

The International Investment Position of the United States at Yearend 2007

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THE NET international investment position of the United States was $-\$2,441.8$ billion (preliminary) at yearend 2007, compared with $-\$2,225.8$ billion (revised) at yearend 2006 (table 1, chart 1). At yearend 2007, the value of foreign-owned assets in the United States continued to exceed the value of U.S.-owned assets abroad.

The $-\$216.0$ billion change in the U.S. net investment position from yearend 2006 to yearend 2007 reflected net foreign acquisitions of financial assets in the United States that substantially exceeded net U.S. acquisitions of financial assets abroad. The impact of this disparity was partly offset by large exchange-rate changes resulting from strong appreciation of most major foreign currencies against the U.S. dollar, which raised the dollar value of U.S.-owned assets abroad, and by price appreciation of U.S.-held foreign stocks that surpassed by a large amount the price appreciation of foreign-held U.S. stocks.

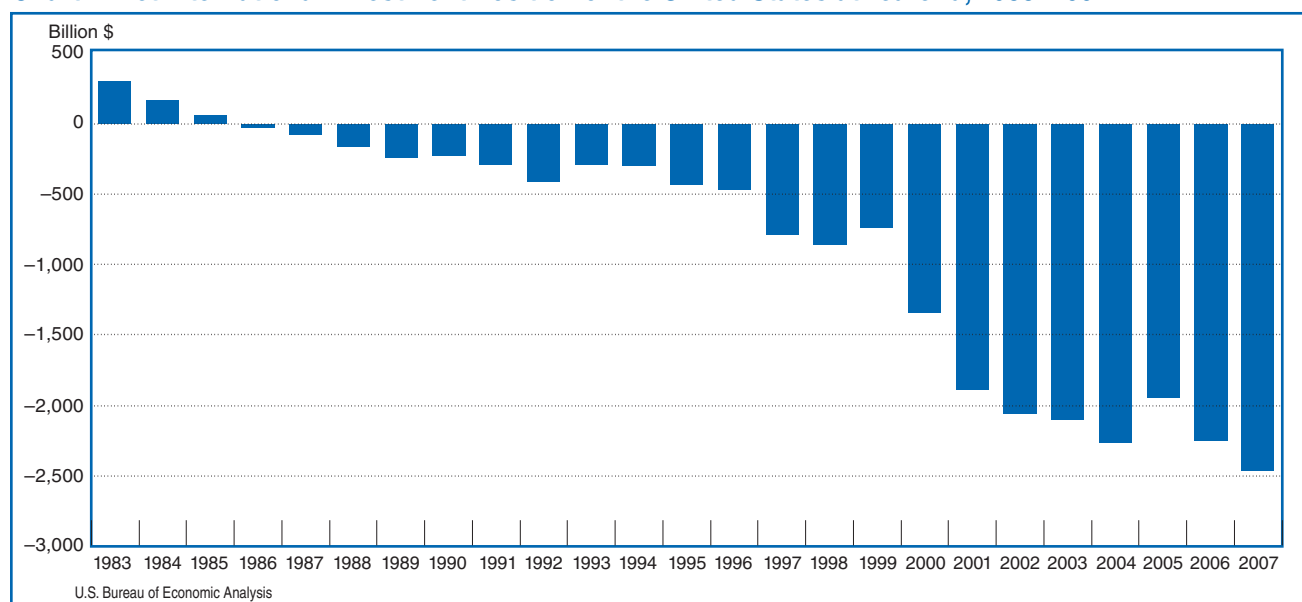
U.S.-owned assets abroad increased to $\$17,640.0$ billion at yearend 2007 from $\$14,381.3$ billion at yearend 2006 (table A).

Table A. U.S. Net International Investment Position at Yearend

	[Billions of dollars]		
	2005	2006	2007
Net position	-1,925.1	-2,225.8	-2,441.8
Financial derivatives, net	57.9	59.8	83.5
Net position, excluding financial derivatives	-1,983.1	-2,285.6	-2,525.4
U.S.-owned assets abroad	11,961.6	14,381.3	17,640.0
Financial derivatives (gross positive fair value)	1,190.0	1,239.0	2,284.6
U.S.-owned assets abroad, excluding financial derivatives	10,771.5	13,142.3	15,355.4
Foreign-owned assets in the United States	13,886.7	16,607.1	20,081.8
Financial derivatives (gross negative fair value)	1,132.1	1,179.2	2,201.1
Foreign-owned assets in the United States, excluding financial derivatives	12,754.6	15,427.9	17,880.7

