Foreign Holdings of Federal Debt

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Summary

This report presents current data on estimated ownership of U.S. 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, U.S. 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.

This report will be updated annually or as events warrant.

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Selected Statistics on Foreign Holdings of Federal Debt

Federal debt represents, in large measure, the accumulated balance of federal borrowing of the U.S. 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 U.S. Federal Reserve, financial institutions such as private banks, and private individual investors. **Table 1** provides December 2009 data, available as of March 2010, 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 nearly $1.8 trillion to more than $3.6 trillion from December 2004 to December 2009. During the same period, total privately held debt increased by approximately $3.3 trillion to $7 trillion.

In December 2004, total foreign investment in U.S. federal debt was approximately $1.9 trillion (50.2%) of the total of approximately $3.7 trillion in privately held debt. By December 2009, total foreign investment in U.S. federal debt grew by 1.2 percentage points to $3.6 trillion (51.4%) of the total of approximately $7 trillion in 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. 2009	$7,034.5	$3,614.0	51.4%
Dec. 2008	$5,893.4	$3,076.3	52.2%
Dec. 2007	$4,395.7	$2,352.9	53.5%
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%

Source: Table OFS-2: Estimated Ownership of U.S. Treasury Securities from the March 2009 *Treasury Bulletin*. See link for "Ownership of Federal Securities" tables at http://www.fms.treas.gov/bulletin/index.html.

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 2010 *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.

Notes: Table data represent estimated figures current as of March 22, 2010. For the most current data, connect to the link listed above. Percentage shares calculated by CRS.

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 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 2009, are China ($894.8 billion), Japan ($765.7 billion), and oil-exporting countries ($207.4 billion). Based on these estimates, China holds approximately 24.3% of all foreign investment in U.S. privately held federal debt; Japan holds approximately 20.8%; and the oil-exporting countries hold approximately 5.6%.[4]

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

(data current as of March 9, 2010)

Country	Amount Held ($ in billions; as of Dec. 2009)	Percentage of all foreign holdings in federal debt	Country	Amount Held ($ in billions; as of Dec. 2004)	Percentage of all foreign holdings in federal debt
Mainland China	$894.8	24.3%	Japan	$689.9	37.3%
Japan	$765.7	20.8%	Mainland China	$222.9	12.1%
Oil Exporters	$207.4	5.6%	United Kingdom	$95.8	5.2%
United Kingdom	$178.0	4.8%	Taiwan	$67.9	3.7%
Brazil	$169.3	4.6%	Oil Exporters	$62.1	3.4%
Hong Kong	$148.7	4.0%	Korea	$55.0	3.0%
Russia	$141.8	3.8%	Carribean Banking Centers	$51.1	2.8%
Carribean Banking Centers	$128.2	3.5%	Germany	$50.3	2.7%
Taiwan	$116.5	3.2%	Hong Kong	$45.1	2.4%
Switzerland	$89.7	2.4%	Switzerland	$41.7	2.3%
Total Top 10 Countries of Foreign Investors in Federal Debt	$2,840.1	77.0%	Total Top 10 Countries of Foreign Investors in Federal Debt	$1,381.8	74.9%
Total All Foreign Investment in Federal Debt	$3689.0	100%	Total All Foreign Investment in Federal Debt	$1,849.3	100%

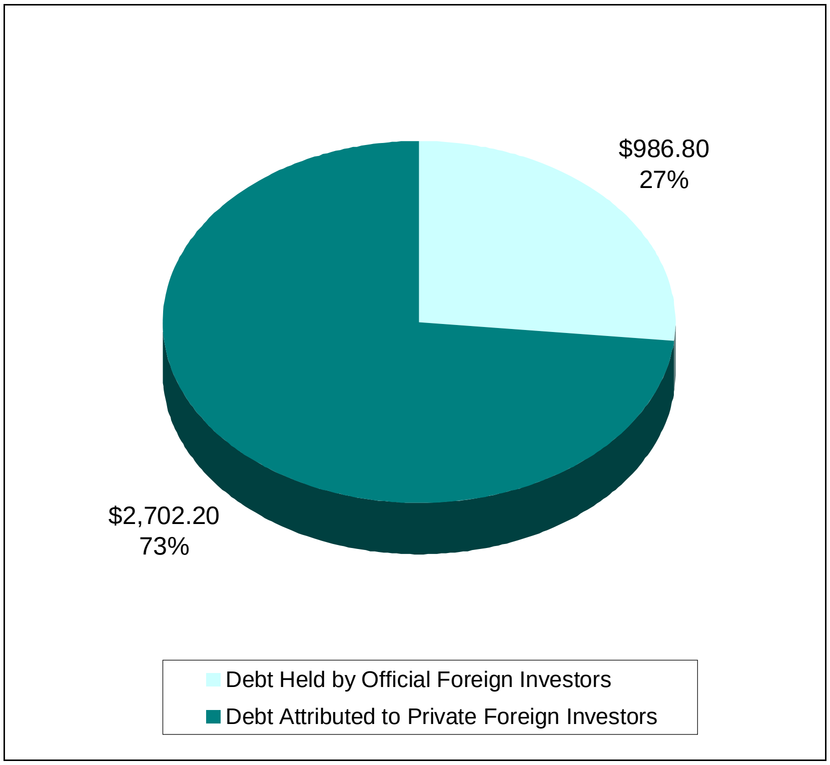
Source: Treasury Department International Capital System (TIC), at http://www.treas.gov/tic/mfhhis01.txt.

4 Foreign holdings are estimated by the Treasury Department based on the location of the holdings, not the nationality of the holder. For certain countries, such as the Carribean Banking Centers, many of the holdings are likely owned by third country citizens.

Notes: Data, including estimated foreign holders of federal debt historically by month, in these Treasury Department tables are periodically adjusted. Current monthly estimates are available at http://www.treas.gov/tic/mfh.txt. Aggregate data totals in **Table 1** vary slightly from aggregate data totals in **Table 2** because of minor valuation differences of a few securities for a few of the countries in the complete list of International Financial Statistics data used by the TIC data. Percentage approximations calculated by CRS. Percentages may vary slightly due to rounding.

Foreign holdings 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, 73.3% of foreign holdings in U.S. federal debt are held by governmental sources. Private investors hold the other 26.7%.

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 9, 2010. Figures are in billions of dollars. 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 2009 was $3,689.0 billion. Data consist of reported December 2009 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. Approximate percentages calculated 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. 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.[5]

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.

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, it can be inferred 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.[6] 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.[7]

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

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

[6] See CRS Report RS21951, *Financing the U.S. Trade Deficit: Role of Foreign Governments*, by Marc Labonte.

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

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.[8]

Since the financial turmoil began in August 2007, the supply of Treasury securities has risen sharply, as a result of the increase in federal borrowing to finance spending on economic and financial recovery.[9] At the same time, the demand for Treasury securities has risen as there has been a "flight to quality" caused by greater investor preference for Treasury securities compared with riskier private securities. Thus, although an increase in the supply of Treasury securities would be expected to cause Treasury yields to rise, they instead fell relative to pre-crisis levels. Likewise, although the financial turmoil originated in U.S. markets, after the turmoil deepened in September 2008, net capital inflows pushed up the value of the dollar.

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 RL34314, *China's Holdings of U.S. Securities: Implications for the U.S. Economy*, by Wayne M. Morrison and Marc Labonte.

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.

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

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.

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

[9] For details on the liquidity crisis in financial markets starting in August 2007, see CRS Report RL34182, *Financial Crisis? The Liquidity Crunch of August 2007*, by Darryl E. Getter et al.

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