

# CURRENT ISSUES

IN ECONOMICS AND FINANCE

May 1998

Volume 4 Number 5

## Foreign Ownership of U.S. Treasury Securities: What the Data Show and Do Not Show

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*The Treasury Department makes available to the public considerable information about foreign holdings of its securities. Nevertheless, it is not possible to determine from the published data exactly which foreigners own U.S. Treasury debt and how much of this debt is in foreign hands.*

Foreign ownership of U.S. Treasury securities has often been the subject of considerable public debate. Discussion of this issue arises particularly at times of uncertainty about either the outlook for the exchange value of the dollar or the need for cash in countries holding large stocks of Treasury assets. In June of 1997, for example, there was a flurry of activity in the U.S. financial markets when the Prime Minister of Japan, Ryutaro Hashimoto, suggested that Japan might find it necessary to sell some of its large Treasury holdings.

On the day following Mr. Hashimoto's remarks, the Dow Jones industrial average fell by 192 points, its largest decline in a single day since the 508-point falloff on October 19, 1987.<sup>1</sup> While the Prime Minister's clarification of his remarks subsequently calmed the markets, it did nothing to alter the potential vulnerability of the U.S. financial markets to sudden decisions by foreign holders of U.S. debt to undertake large-scale sales of their dollar assets.

Knowing exactly which foreigners own specific amounts of U.S. Treasury debt in a global market of about \$3.4 trillion in outstanding issues, however, is simply not possible. This inability to identify the ultimate foreign owners of Treasury securities does not reflect a lack of effort by the U.S. government to collect data on the foreign ownership of its debt. Nor is it the result of any governmental unwillingness to make data available to the

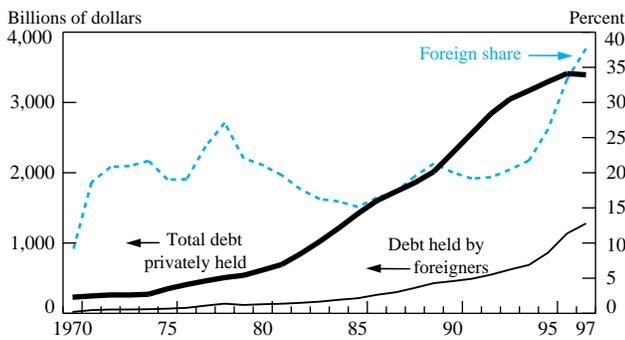
public. Rather, the inability of both policymakers and private sector analysts to determine with full accuracy the foreign ownership of U.S. Treasury debt—whether held by private or official investors—stems not only from the Treasury Department's obligation to respect the confidentiality of individual respondents but also from the nature of the reporting requirements themselves.

The purpose of this edition of *Current Issues* is to shed light on what data the U.S. government collects and publishes on foreign holdings of Treasury securities. In addition, the article seeks to identify what both policymakers and private sector analysts can and cannot know about the ownership of these holdings. Before turning to these issues, the article briefly examines the extent of foreign ownership of Treasury securities—as it is reported to the Treasury—and the importance of these holdings for the U.S. economy.

### Magnitude of Foreign Holdings

Reported foreign ownership of U.S. Treasury securities not only is large but also has grown rapidly over the past several decades (see chart). From assets of about \$20 billion in 1970, equivalent to almost 9 percent of privately held securities outstanding, holdings of Treasury debt attributed to foreigners grew steadily throughout the 1970s and 1980s, accounting for an average of

## Holdings of Treasury Securities



Source: U.S. Department of the Treasury, *Treasury Bulletin*, Table OFS-2.