- Financial flows excluding financial derivatives increased the value of U.S. investments abroad by $\$1,289.9$ billion in 2007, up slightly from $\$1,251.7$ billion in 2006 (table B). In 2007, increases in claims reported by U.S. banks and U.S. direct investment abroad were especially strong. Net U.S. purchases of foreign securities declined somewhat but remained robust. Increases in claims reported by U.S. nonbanks weakened considerably.
- Valuation adjustments excluding financial derivatives increased the value of U.S. investments

Chart 1. Net International Investment Position of the United States at Yearend, 1983–2007



abroad by \$923.2 billion (table B). Strong exchange-rate appreciation of most major foreign currencies against the U.S. dollar from yearend 2006 to yearend 2007 raised the value of U.S.-owned assets abroad, especially of U.S.-owned foreign stocks. Price appreciation also raised the value of U.S.-owned assets abroad, especially of U.S.-owned foreign stocks.

Table B. Changes in U.S.-Owned Assets Abroad, Excluding Financial Derivatives
[Billions of dollars]

	2006	2007
Total change	2,370.8	2,213.1
Financial flows	1,251.7	1,289.9
Valuation adjustments	1,119.1	923.2
Price changes	753.3	420.6
Exchange-rate changes	269.7	517.0
Other valuation changes	96.1	-14.3

- Financial flows and valuation adjustments for U.S. holdings of financial derivatives with gross positive fair value increased the value of U.S. investments abroad by \$1,045.6 billion.

Foreign-owned assets in the United States increased to \$20,081.8 billion at yearend 2007 from \$16,607.1 billion at yearend 2006 (table A).

- Financial flows excluding financial derivatives increased the value of foreign investments in the United States by \$2,057.7 billion in 2007, down slightly from \$2,061.1 billion in 2006 (table C). In 2007, net foreign private purchases of U.S. securi-

ties and increases in liabilities reported by U.S. banks were especially strong. Net foreign official acquisitions of U.S. assets and foreign direct investment in the United States remained robust. Increases in liabilities reported by U.S. nonbanks weakened.

Table C. Changes in Foreign-Owned Assets in the United States, Excluding Financial Derivatives
[Billions of dollars]

	2006	2007
Total change	2,673.4	2,452.8
Financial flows	2,061.1	2,057.7
Valuation adjustments	612.3	395.1
Price changes	333.3	222.9
Exchange-rate changes	47.3	78.3
Other valuation changes	231.6	93.9

- Valuation adjustments excluding financial derivatives increased the value of foreign investments in the United States by \$395.1 billion, largely as a result of price appreciation of foreign-owned U.S. stocks and U.S. government bonds (table C).
- Financial flows and valuation adjustments for U.S. holdings of financial derivatives with gross negative fair value increased the value of foreign investments in the United States by \$1,021.9 billion.

This article presents the major changes in U.S.-owned assets abroad and in foreign-owned assets in the United States in 2007. Tables 1 and 2 at the end of this article present estimates of the yearend positions by type of asset.

Improvements in the Estimates

As is customary each June, the estimates of the U.S. international investment position incorporate newly available source data and methodological changes that relate to the improvements incorporated in the annual revision of the U.S. international transactions accounts.

This year, the revised position estimates reflect the incorporation of results from BEA's benchmark survey of U.S. direct investment abroad for 2004 and results from the U.S. Treasury Department's benchmark survey of securities claims for December 2006 and annual survey of securities liabilities for June 2007. Claims reported by U.S. nonbanking concerns were revised for 2005 and 2006 to account for new estimates of lending by U.S. financial intermediaries related to the intermediaries' issuance of asset-backed commercial paper in the United States. The U.S. net international investment

position was also revised for 1976–2006, as a result of improved estimates of U.S. currency shipments.

In addition to the inclusion of benchmark and improved source data, estimates were revised to incorporate newly available or revised quarterly source data. Revisions attributable to these updated source data were for 2002–2006. The net result of revisions from all sources caused the difference between the value of U.S. assets abroad and the value of foreign assets in the United States to change by small amounts for 2002–2004 and by much larger amounts for 2005 and 2006. The net international investment position at yearend 2006 was revised to -\$2,225.8 billion from -\$2,539.6 billion.

For additional information, see "Annual Revision of the U.S. International Accounts, 1974–2007" in this issue.

