

Transactions With Foreign Official Agencies

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Coverage and definitions

Changes in foreign official assets in the United States—or in the corresponding U.S. liabilities to foreign official agencies—are measured in the following accounts: (1) U.S. Treasury securities (line 58); (2) other U.S. government securities (line 59); (3) other U.S. government liabilities (line 60); (4) U.S. liabilities reported by U.S. banks and securities brokers (line 61); and (5) other foreign official assets (line 62). Foreign official agencies are defined as (1) treasuries, including ministries of finance or corresponding departments of national governments; central banks; and stabilization funds, exchange control offices, or other governmental exchange authorities. Also included are (2) divisions of national governments, as well as private banks and corporations, that are fiscal agents of national governments and that have as an important part of their functions activities similar to those of a treasury, central bank, stabilization fund, or exchange control authority. (3) Diplomatic and consular establishments and (4) other agencies of na-

tional governments are also included.

U.S. liabilities recorded in lines 58, 59, 61, and 62 represent claims of foreign official agencies on the U.S. government, U.S. state and local governments, and on other U.S. residents, including banks and other depository institutions, bank holding companies, financial holding companies, securities brokers and dealers, nonbank firms, and other organizations. Most foreign official assets are held in the form of U.S. Treasury securities and U.S. government agency obligations; generally, they constitute part of the foreign exchange reserves of foreign monetary authorities held in U.S. dollars. Some foreign official assets are held in the form of U.S. corporate bonds and stocks. U.S. government liabilities recorded in line 60 represent liabilities to foreign official agencies primarily associated with U.S. military agency sales contracts.

Estimation methods overview

Quarterly estimates of transactions are made by BEA on the basis of data from U.S. Treasury International Capital (TIC) reports and, for line 60, from data provided by other U.S. government operating agencies. The various TIC reporting forms used in estimating the accounts are listed in the appropriate sections below. Additional information necessary to estimate these accounts is obtained from special monthly reports prepared by the Federal Reserve System. The term “foreign official institutions” used in TIC reports differs from the term “foreign official agencies” used in the official international transactions accounts in that the former includes, and the latter excludes, international and regional organizations.

1 U.S. Treasury Securities (line 58)

This account measures net transactions by foreign official agencies in U.S. Treasury bills and certificates

and in bonds and notes (both marketable and non-marketable), as listed in [table 29](#)).

1.1 Bills and certificates

1.1.1 Data are obtained from the monthly BL-2 form, "Report of Customers' U.S. Dollar Liabilities to Foreigners." Short-term U.S. Treasury obligations for the account of foreign official agencies are reported at face value for amounts outstanding at the end of each month by banks and other depository institutions, bank holding companies, financial holding companies, and securities brokers and dealers. All U.S. Treasury bills and certificates with an original maturity of 1 year or less are included. Securities that have been temporarily "transferred out" by foreign residents under repurchase agreements or similar agreements are included.

1.1.2 Net foreign transactions for the quarter represent the difference between amounts outstanding at the end of the current quarter and at the end of the preceding quarter. Because reporting is at face value, any initial discount due to prepaid interest is not taken into account. Information is not available to adjust the data for discounts or premiums reflecting fluctuations in the market price of these obligations.

1.2 Marketable bonds and notes

The procedure for estimating net purchases of marketable U.S. Treasury bonds by foreign official agencies is as follows:

1.2.1 (1) Data on gross sales and gross purchases of Treasury bonds by foreign official agencies in transac-

tions with U.S. residents are reported on the monthly S forms. Data on foreign official transactions are obtained from the supplement to the S form. The S form is filed by U.S. banks and other depository institutions, bank holding companies, financial holding companies, securities brokers and dealers, nonbank enterprises, and other persons, who on their own behalf, or on behalf of their customers, engage in transactions in long-term securities directly with foreigners; transactions are reported at market prices as of the settlement date. Securities included in this account have contractual maturities of more than 1 year. Reported transactions, gross purchases and gross sales, represent the cost of purchases and proceeds from sales as of the settlement date. Redemptions of securities are reported as sales by foreigners. No adjustments are made by BEA for commissions or other charges, partly because market costs are often not applicable in official transactions.

1.2.2 (2) BEA adjusts gross sales of Treasury bonds by foreign official agencies for the expected underestimate or overestimate of net purchases in the S-form data based on comparisons of reported net purchases with net purchases derived from annual and benchmark surveys of holdings of Treasury bonds by foreign official agencies. These comparisons indicate that the S-form data tend to overestimate net purchases of Treasury bonds by private foreign residents and underestimate net purchases of Treasury bonds by foreign official agencies. The Federal Reserve Board is able to provide BEA with quarterly adjustments correcting transactions by foreign official agencies and private foreigners in the S-form data. BEA adjusts the gross sales of Treasury bonds by foreign official agencies downward to increase net purchases in line 58.