Notes: The chart reports holdings at end of period. Holdings include marketable and nonmarketable short- and long-term securities held by private investors. Debt held by foreigners includes investments of foreign and international accounts (both official and private) in U.S. public debt issues. The 1997 figure is preliminary.

roughly 19 percent during this time.<sup>2</sup> In 1995, foreign demand for Treasury securities began to outstrip the increase in Treasury's borrowing from the public, making foreigners net buyers of Treasury debt from U.S. holders (Table 1). The percentage of privately held Treasury debt reported to be held by foreigners rose to an average of almost 30 percent in 1995-96. In 1997, foreigners continued to make large purchases of Treasury securities, and by year-end their reported share had climbed to almost 38 percent, or \$1.3 trillion, of the \$3.4 trillion in privately held debt outstanding (see chart).

As of February 1998, Treasury data attributed the largest foreign holdings of U.S. Treasury securities to the

**Table 1**  
**Foreign Purchases of Treasury Securities**

Billions of Dollars

Year	Total Borrowing from the Public <sup>a</sup>	Amount Borrowed from Foreigners
1970-79	34.2	10.5
1980-89	155.0	27.5
1990-94	248.2	52.2
1995	171.3	192.6
1996	129.6	181.7
1997	38.2	252.4

Source: U.S. Office of the President, Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 1999* (1998), Table 13-6, p. 255.

Notes: Data are for the end of each fiscal year. The figures in rows 1-3 are yearly averages over the periods indicated.

<sup>a</sup>Defined as the change in debt held by the public from the beginning of the year to the end, except to the extent that the amount of debt is changed by reclassification.

**Table 2**  
**Major Foreign Holders of Treasury Securities**

Billions of Dollars

Country	December 1996	December 1997	February 1998
United Kingdom	190.6	286.9	304.9
Japan	286.4	300.7	296.9
Germany	72.5	91.2	92.0
Netherlands Antilles	63.9	61.6	54.7
OPEC countries	44.0	52.5	50.7
Spain	46.4	53.9	49.8
Mainland China	46.6	47.3	47.7
Hong Kong	24.9	37.3	36.5
Singapore	39.2	34.9	33.9
Taiwan	32.0	29.8	30.7
Switzerland	31.3	25.6	26.9
Belgium-Luxembourg	14.0	27.0	25.8
Canada	26.9	25.2	25.4
Mexico	19.9	18.0	18.2
France	9.6	8.1	11.1
Thailand	16.9	9.9	8.8
South Korea	9.9	5.2	6.4
All other <sup>a</sup>	160.4	162.9	166.8
<b>Total</b>	<b>1135.4</b>	<b>1278.0</b>	<b>1287.2</b>
Of which,			
foreign official holders	599.2	594.4	590.1
(percent)	(52.8)	(46.5)	(45.8)

Source: U.S. Department of the Treasury, Economic Policy/International Financial Analysis, April 27, 1998 [online]; available <http://www.ustreas.gov/tic/mfh.txt>.

Notes: The table reports estimated holdings of marketable and nonmarketable short- and long-term securities at the end of the period. Data are released monthly.

<sup>a</sup>Includes repurchase agreements outstanding at the Federal Reserve Bank of New York with foreign official and international accounts.

United Kingdom and Japan, where combined assets of about \$600 billion accounted for almost half of all Treasury debt reported as foreign-owned (Table 2). Investors in Germany, the Netherlands Antilles, Spain, Mainland China, and Hong Kong were also shown to be substantial holders. Between December 1996 and February 1998, the Treasury debt attributed to foreign official institutions—central banks and the international financial institutions—declined steadily, from almost 53 percent of all Treasury debt reportedly held by foreigners to 45.8 percent, making private sector investors primarily responsible for the net foreign purchases of Treasury securities in 1997.

### Why Foreigners Hold U.S. Treasury Securities

Private and official foreigners hold U.S. Treasury securities as a store of wealth and a means to conduct international transactions. Both groups of holders are sensitive to interest rate differentials and the exchange rate value

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of the dollar relative to the other major currencies that might be held for the same broad purposes. Whereas private holders might use the dollars provided by their Treasury assets to purchase imports from the United States or third countries, official holders—primarily central banks—might use the dollars from their holdings to defend the value of their countries' currencies in foreign exchange markets. Depending on the purposes for which foreigners hold Treasury securities, they will vary the maturity of their assets among shorter and longer term instruments. Short-term Treasury bills have a maturity of one year or less while longer term notes and bonds have maturities ranging from more than one year to up to thirty years.