Changes in U.S.-Owned Assets Abroad

Financial derivatives

U.S. holdings of financial derivatives with gross positive fair value increased \$1,045.6 billion to \$2,284.6 billion in 2007 (table D).¹ The gross positive fair value of financial derivatives increased strongly in the second half of the year, when global financial markets experienced severe strains as a result of the collapse of the U.S. subprime mortgage market. Most of the increase was attributable to increases in over-the-counter (OTC) single currency interest-rate contracts, especially swaps, and "other" OTC contracts, such as equity, credit, and commodity derivatives. By area, most of U.S. positions were with counterparties in Europe, predominantly the United Kingdom.

Table D. Gross Positive Fair Value of Financial Derivatives
[Billions of dollars]

	2005	2006	2007	Change		
				1st half 2007	2nd half 2007	2006-2007
Financial derivatives	1,190.0	1,239.0	2,284.6	307.7	737.9	1,045.6
By type:						
Over-the-counter contracts	1,171.2	1,213.4	2,251.3	303.3	734.7	1,038.0
Single-currency interest rate contracts	854.0	793.1	1,321.6	211.3	317.3	528.6
Foreign exchange contracts	147.1	176.3	279.7	20.2	83.2	103.4
Other	170.1	244.0	650.0	71.8	334.1	406.0
Exchange-traded contracts	18.9	25.6	33.2	4.4	3.2	7.6
By area:						
Europe	1,024.1	1,048.0	1,975.7	283.7	644.0	927.8
Of which: United Kingdom	707.0	658.9	1,393.0	227.5	506.6	734.1
Canada	33.1	31.6	49.6	5.5	12.5	18.0
Caribbean financial centers	55.1	67.2	126.0	8.2	50.7	58.9
Of which: Cayman Islands	41.7	49.7	105.6	9.1	46.9	55.9
Latin America, excluding Caribbean financial centers	10.6	14.3	16.0	2.6	-0.9	1.8
Asia	49.0	57.9	92.1	5.5	28.7	34.2
Of which: Japan	33.4	38.3	56.1	2.5	15.3	17.8
Africa	3.6	3.1	4.3	0.0	1.2	1.2
Other	14.5	17.0	20.8	2.2	1.6	3.8

U.S. official reserve assets and other U.S. government assets

U.S. official reserve assets increased \$57.4 billion to \$277.2 billion in 2007. The increase mostly resulted from a \$52.8 billion increase in the market value of the official U.S. gold stock. U.S. official holdings of foreign currencies and Special Drawing Rights also increased, mostly as a result of exchange-rate changes. In contrast, the U.S. reserve position at the International Monetary Fund (IMF) decreased, mostly as a result of repayments of U.S. dollar funds to the IMF from several European countries.

1. A derivatives contract with a positive fair value represents the amount that a foreign resident would have to pay to a U.S. resident if the contract was terminated or settled. A contract with a negative fair value represents the amount that a U.S. resident would have to pay to a foreign resident if the contract was terminated or settled. The gross positive (or negative) fair value is the sum of all contracts with positive (or negative) fair values. Fair values are different from notional values, which are the underlying amounts used to calculate payments on contracts.

U.S. government assets other than official reserve assets increased \$22.3 billion to \$94.5 billion. The increase resulted from drawings under temporary reciprocal currency arrangements between the Federal Reserve System and foreign central banks that do not meet the strict definition of U.S. reserve assets.

Bank and nonbank claims

U.S. claims on foreigners reported by U.S. banks and securities brokers increased \$679.4 billion to \$3,826.2 billion in 2007, mostly as a result of especially strong financial flows. In 2007, financial flows increased U.S. banks' and securities brokers' claims on foreigners by \$644.8 billion, up from an increase of \$488.4 billion in 2006. U.S. banks' and securities brokers' claims increased substantially in the first half of 2007, when demand for international syndicated loans was strong, global merger and acquisition activity picked up, and foreign investors acquired U.S. corporate bonds and stocks at a record pace. In the second half of 2007, lending by U.S. banks was lower but remained robust; banks in the United States continued to provide substantial dollar liquidity, mostly to affiliated banks in Europe, where liquidity in interbank markets tightened considerably. Lending by U.S. securities brokers came to a halt, partly as a result of a cutback in lending to highly leveraged investment funds overseas.

U.S. banks' and securities brokers' own claims denominated in dollars increased \$504.2 billion to \$2,789.4 billion (table E). Most of the increase in banks' claims reflected interoffice transfers of funds, mostly in the form of short-term loans, to offices overseas, mainly in Europe and Caribbean financial centers. Lending by U.S. securities brokers was mostly in the form of resale agreements with investment funds in Western Europe and Caribbean financial centers.