Table 29. Foreign Official Assets in the United States, 2009 (Line 56)

[Millions of dollars]

(Credits +; increase in U.S. liabilities Debits -; decrease in U.S. liabilities.)	
Foreign official assets in the United States, net	450,030
By instrument:	
U.S. Treasury securities (line 58)	561,125
Other U.S. government securities (line 59)	-120,069
Other U.S. government liabilities (line 60).....	57,971
U.S. liabilities reported by U.S. banks and securities brokers (line 61).....	-70,851
Other foreign official assets (line 62)	21,854

Offsetting adjustments are made to decrease net purchases by private foreigners (part of line 65). Transactions of foreign official agencies may not be reported as expected in the supplement to the S form when these agencies conduct transactions through private intermediaries, causing an underestimate of foreign official net purchases of Treasury bonds in the S form.

1.2.3 (3) Net purchases of Treasury bonds are equal to adjusted gross purchases of Treasury bonds by foreign official agencies less adjusted gross sales. When adjusted gross purchases exceed adjusted gross sales, net purchases of Treasury bonds appear in the accounts with a positive value, indicating a net inflow of funds. When adjusted gross purchases are less than adjusted gross sales, net sales of Treasury bonds appear in the accounts with a negative value, indicating a net outflow of funds.

1.3 Nonmarketable bonds and notes

1.3.1 Between 1988 and 1993 the United States Treasury issued four 30-year zero-coupon U.S. dollar-denominated foreign series nonmarketable bonds to foreign governments. The first two were issued to Mexico in 1988 and 1990, the third to Venezuela in 1990, and the last to Argentina in 1993. The bonds provided collateral for new bonds issued by Mexico, Venezuela, and Argentina to restructure their debt. The bonds are nonmarketable, so there are no transactions arising from trading in a secondary market. As long as the bonds are outstanding, they accrue interest and thus increase in value. The foreign government holders are permitted to redeem the bonds partly or in full before their maturity dates.

1.3.2 The bonds issued to Mexico were redeemed by Mexico by January 2004. The bonds issued to Venezuela and Argentina have been partly redeemed but are still outstanding in 2010. An issue-by-issue listing of nonmarketable foreign series securities is published by the Treasury Department in the Monthly Statement of the Public Debt of the United States. A table (IFS-3) listing the market value of the foreign series nonmarketable bonds is also published quarterly in the *Treasury Bulletin*.

1.3.3 These zero-coupon bonds increase in value through the accrual of interest, increasing the liabilities of the U.S. Treasury to the foreign official holders of the bonds. The increases in U.S. liabilities through interest accruals are recorded as credits with a positive sign in the accounts. Redemptions of the bonds reduce U.S. liabilities and are recorded as debits with a negative sign in the accounts. These interest accruals, less any redemptions of the bonds, are recorded as financial flows in line 58, U.S. Treasury securities.

1.3.4 The offsets to interest accruals are recorded as income payments with a negative sign in U.S. government income payments, line 33. The offsets to redemptions are recorded as an increase in U.S. banking liabilities to the foreign government (line 61) with a positive sign when the proceeds from the redemption are transferred by the Treasury to the account of the foreign government at a U.S. bank.

2 Other U.S. Government Securities (line 59)

2.1 This account measures net transactions by foreign official agencies in bonds, notes, and other long-term obligations of U.S. government corporations and federally sponsored agencies (U.S. agency bonds) (see [table 29](#)). Transactions in U.S. agency bonds, other than those with foreign official agencies, are covered in part of line 66 as U.S. federally sponsored agency bonds. The procedure for estimating net purchases of U.S. agency bonds by foreign official agencies is as follows:

2.2 (1) Data on gross sales and gross purchases of agency bonds by foreign official agencies in transactions with U.S. residents are reported on the monthly S forms. Data on foreign official transactions are obtained from the supplement to the S form. Transactions are reported at market prices as of the settlement date. Securities included in this account have original maturities of more than 1 year. Reported transactions, gross purchases and gross sales, represent the cost of purchases and proceeds from sales as of the settlement date. Redemptions of securities are reported as sales by foreigners. No adjustments are made by BEA for commissions or other charges, partly

because market costs are often not applicable in official transactions.

2.3 (2) BEA adjusts gross sales of agency bonds by foreign official agencies for the expected underestimate or overestimate of net purchases in the S-form data based on comparisons of reported net purchases with net purchases derived from annual and benchmark surveys of holdings of agency bonds by foreign residents. In these comparisons, the S-form data have recently overestimated net purchases of agency bonds because prepayments on asset-backed agency bonds, which are like gross sales or redemptions, are not captured by the S form. To reduce revisions when annual surveys become available, BEA uses information provided by the Federal Reserve Board to make an upward adjustment to gross sales to account for the prepayments.

2.4 Comparisons between the S-form data and net purchases derived from annual and benchmark surveys of holdings of agency bonds by foreign official agencies also indicate that the S-form data overestimate net purchases of agency bonds by private foreign residents and underestimate net purchases of agency bonds by foreign official agencies. The Federal Reserve Board is able to provide BEA with adjustments correcting transactions by foreign official agencies and private foreigners in the S-form data. BEA adjusts the gross sales of agency bonds by foreign official agencies downward to increase net purchases of agency bonds in line 59. Offsetting adjustments are made to decrease net purchases of agency bonds by private foreigners (part of line 66). Transactions of foreign official agencies may not be reported in the supplement to the S form when these agencies conduct transactions through private intermediaries, causing an underestimate of foreign official net purchases of agency bonds in the S form.

