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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 on the secondary market in the United States or overseas by the individual private investors, financial institutions, 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.

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** below provides data available as of November 2005 on estimated ownership of U.S. Treasury securities by type of investment and the percentage of that investment attributable to foreign investors.

As the table notes, during the past four years, foreign holdings of the public debt have increased more than the total privately held debt has increased. Foreign holdings of debt increased by $856.5 billion to nearly $1.9 trillion from December 2000 to December 2004. During the same period, total privately held debt increased by $786 billion to $3.7 trillion.

[1] Figures on debt held by the public are available on the Bureau of Public Debt website, "The Debt to the Penny and Who Holds It," at [http://www.publicdebt.treas.gov/opd/opdpdodt.htm].

In December 2000, total foreign investment in U.S. federal debt was just over $1 trillion (35.9%) of the total $2.89 trillion in privately held debt. By December 2004, total foreign investment in U.S. federal debt grew by 15.7 percentage points to approximately $1.9 trillion (51.6%) of all debt held by private investors.[2]

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 public debt held by foreign investors	Percentage of public debt held by foreign investors
Dec. 2004	$3,667.1	$1,890.7	51.6%
Dec. 2003	$3,377.9	$1,537.6	45.5%
Dec. 2002	$3,018.5	$1,200.8	39.8%
Dec. 2001	$2,819.5	$1,051.2	37.3%
Dec. 2000	$2,880.4	$1,034.2	35.9%

Source: Table OFS-2: Estimated Ownership of U.S. Treasury Securities from the September 2005 *Treasury Bulletin*. See link for "Ownership of Federal Securities" tables at [http://www.fms.treas.gov/bulletin/index.html]. Percentage approximations 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 that debt held by foreign investors. See CRS Report RL31590, *The Federal Government Debt: Its Size and Economic Significance*, by Brian Cashell.

Data on major foreign holders (investors) of federal debt by country are provided in **Table 2** below. According to the table, the three top-estimated foreign holders of federal debt by country, ranked in descending order as of September 2005, are Japan ($687.3 billion), China ($252.2 billion), and the United Kingdom ($182.4 billion). Based on these estimates, Japan's portion of the investment in U.S. federal debt constitutes approximately 33.3% of all foreign investment in U.S. federal debt; China's, approximately 12.2%; and the United Kingdom's, approximately 8.8%.

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[2] Data are excerpted from Table OFS-2 in the September 2004 *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.

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

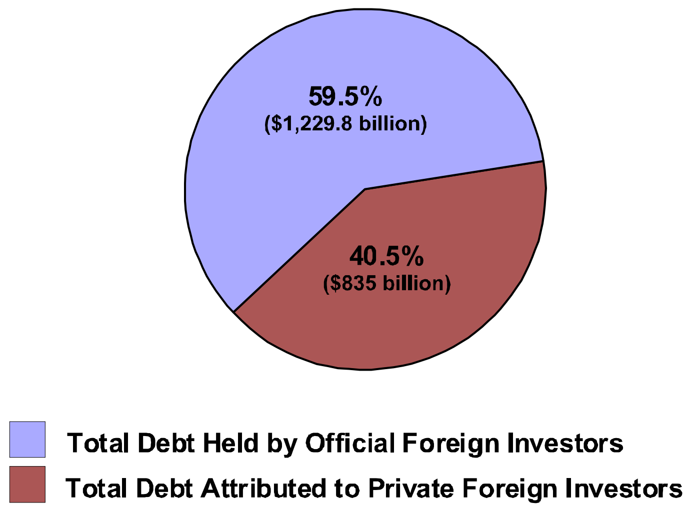
In billions of dollars (as of September 2005)		Percentage of all foreign investment in federal debt	In billions of dollars (as of September 2000)		Percentage of all foreign investment in federal debt
Japan	$687.3	33.3%	Japan	$317.3	30.5%
Mainland China	$252.2	12.2%	Mainland China	$62.1	6.0%
United Kingdom	$182.4	8.8%	United Kingdom	$64.3	6.2%
Caribbean Banking Centers	$102.9	5.0%	Germany	$50.9	4.9%
Taiwan	$71.8	3.5%	OPEC	$46.8	4.5%
Germany	$63.5	3.1%	Taiwan	$38.1	3.7%
Korea	$61.7	3.0%	Hong Kong	$37.4	3.6%
OPEC	$54.6	2.6%	Caribbean Banking Centers	$33.9	3.3%
Canada	$48.1	2.3%	Korea	$28.1	2.7%
Hong Kong	$47.8	2.3%	Belgium-Luxembourg	$23.3	2.2%
Total Top 10 Countries of Foreign Investors in Federal Debt	$1572.3	76.2%	Total Top 10 Countries of Foreign Investors in Federal Debt	$702.2	67.6%
Total All Foreign Investment in Federal Debt	$2,062.9	100%	Total All Foreign Investment in Federal Debt	$1,038.8	100%

Source: The Treasury Department International Capital System provides data on estimated foreign holders of federal debt by month on its website at [http://www.treas.gov/tic/mfh.txt].

Note: Percentages may vary slightly due to rounding. Historical data are available at [http://www.treas.gov/tic/mfhhis01.txt].

Foreign investment as estimated by the Treasury Department can be divided into official (governmental investment) and private (individual investment) sources. **Figure 1** below provides data on the current breakdown of estimated foreign holdings in U.S. federal debt. As the figure shows, just over 59.5% of foreign holdings in U.S. federal debt are held by governmental sources.

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



Source: Treasury Department International Capital System, at [http://www.treas.gov/tic/mfh.txt].

Notes: The estimated combined total of all foreign holdings is $2,065.5 billion. Data as of November 16, 2005. 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 or 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.[3]

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. In 2004, foreigners held more than 50% of the publicly held debt for the first time. Although this percentage has no particular economic significance, it has symbolic significance for some.

Since 2002, some observers have been concerned that the nature of foreign purchases of U.S. Treasuries has changed. Beginning in that year, a large and growing 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

[3] CRS Report RS21409, *The Budget Deficit and Trade Deficit: What is Their Relationship?*, by Marc Labonte and Gail Makinen.

country exist, one can infer that the Treasuries may have been purchased by certain Asian countries because they were the only countries that had large increases in their foreign reserves during that period. In descending order, Japan, China, Taiwan, Korea, and India had the largest increases in total foreign reserves (including non-U.S. assets) from 2002 to 2004. 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.[4] 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, the dollar would plummet in value and interest rates would rise.

When foreigners purchase U.S. Treasuries, or any other U.S. asset, the interest rate is reduced, unlike when borrowing is financed domestically out of national saving. Thus, when overall interest rates fall 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, foreign borrowing is linked to trade deficits 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.[5]

Selected CRS Reports

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

CRS Report RS21951, *Changing Causes of the U.S. Trade Deficit*, by Marc Labonte and Gail Makinen.

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

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

CRS Report RS20645, *Recent Changes in Federal Debt and Its Major Components*, by Philip D. Winters.

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

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[4] See CRS Report RS21951, *Changing Causes of the U.S. Trade Deficit,* by Marc Labonte and Gail Makinen.

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