Table E. U.S. Claims Reported by U.S. Banks and Securities Brokers and U.S. Nonbanks at Yearend
[Billions of dollars]

	2005	2006	2007
U.S. claims reported by U.S. banks and securities brokers	2,506.5	3,146.7	3,826.2
Claims for own accounts, denominated in dollars	1,856.5	2,285.2	2,789.4
U.S.-owned banks' claims	488.4	545.5	663.2
Foreign-owned banks' claims	917.7	1,108.7	1,364.4
Brokers' and dealers' claims	450.4	631.0	761.8
Claims for customers' accounts, denominated in dollars	493.8	665.4	793.5
Claims, denominated in foreign currencies	156.2	196.1	243.3
U.S. claims reported by U.S. nonbanking concerns	1,018.5	1,163.1	1,176.0

U.S. banks' domestic customers' claims denominated in dollars increased \$128.1 billion to \$793.5 billion, reflecting a substantial increase in offshore deposits and brokerage balances. U.S. banks' claims payable in foreign currencies increased \$47.2 billion to \$243.3 billion as a result of an upturn in deposits and of exchange-rate changes.

U.S. claims on foreigners reported by U.S. non-banking concerns increased only \$12.9 billion to \$1,176.0 billion, reflecting exchange-rate changes of \$12.3 billion (table E). Financial flows increased U.S. claims by only \$0.7 billion in 2007, compared with an increase of \$164.6 billion in 2006.

Foreign securities

U.S. holdings of foreign securities increased \$1,044.2 billion to \$6,648.7 billion in 2007. The increase resulted from exchange-rate changes of \$413.2 billion, price changes of \$342.2 billion, and net U.S. purchases of foreign securities of \$288.7 billion.

U.S. holdings of foreign stocks increased \$841.6 billion to \$5,170.6 billion in 2007. The increase was attributable to exchange-rate changes of \$385.3 billion, stock price appreciation of \$338.3 billion, and net U.S. purchases of \$118.0 billion. From yearend 2006 to yearend 2007, the Federal Reserve Board's broad index of foreign currencies appreciated 9 percent against the U.S. dollar. Morgan Stanley Capital International's broad index of foreign stocks appreciated 6 percent in local currency, surpassing U.S. stock price appreciation for the fourth consecutive year. Net U.S. purchases of foreign stocks were down in 2007, reflecting a sharp reduction in net U.S. purchases of Asian stocks.

- U.S. holdings of European stocks increased \$359.6 billion to \$2,550.7 billion (table F). The increase was mostly attributable to appreciation of the euro and the pound against the U.S. dollar and to increases in European stock prices. Net U.S. pur-

chases of European stocks were \$82.5 billion, down slightly from \$87.1 billion.

- U.S. holdings of Asian stocks increased \$181.1 billion to \$1,231.4 billion, mostly as a result of price appreciation and exchange-rate changes. Net U.S. purchases of Asian stocks were only \$4.8 billion, down sharply from \$46.3 billion. U.S. holdings of Japanese stocks decreased \$25.5 billion to \$518.0 billion. The decrease was attributable to an 11 percent price depreciation of Japanese stocks in local currency that more than offset a 6 percent appreciation of the yen against the dollar. Net U.S. purchases of Japanese stocks were only \$1.5 billion. In contrast, U.S. holdings of other Asian stocks increased \$206.7 billion to \$713.4 billion. The increase was mostly attributable to strong stock price appreciation, including appreciations (in local currencies) of 38 percent for Hong Kong stocks, 16 percent for Singapore stocks, and 36 percent for Asian emerging market stocks. Net U.S. purchases of stocks from Asia excluding Japan were only \$3.3 billion, down sharply from \$44.4 billion.
- U.S. holdings of Latin American stocks increased \$108.3 billion to \$315.2 billion, reflecting strong price appreciation and exchange-rate changes. Latin American emerging market stock prices appreciated 32 percent in local currencies. Net U.S. purchases were \$11.3 billion, up from \$8.3 billion.
- U.S. holdings of Canadian stocks increased \$95.4 billion to \$393.5 billion, mostly as a result of a 15 percent appreciation of the Canadian dollar against the U.S. dollar and an 8 percent price appreciation of Canadian stocks in local currency. Net U.S. purchases of Canadian stocks were \$7.9 billion, up slightly from \$7.5 billion.
- U.S. holdings of stocks from Caribbean financial centers increased \$50.5 billion to \$468.6 billion, mostly as a result of price appreciation. Net U.S. purchases were \$6.8 billion, a shift from net sales of \$20.8 billion.