In deciding whether to hold, add to, or sell their Treasury assets, both official and private investors will consider, among other issues, the political and economic climate in the United States and their own need for dollar-denominated assets. Uncertainty about the outlook for U.S. interest rates or the exchange rate of the dollar as well as any major shock to the U.S., global, or home-country economy could prompt any of these investors to sell their Treasury holdings and shift their dollar assets into another currency. If these sales were to take place in a substantial amount, they could drive up U.S. interest rates and have wide-ranging effects on U.S. financial markets. For example, sharp increases in U.S. interest rates stemming from such sales could significantly raise the costs of borrowing and investing for U.S. residents as well as the costs incurred by the U.S. government in financing its debt.

Any widespread sell-off of U.S. Treasury securities, of course, could also potentially drive down the prices of the remaining Treasury assets held and cause substantial losses on further sales. In practice, however, the unsettled economic conditions that might lead some investors to sell their Treasury securities could be the same forces that encourage “flight-to-quality” buying by other investors.

### **Data Collected by the Treasury on Foreign Holdings**

The Treasury collects data on foreign ownership of its debt so as to be able to report on the capital account of the U.S. balance of payments and the international investment position of the United States. In soliciting data for these reports, the Treasury Department assures respondents that the information they provide will be held in confidence by it and the Federal Reserve banks acting as its fiscal agents. Further, it assures respondents that any published information will be aggregated and will not reveal the amounts reported by individual respondents.

The Treasury Department gathers data on foreign activity in its securities from banks and other depository institu-

tions located in the United States—including the branches, agencies, and banking subsidiaries of foreign banks—as well as brokers and dealers located here.<sup>3</sup> It does not solicit information from institutions located abroad.

Respondents are required to complete two forms, the BL-2 form for custody holdings in short-term securities and the S form for transactions in long-term securities. The BL-2, which applies to Treasury securities with original maturities of one year or less, asks respondents to report monthly on custodial liabilities to foreigners, including short-term Treasury securities, amounting to \$15 million or more.<sup>4</sup>

The S form is used for reporting securities with original maturities of more than one year. It asks respondents to provide information on a monthly basis about all foreign purchases and sales of long-term Treasury securities, among other securities, if either the purchase or the sale in a given month amounts to \$2 million or more.<sup>5</sup> The report form considers as foreign a transaction that is executed either in the United States for the account of foreigners or abroad for the respondent's own account or the account of its U.S. customers. In a memorandum section, the form asks respondents to show transactions undertaken for the account of foreign official institutions—central banks as well as the Bank for International Settlements—and international and regional organizations such as the International Monetary Fund and the World Bank.

The way in which a purchase or a sale of a Treasury security is reported is always based on the viewpoint of the foreigner. For example, a reporting institution's purchase from a foreigner of a long-term security for its own account or for the account of its U.S. customers is recorded as a sale by a foreigner. Conversely, the same institution's sale of a long-term security to a foreigner for its own account or for the account of a U.S. customer is reported as a purchase by a foreigner. In other words, a purchase by a foreigner is a sale by a U.S. resident, and vice versa.

### **Why the Data Collected Do Not Identify the Ultimate Foreign Ownership of the Securities**

In addition to the Treasury's obligation to ensure the confidentiality of data reported by individual respondents, the main impediment to identifying the ultimate owners of Treasury securities arises from the reporting guidelines on the BL-2 and S forms that specify who is considered foreign and how the nationality of a foreign holder is to be determined. For example, any individual, including a U.S. citizen, who lives outside the United States is considered foreign. Any partnership, association, corporation, or other organization created or organized under the laws of a foreign country is considered foreign—except the

branches, agencies, and subsidiaries of these institutions located in the United States. Similarly, any foreign branch, subsidiary, or other affiliate of a U.S. organization is considered foreign. Thus, while a foreign bank's U.S. branches, agencies, and subsidiaries are considered U.S. persons, its head offices and branches located outside the United States are considered foreign.<sup>6</sup> Simply put, it is the location of an entity that determines whether that entity is considered domestic or foreign for reporting purposes.

