentage has no particular economic significance, it may have other significance.

⁴ CRS Report RS21409, *The Budget Deficit and the Trade Deficit: What Is Their Relationship?*, by Marc Labonte and Gail E. Makinen.

Since 2002, some observers have been concerned that the nature of foreign purchases of U.S. Treasuries has changed. Beginning in that year, a significant fraction of the trade deficit was financed through official purchases of U.S. assets, such as purchases by foreign central banks. Although no direct data on official purchases of Treasuries by country exist, one can infer that the Treasuries may have been purchased by certain Asian and oil producing countries because they were the only countries that had large increases in their foreign reserves during that period. Although the effect on the U.S. economy of official purchases of Treasuries is the same as private purchases, the motivations behind the purchases are different. Whereas private purchases are typically motivated by the profit incentive, official purchases may be motivated by a country's desire to keep its exchange rate constant or mitigate its rise against the dollar.⁵ Many observers are concerned that the large fraction of national debt held by foreigners has the potential to be harmful to the U.S. economy. Specifically, they fear that if foreigners suddenly decided to stop holding U.S. Treasury securities or decided to diversify their holdings, the dollar could plummet in value and interest rates would rise. Others are concerned that China's accumulation of hard currency assets will allow it to undertake activities in the foreign affairs and military realms that are not in the U.S. interest. Some economists argue that foreign borrowing at current levels is unsustainable and could cause problems for the U.S. economy down the road.⁶

When foreigners purchase U.S. Treasuries, or any other U.S. asset, the interest rate is lower than when borrowing is financed domestically out of national saving. Thus, when overall interest rates are lower as a result of net capital inflows, more interest-sensitive spending is undertaken. Interest-sensitive spending includes capital investment (e.g., production plants and equipment), residential investment (e.g., new homes), and durable consumption goods (e.g., automobiles and appliances). On the other hand, U.S. foreign borrowing induces a trade deficit by reducing exports and import-competing production. The trade deficit occurs because foreigners must first purchase U.S. dollars before purchasing U.S. assets. When the demand for dollars increases, the dollar appreciates, making U.S. exports and import-competing goods relatively more expensive. Thus, foreign borrowing shifts production out of the trade sector and into the interest-sensitive sector.⁷

Selected CRS Reports

CRS Report RS21409, *The Budget Deficit and the Trade Deficit: What Is Their Relationship?*, by Marc Labonte and Gail E. Makinen.

CRS Report RL31590, *The Federal Government Debt: Its Size and Economic Significance*, by Brian W. Cashell.

CRS Report RL34319, *Foreign Ownership of U.S. Financial Assets: Implications of a Withdrawal*, by James K. Jackson.

CRS Report RL33186, *Is the U.S. Current Account Deficit Sustainable?*, by Marc Labonte.

⁵ See CRS Report RS21951, *Financing the U.S. Trade Deficit: Role of Foreign Governments*, by Marc Labonte and Gail E. Makinen.

⁶ See CRS Report RL33186, *Is the U.S. Current Account Deficit Sustainable?*, by Marc Labonte.

⁷ CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig K. Elwell.

CRS Report RL30520, *The National Debt: Who Bears Its Burden?*, by Marc Labonte and Gail E. Makinen.

CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig K. Elwell.

CRS Report RS21951, *Financing the U.S. Trade Deficit: Role of Foreign Governments*, by Marc Labonte and Gail E. Makinen.

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