U.S. holdings of foreign bonds increased \$202.6 billion to \$1,478.1 billion in 2007, reflecting net U.S. purchases of \$170.7 billion, exchange-rate changes of \$27.9 billion, and price changes of \$3.9 billion. Net U.S. purchases of foreign bonds were down in 2007 from record net purchases of \$227.8 billion in 2006. Net U.S. purchases of European bonds and bonds from Caribbean financial centers slowed slightly but remained brisk. Transactions in Latin American bonds shifted to net sales from net purchases, and net sales of Asian bonds picked up.

- U.S. holdings of European bonds increased \$151.4 billion to \$798.3 billion (table G). Net U.S. purchases of European bonds were \$149.5 billion,

**Table F. U.S. Holdings of Foreign Stocks
by Major Area and Country at Yearend**

[Billions of dollars]

	2005	2006	2007
Total holdings	3,317.7	4,329.0	5,170.6
Europe.....	1,614.0	2,191.1	2,550.7
<i>Of which:</i> United Kingdom.....	544.5	689.1	797.0
France.....	205.1	306.9	350.5
Germany.....	158.0	220.4	306.3
Switzerland.....	191.9	262.9	275.1
Netherlands.....	132.8	161.5	186.0
Spain.....	63.5	85.6	108.5
Italy.....	63.9	92.7	94.6
Finland.....	44.4	55.9	82.7
Sweden.....	40.5	59.4	55.7
Canada.....	247.8	298.1	393.5
Caribbean financial centers.....	330.1	418.1	468.6
<i>Of which:</i> Bermuda.....	173.8	191.9	220.5
Cayman Islands.....	102.6	160.6	175.3
Latin America, excluding Caribbean financial centers.....	154.3	207.0	315.2
<i>Of which:</i> Brazil.....	68.6	92.0	180.5
Mexico.....	57.9	84.6	92.2
Asia.....	849.9	1,050.2	1,231.4
<i>Of which:</i> Japan.....	493.3	543.5	518.0
Korea, Republic of.....	110.3	114.2	151.7
China.....	26.9	73.9	123.3
Hong Kong.....	44.5	85.8	112.8
Taiwan.....	57.1	74.2	79.6
Africa.....	39.9	49.4	61.9
<i>Of which:</i> South Africa.....	31.6	39.6	47.2
Other countries.....	81.7	115.1	149.3
<i>Of which:</i> Australia.....	71.1	102.0	132.2

**Table G. U.S. Holdings of Foreign Bonds
by Major Area and Country at Yearend**
[Billions of dollars]

	2005	2006	2007
Total holdings	1,011.6	1,275.5	1,478.1
Europe.....	474.8	646.9	798.3
Of which: United Kingdom	193.9	256.1	340.4
Belgium and Luxembourg	33.5	42.8	104.1
Netherlands	51.8	67.9	70.8
France	43.9	58.9	65.4
Ireland.....	16.9	38.3	47.2
Germany.....	45.7	58.2	44.1
Spain.....	5.7	24.2	34.5
Canada.....	157.5	162.1	170.5
Caribbean financial centers.....	137.1	199.0	250.4
Of which: Cayman Islands	118.4	177.9	224.8
Latin America, excluding Caribbean financial centers	87.0	82.1	80.7
Of which: Mexico.....	28.2	23.8	22.6
Brazil.....	21.7	18.2	16.8
Asia.....	75.5	93.4	79.1
Of which: Japan	25.6	35.5	30.7
Africa.....	6.4	6.7	3.8
Of which: South Africa	2.6	3.0	3.3
Other countries	73.3	85.4	95.3
Of which: Australia	48.6	61.6	66.3

down from \$171.3 billion. Exchange-rate changes resulting from appreciation of the euro and the pound against the dollar were mostly offset by price depreciation of European bonds.

- In addition, U.S. holdings of bonds from Caribbean financial centers increased \$51.4 billion to \$250.4 billion, largely as a result of net U.S. purchases of

\$42.2 billion from the Cayman Islands. U.S. holdings of Canadian bonds increased to \$170.5 billion from \$162.1 billion.

- In contrast, U.S. holdings of Asian bonds decreased \$14.4 billion to \$79.1 billion. The decrease was more than accounted for by net U.S. sales of \$31.4 billion, reflecting sizable net U.S. sales to China, Singapore, and Japan. Net U.S. sales were partly offset by exchange-rate changes resulting from appreciations of several Asian currencies, including the Japanese yen and the Chinese yuan, against the dollar.