In providing information to the Treasury, U.S. reporting institutions are asked to list transactions with foreigners on the line opposite the name of the foreign country or geographical area in which the foreigner resides. Transactions with foreign branches or agencies of foreign banks—excluding central banks—and other private institutions must be reported on the line opposite the country in which the foreign branch or agency is located. For example, a U.S. institution's transaction with the Sydney, Australia, branch of a French firm is reported opposite Australia and not opposite France.

Because liabilities to foreigners reported on the BL-2 form are listed opposite the country where the foreigner resides and transactions reported on the S form are typically listed opposite the country where the foreign institution undertakes the transaction—rather than opposite the country of the person or firm on whose behalf the foreign institution may be acting—it is not possible to know precisely who the ultimate holders of U.S. Treasury securities are. An example may help clarify this point.

If a U.S. bank buys a long-term Treasury security from a Japanese resident's account with Merrill Lynch in London, the transaction will be reported as a sale by a U.K. resident and not a Japanese resident. If the same transaction were to take place on behalf of a U.K. resident's account with Merrill Lynch in London, the sale would be recorded opposite the United Kingdom, and a U.K. resident would in fact be the foreign seller of the security.

It is not difficult to see from this example that the Treasury data—whether made available to the public or not—do not necessarily reflect the nationality of the ultimate owner of, or transactor in, the security.<sup>7</sup> Many foreign holders of Treasury securities, private as well as official, may decide to hold their Treasury assets in accounts outside their own countries precisely because they wish to avoid public or official scrutiny of their holdings or their buying and selling activity.<sup>8</sup> There is, of course, nothing illegal about these decisions. Moreover, these decisions undoubtedly account for the particularly large holdings of Treasury securities that are reported for countries such as the United Kingdom, which is a major world financial center, and the Netherlands Antilles, which is a major offshore financial center (Table 2).

### Data Made Available to the Public

The Treasury Department makes available to the public in its quarterly *Bulletin* a great deal of the data it collects on foreign holdings of its securities. Some of this information is included in the monthly *Federal Reserve Bulletin*, which also makes available data on the Treasury securities held by the Federal Reserve for foreign official institutions.<sup>9</sup> The Commerce Department's Bureau of Economic Analysis incorporates the Treasury data when it reports quarterly on the U.S. balance of payments and the international investment position of the United States in the *Survey of Current Business*.<sup>10</sup> In January 1998, the Treasury Department also created a web page on the Internet. Among the data it publishes on its web site are monthly reports on foreign holdings of its securities. The table containing this information lists the countries that the Treasury identifies as the major holders of its debt and the percentage of the debt held by foreign official institutions (shown in Table 2).

The Treasury reports data on short-term securities on a stock basis—that is, on the amount of debt outstanding; the data on long-term securities are on a flow, or transactions, basis. To update its estimates of the long-term securities held by foreigners, the Treasury undertakes a benchmark survey every five years. One such report is due to be published in 1998 for holdings as of the end of 1994. The current estimated stock of foreign holdings is based on the benchmark survey as of year-end 1989 and cumulative transactions since that date.

**Table 3**  
**Foreign Holdings of Short-Term Treasury Bills and Certificates**

Billions of Dollars

	Total	Amount Held by		
		Official Institutions <sup>a</sup>	Banks <sup>b</sup>	Other Foreigners
1970-79	38.2	37.8	0.2	0.2
1980-89	77.5	66.8	7.6	3.1
1990-94	133.2	113.5	10.2	9.5
1995	197.0	168.5	15.9	12.6
1996	236.5	198.9	23.1	14.5
1997 <sup>c</sup>	193.4	148.3	31.9	13.2

Source: U.S. Department of the Treasury, *Treasury Bulletin*, Table CM-I-2.