2.5 (3) Net purchases of agency bonds are equal to adjusted gross purchases of agency bonds by foreign official agencies less adjusted gross sales. When adjusted gross purchases exceed adjusted gross sales, net purchases of agency bonds appear in the accounts with a positive value, indicating a net inflow of funds. When adjusted gross purchases are less than adjusted gross sales, net sales of agency bonds appear in the accounts with a negative value, indicating a net

outflow of funds.

3 Other U.S. Government Liabilities (line 60)

3.1 This account primarily measures net transactions in U.S. government liabilities to foreign official agencies associated with U.S. military agency sales contracts and other U.S. government transactions, including U.S. government liabilities associated with allocations of special drawing rights (SDRs) (table 29). Changes in certain other U.S. government liabilities to foreigners—generally, to foreign government agencies other than official agencies—are also included.

3.2 Transactions included in *military-related* liabilities represent the sum of U.S. government (1) cash receipts from foreign governments for purchases of military goods and services and (2) the financing of military sales by U.S. government credits and grants. Netted against this gross total are (3) the part of the receipts from foreign governments that represents principal repayments on credits financing military agency sales contracts, (4) issues of special U.S. Treasury securities that are subject to redemption prior to maturity for the purpose of prepaying for military purchases in the United States, and (5) the counterpart to the value of deliveries of goods and services recorded in transfers under U.S. military agency sales contracts (part of line 3 and line 5).

3.3 The *nonmilitary* liabilities include changes, most of which were of greater significance in much earlier time periods, associated with (1) deposits and trust funds held with the U.S. government and the sales operations of its nonmilitary agencies, such as sales of nuclear materials (in earlier years) by the Department of Energy, (2) funds provided as grants or loans under assistance programs, but held in restricted accounts with the U.S. government to ensure their expenditure for purchases from the United States, (3) accounts payable of U.S. government agencies that report their current transactions on an accrual basis, and (4) non-interest-bearing Treasury securities that were issued as part of U.S. government contributions to international institutions, but are subject to redemption prior to maturity to obtain U.S. dollars for the immediate operating needs of the institutions.

3.4 Other U.S. government liabilities includes U.S. government liabilities associated with the allocation of special drawing rights (SDRs). Allocations of SDRs happen infrequently. The most recent allocations occurred in 2009; before 2009, allocations occurred in 1979–81 and in 1970–1972. BEA obtains data on the allocations from the International Monetary Fund.

3.5 Quarterly estimates for military, nonmilitary, and other transactions are made on the basis of data on transactions submitted by U.S. government operating agencies under OMB Directive No. 19 and from published statements and other financial and operating records of government agencies.

4 U.S. Liabilities Reported by U.S. Banks and Securities Brokers (line 61)

4.1 This account measures net transactions in U.S. liabilities to foreign official agencies, not included in other accounts, reported by U.S. banks and other depository institutions, bank holding companies, financial holding companies, and securities brokers and dealers (see [table 29](#)). Transactions are estimated by BEA on the basis of outstanding liabilities reported on the TIC BL–1 and BL–2 forms. Transactions for a given quarter represent the difference between outstanding amounts at the end of the current quarter and end of the preceding quarter. Liabilities are reported on a gross basis and are denominated in dollars.

4.2 Banks' and brokers' liabilities for *own accounts* to foreign official agencies are reported on the TIC BL–1, "Report of U.S. Dollar Liabilities of Depository Institutions, Bank Holding Companies/Financial Holding Companies, Brokers, and Dealers to Foreigners."

Banks' and brokers' liabilities for own accounts include repurchase agreements, deposits and brokerage balances, and other liabilities.

4.3 Banks' and brokers' liabilities for *customers' accounts* to foreign official agencies are reported on the BL–2, Part 2, "Report of Customers' U.S. Dollar Liabilities to Foreigners." These liabilities are held by banks and brokers for foreign official agencies either in direct custody or in their own name with a custodian bank or other institution. The liabilities for official customers' accounts include negotiable certificates of deposit of any maturity, other short-term instruments with a maturity of 1 year or less, and other liabilities. Also included are assets held with the reporting institutions by domestic trustees for the account of trusts created in the United States by foreign governments. Short-term U.S. Treasury obligations are excluded from this account and are included in line 58.

5 Other Foreign Official Assets (line 62)

5.1 This account measures net transactions by foreign official agencies in stocks and bonds of U.S. corporations and in bonds of U.S. state and local governments (see [table 29](#)). These securities are long term; that is, they have no contractual maturities (stocks) or have maturities of more than 1 year (bonds). Transactions are estimated by BEA on the basis of data on gross foreign purchases and gross foreign sales reported on the S-form supplement for transactions by foreign official agencies. Reported transactions represent the cost of purchases and proceeds from sales as of the settlement date; no adjustments are made by BEA for commissions or other charges.