U.S. direct investment abroad

The stock of U.S. direct investment abroad increased \$396.9 billion to \$3,332.8 billion in 2007, mostly as a result of strong financial flows (table H). Financial flows increased U.S. direct investment abroad by \$333.3 billion, mostly as a result of reinvested earnings. In 2007, reinvested earnings were \$263.3 billion, up from \$231.6 billion in 2006, reflecting strong growth in foreign affiliate earnings resulting from robust growth in many foreign economies and appreciation of major foreign currencies, particularly the euro, against the dollar. U.S. net equity capital investment

Valuing Direct Investment Positions and Other Components of the U.S. International Investment Position

Virtually all of the categories in the international investment position accounts except direct investment positions can be directly estimated with reference to readily observable market prices. For example, the value of positions in portfolio investment securities, gold, loans, currencies, and bank deposits can be directly estimated based on face values or market prices of recent transactions. In contrast, direct investment positions typically involve illiquid ownership interests in companies that may possess many unique attributes—such as customer base, management, and ownership of intangible assets—whose values in the current period are difficult to determine, because there is no widely accepted standard for revaluing company financial statements at historical cost into prices of the current period.

Direct investment at current cost is BEA's featured measure of direct investment in current-period prices. The current-cost method values the U.S. and foreign parents' shares of their affiliates' investment in plant and equipment, using the current cost of capital equipment; in land, using general price indexes; and in inventories, using estimates of their replacement cost. Direct investment at market value is an alternative measure of direct investment in current-period prices. The market-value method values the owners' equity share of direct invest-

ment, using indexes of stock market prices. BEA also publishes direct investment at historical cost, which values assets and liabilities at their book value. Country and industry detail can be shown only for direct investment at historical cost. (For additional information, see J. Steven Landefeld and Ann M. Lawson, "Valuation of the U.S. Net International Investment Position," SURVEY OF CURRENT BUSINESS 71 (May 1991): 40–49.)

In this article, BEA features the current-cost method, because the estimates prepared using this method are comparable with BEA's current-cost estimates of the net stock of fixed assets and consumer durable goods and with the Federal Reserve Board's estimates of domestic net worth (the sum of tangible assets located in the United States, including plant and equipment, inventories, and land). Furthermore, BEA's calculation of direct investment income includes a current-cost adjustment to depreciation; this adjustment converts depreciation as reported on company financial statements to the preferred economic accounts measure, which is based on the current cost, rather than on the historical cost, of assets.

For detailed data on direct investment at historical cost by country and industry, see "Direct Investment Positions for 2007: Country and Industry Detail" in this issue.

abroad increased \$88.0 billion in 2007, up from an increase of \$32.3 billion in 2006. The pickup mostly reflected a rise in global merger and acquisition activity, particularly in Europe. Net intercompany debt investment abroad decreased \$18.0 billion, mostly with affiliates in Europe.

Table H. U.S. Direct Investment Abroad
[Billions of dollars]

	2006	2007
Total position at yearend	2,936.0	3,332.8
Total change	284.3	396.9
Financial outflows.....	241.2	333.3
Equity capital.....	32.3	88.0
Intercompany debt.....	-22.6	-18.0
Reinvested earnings.....	231.6	263.3
Price changes.....	43.4	25.6
Exchange-rate changes.....	40.5	69.6
Other valuation changes.....	-40.9	-31.6

Changes in Foreign-Owned Assets in the United States

Financial derivatives

U.S. holdings of financial derivatives with gross negative fair value increased \$1,021.9 billion to \$2,201.1 billion (table I). As with U.S. holdings of financial derivatives with gross positive fair value, U.S. holdings with gross negative fair value increased strongly in the second half of 2007, when global financial markets experienced severe strains as a result of the collapse of the U.S. subprime mortgage market. Most of the increase was attributable to increases in over-the-counter (OTC) single currency interest-rate contracts, especially swaps, and "other" OTC contracts, such as equity, credit, and commodity derivatives. By area, most of U.S. positions were with counterparties in Europe, predominantly the United Kingdom.