A companion table, CM-I-4, shows this information by country, but aggregates the holdings of foreign official institutions with those of unaffiliated foreign banks and excludes the holdings of "other foreigners."

Note: The figures in rows 1-3 are yearly averages over the periods indicated.

<sup>a</sup>Includes the Bank for International Settlements.

<sup>b</sup>Figures may include Treasury bills and certificates held in custody by foreign banks for official institutions.

<sup>c</sup>Preliminary.

**Table 4**  
**Net Foreign Purchases of Long-Term Marketable Treasury Notes and Bonds**

Billions of Dollars

	Net Purchases by			
	Total	Official Institutions	Other Foreigners	International and Regional Institutions
1970-79	4.5	3.7	0.3	0.5
1980-89	24.1	13.8	10.2	0.1
1990-94	35.9	14.9	20.6	0.4
1995	134.1	39.6	94.0	0.4
1996	232.2	85.8	148.3	-1.8
1997 <sup>a</sup>	183.6	43.1	140.1	0.4

Source: U.S. Department of the Treasury, *Treasury Bulletin*, Table CM-V-1.

A companion table, CM-V-3, shows total net foreign purchases of long-term marketable Treasury securities by country; Tables CM-V-4 (quarterly) and CM-V-5 (annual) present similar data for gross purchases and sales.

Note: The figures in rows 1-3 are yearly averages over the periods indicated.

<sup>a</sup>Preliminary.

The Treasury Department's quarterly *Bulletin* presents a variety of tables containing information on foreign ownership of Treasury securities. Some of the tables (summarized in Tables 3 and 4) break down foreign owners into private and official holders of short- or long-term Treasury debt but do not distinguish among countries, while other tables look at foreign holdings of short- and long-term debt across countries but do not distinguish between official and private holders. In addition, although the tables on short-term securities include information on holdings by official institutions, they do not fully separate official from private holdings at banks: the holdings reported for banks may include assets held in custody by foreign banks for official institutions (see Table 3). Further, official holdings of short-term Treasury securities do not reflect central bank positions alone but also include the holdings of the Bank for International Settlements, which frequently invests on behalf of various central banks.

### What the Publicly Available Data Show and Do Not Show

While considerable information on foreign holdings of Treasury securities is made available to the public, many facets of activity in Treasury securities simply cannot be known and must remain speculative for public and official observers alike. In a deep and fluid global market of \$3.4 trillion in privately held Treasury securities—where transactions among brokers average between \$100 billion and \$150 billion a day—ownership of Treasury debt is constantly changing.

From the data published, it is not possible to know precisely who owns U.S. Treasury debt and how much of this debt is in foreign hands. While the Treasury data can identify the countries where investors have been net buyers or sellers of securities in any given month and can better estimate the holdings of individual countries for those years in which benchmark surveys are taken, the nationality of those ultimately owning the securities or undertaking transactions in them still cannot be fully known. Moreover, because benchmark surveys are conducted only at five-year intervals and because their findings are published with long lags, estimates of foreign ownership of Treasury debt become increasingly less accurate as the years pass between one survey and the next. In addition, it is not possible to know precisely the percentage of foreign debt that is held by the official as opposed to the private sector because the data published on short-term Treasury holdings by banks may include Treasury bills and certificates held in custody by foreign banks for official institutions.

Further, although it is possible to determine whether foreign official institutions as a group are buying or selling long-term Treasury securities from month to month—unless those institutions are acting through intermediaries abroad—the Treasury data do not reveal the actions of any individual country's central bank at any given time nor indicate whether that central bank is buying or selling Treasury bills, notes, or bonds. Any press or other reports stating that a specific country's central bank is unloading Treasury securities for whatever reason are, therefore, based on purely speculative or anecdotal evidence. These activities simply cannot be known from published Treasury data.