Table I. Gross Negative Fair Value of Financial Derivatives
[Billions of dollars]

	2005	2006	2007	Change		
				1st half 2007	2nd half 2007	2006-2007
Financial derivatives	1,132.1	1,179.2	2,201.1	310.7	711.2	1,021.9
By type:						
Over-the-counter contracts.....	1,116.5	1,156.2	2,169.3	306.5	706.6	1,013.1
Single-currency interest rate contracts	815.1	749.0	1,294.8	220.2	325.7	545.8
Foreign exchange contracts.....	132.1	151.0	229.1	15.5	62.5	78.0
Other.....	169.3	256.2	645.4	70.8	318.5	389.2
Exchange-traded contracts.....	15.6	22.9	31.8	4.3	4.6	8.8
By area:						
Europe.....	977.0	994.4	1,908.2	283.7	630.2	913.9
Of which: United Kingdom.....	680.0	632.4	1,362.5	230.7	499.5	730.2
Canada.....	28.9	27.2	41.6	4.9	9.4	14.3
Caribbean financial centers.....	50.9	72.9	125.4	13.2	39.2	52.5
Of which: Cayman Islands.....	40.1	57.2	103.6	12.3	34.1	46.4
Latin America, excluding Caribbean financial centers.....	10.5	13.3	13.7	1.4	-0.9	0.4
Asia.....	46.7	53.4	90.3	7.8	29.0	36.8
Of which: Japan.....	32.3	37.1	58.0	1.5	19.4	20.9
Africa.....	3.0	2.2	3.0	0.1	0.8	0.9
Other.....	15.1	15.8	18.9	-0.4	3.5	3.1

Foreign official assets

Foreign official assets in the United States increased \$511.4 billion to \$3,337.0 billion in 2007. Financial flows increased foreign official assets by \$411.1 billion, reflecting net purchases of U.S. securities and especially strong increases in short-term assets held at U.S. banks. Net foreign official purchases of U.S. government securities were \$230.3 billion in 2007, down sharply from \$428.4 billion in 2006. In contrast, short-term assets held at U.S. banks increased \$108.7 billion in 2007, compared with an increase of \$22.4 billion in 2006, and net purchases of U.S. corporate bonds and stocks nearly doubled to \$66.7 billion from \$34.4 billion.

In 2007, China continued to accumulate foreign reserves at a rapid pace and accounted for much of the increase in foreign official assets in the United States, as it has in 2006; increases in recent years have reflected rising Chinese trade surpluses. Dollar assets of OPEC members increased slightly less in 2007 than in 2006 despite higher oil revenues.

Bank and nonbank liabilities

U.S. liabilities to private foreigners and international financial institutions reported by U.S. banks and securities brokers increased \$591.9 billion to \$4,022.2 billion in 2007, reflecting especially strong financial flows. Financial flows increased U.S. banks' and securities brokers' liabilities by \$532.8 billion in 2007, up from an increase of \$461.1 billion in 2006. U.S. banks' and securities brokers' own liabilities denominated in dollars increased \$370.4 billion to \$3,071.5 billion (table J). Liabilities increased strongly in the first half of 2007, when securities brokers borrowed heavily from abroad, mainly through repurchase agreements with investment funds in Europe and Caribbean financial centers. In the second half of 2007, U.S. securities brokers repaid substantial funds to banks and nonbanks abroad, mostly in Europe, where liquidity in interbank markets tightened considerably. In contrast, borrowing by U.S.-owned banks

Table J. U.S. Liabilities Reported by U.S. Banks and Securities Brokers and U.S. Nonbanks at Yearend
[Billions of dollars]

	2005	2006	2007
U.S. liabilities reported by U.S. banks and securities brokers	2,606.9	3,430.3	4,022.2
Liabilities for own accounts, denominated in dollars.....	2,100.6	2,701.1	3,071.5
U.S.-owned banks' liabilities.....	725.1	852.0	1,042.7
Foreign-owned banks' liabilities.....	688.8	783.2	865.2
Brokers' and dealers' liabilities.....	686.7	1,065.9	1,163.6
Liabilities for customers' accounts, denominated in dollars	400.5	570.4	671.5
Liabilities, denominated in foreign currencies.....	105.8	158.8	279.2
U.S. liabilities reported by U.S. nonbanking concerns	658.2	797.5	959.5

strengthened considerably, particularly in the fourth quarter, when many U.S. banks faced substantial financial difficulties, including large asset write-downs and continued funding pressures in the U.S. interbank market.

U.S. banks' customers' liabilities denominated in dollars increased \$101.1 billion to \$671.5 billion. U.S. banks' liabilities payable in foreign currencies increased \$120.4 billion to \$279.2 billion, reflecting a sharp increase in short-term loans and some nondollar deposits.