More broadly, because the Treasury's reporting system is designed to record only those capital movements that cross U.S. borders, Treasury data do not capture the activity in Treasury securities—which may be considerable—undertaken by foreign institutions with each other. For example, transactions in Treasury securities of Japanese banks in Tokyo with other foreign institutions will not appear in the Treasury's U.S.-based reporting network. Only if a Japanese bank in Tokyo is dealing with an institution located in the United States will these activities be reported.

### Conclusion

In presenting data to the public, the Treasury Department has a responsibility not to divulge any individual information reported. Given the depth and breadth of the U.S. Treasury markets, any breach of this confidence could mean that foreigners—private as well as official—might be less willing to buy U.S. assets or to hold these assets in U.S.-based institutions. Such an eventuality could lead to a rise in U.S. interest rates,

increasing financing costs for the U.S. government and residents as well as weakening the profitability of U.S. firms and their ability to compete effectively in global financial markets.

Because the Treasury Department must respect the confidentiality of its respondents and because the information it compiles may not necessarily reflect the nationality of those holding its assets—or the precise amount of its assets held by foreigners—it is not possible to conclude with certainty from published data that private or official investors in any individual country are behaving in a particular way at any given time. Thus, while a good deal of information estimating foreign holdings of U.S. Treasury securities is made public, analysts using the data must be cautious in drawing conclusions about the foreign ownership of U.S. Treasury debt.

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## Notes

1. See “Blue Chips Plunge on Remarks by Hashimoto,” *Wall Street Journal*, June 24, 1997; “Bond Prices Ease After Japan’s Prime Minister Suggests Possible Sale of Some U.S. Treasuries,” *Wall Street Journal*, June 24, 1997; “Why Japan Won’t Dump U.S. Treasuries,” *New York Times*, June 25, 1997; “Hashimoto Rocks Dollar Only Briefly,” *Financial Times*, June 25, 1997.

2. The discussion of Treasury securities refers to marketable and nonmarketable debt, unless otherwise indicated.

3. A more detailed list of the institutions asked to provide information includes the following: all banks, other depository institutions (including commercial banks; Edge Act and Agreement Corporations; branches, agencies, and banking subsidiaries of foreign banks; building or savings and loan associations; mutual or stock savings banks; cooperative banks; credit unions; homestead associations; and

consumer banks), International Banking Facilities, bank holding companies, and brokers and dealers.

4. The respondent may hold these liabilities to foreigners either in direct custody or in its own name with a custodian bank or other institution. Once the \$15 million level is reached, the respondent must report for the remainder of the calendar year.

5. Once the \$2 million criterion is met for either a purchase or a sale, the other type of transaction (purchase or sale) must also be reported, even if the total amount does not exceed \$2 million.

6. Also considered foreign is any government of a foreign country, including all foreign official institutions, even if these are located in the United States. In addition, official and regional organizations representing multiple countries are considered foreign—even if these organizations have their headquarters in the United States.

7. The Treasury’s approach to identifying nationality reflects the fact that its reporting system is designed to collect data on U.S. portfolio capital movements for U.S. international accounts. The system is not intended to be a registry of international claims and liabilities.

8. Investors may also be motivated by such considerations as taxes, transactions costs, and time differences between markets.

9. The *Treasury Bulletin* has no table corresponding to Table 3.13 of the *Federal Reserve Bulletin*, which reports a total dollar amount for foreign official assets held in custody at the Federal Reserve banks, excluding those assets held for international and regional organizations. Table 3.13 does not break down the holdings by either maturity or country. Also excluded from the total are holdings by foreign official institutions at banks or other depository institutions in the United States. The Federal Reserve also publishes this information in its weekly H.4.1 release. U.S. Treasury securities held on behalf of foreign official institutions rose from a reported \$442 billion at the end of 1994 to \$606 billion as of May 6, 1998.

10. For a variety of reasons, these different sources do not present identical data.

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## About the Author

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*The views expressed in this article are those of the author and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.*

*Current Issues in Economics and Finance* is published by the Research and Market Analysis Group of the Federal Reserve Bank of New York. Dorothy Meadow Sobol is the editor.

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