U.S. liabilities to foreigners reported by U.S. non-banking concerns increased \$162.0 billion to \$959.5 billion, reflecting an increase in loans, advances, and other U.S. corporate borrowing, mostly from Europe (table J).

U.S. Treasury securities

Total foreign official and private holdings of U.S. Treasury securities increased \$305.9 billion to \$2,432.1 billion in 2007 (table K). The increase reflected net foreign purchases of \$215.7 billion and price changes of \$76.8 billion. Transactions by private foreign investors shifted to record net purchases of \$156.8 billion in 2007 from net sales of \$58.2 billion in 2006. In contrast, net purchases by foreign official agencies decreased to \$58.9 billion from \$208.6 billion.

Table K. Foreign Official and Private Holdings of U.S. Treasury Securities by Selected Countries at Yearend

[Billions of dollars]

	2005	2006	2007
Total holdings	1,984.4	2,126.2	2,432.1
Japan.....	659.1	636.4	606.8
China.....	327.1	445.2	479.8
United Kingdom.....	80.9	13.6	157.5
Brazil.....	28.9	53.0	134.5
OPEC Asia.....	69.5	101.5	118.9
Belgium and Luxembourg.....	61.3	72.8	85.5
Cayman Islands.....	27.4	33.8	59.0
Hong Kong.....	40.5	53.2	53.5
Switzerland.....	36.3	37.4	42.5
Singapore.....	33.2	33.0	41.2

At yearend 2007, Japan remained the largest holder of U.S. Treasury securities at \$606.8 billion, but its holdings have been declining since 2004 (table K). (In table K, foreign official and private holdings are combined in order to avoid the disclosure of sensitive data on individual country holdings by foreign official agencies.) China's holdings increased \$34.6 billion to \$479.8 billion at yearend 2007. Net purchases of U.S. Treasury securities by China slowed sharply in 2007 after several years of rapid accumulation. The United Kingdom became the third-largest holder of U.S. Treasury securities at \$157.5 billion, as a result of strong net purchases in 2007.

Other U.S. securities

Foreign private holdings of U.S. securities other than U.S. Treasury securities increased \$760.1 billion to \$6,132.4 billion in 2007. The increase reflected net foreign purchases of \$573.9 billion, price changes of \$97.4 billion, and exchange-rate changes of \$53.0 billion.

Foreign holdings of U.S. bonds increased \$474.4 billion to \$3,299.3 billion, mostly as a result of net foreign purchases. Exchange-rate appreciation of foreign-currency-denominated U.S. corporate bonds also raised the value of foreign holdings somewhat. Net foreign purchases of corporate bonds were \$372.1 billion in 2007, down from record net purchases of \$517.8 billion in 2006. Foreign demand for U.S. corporate bonds was strong in the first half of 2007 as a result of favorable economic and credit market conditions, including strong corporate profits and low corporate default rates. However, demand for corporate bonds weakened substantially in the second half of the year, when conditions in U.S. credit markets deteriorated rapidly. Net foreign purchases of agency bonds were \$19.4 billion, down from \$25.8 billion.

At yearend 2007, investors in Europe accounted for \$2,095.0 billion, or 63 percent, of total foreign holdings of U.S. corporate and agency bonds; most of the holdings were by investors in the United Kingdom and in Belgium and Luxembourg (table L). Outside of Europe, investment funds in Caribbean financial centers accounted for \$568.1 billion, or 17 percent, of total foreign holdings. Investors in Asia accounted for \$456.0 billion, or 14 percent, of total foreign holdings, mostly in Japan.

Foreign holdings of U.S. stocks increased \$285.6 billion to \$2,833.1 billion, reflecting strong net

Table L. Foreign Private Holdings of U.S. Corporate and Agency Bonds by Major Area and Country at Yearend

[Billions of dollars]

	2005	2006	2007
Total holdings	2,243.1	2,824.9	3,299.3
Europe.....	1,396.1	1,762.4	2,095.0
<i>Of which:</i> United Kingdom.....	482.8	593.4	767.4
Belgium and Luxembourg.....	542.7	648.3	720.3
Ireland.....	69.8	120.8	160.3
Germany.....	70.6	90.4	114.3
Netherlands.....	83.1	103.3	107.5
Switzerland.....	63.8	88.6	101.4
France.....	31.5	54.6	64.7
Canada.....	63.8	77.3	87.1
Caribbean financial centers.....	356.4	503.9	568.1
<i>Of which:</i> Cayman Islands.....	228.9	353.7	431.8
Bermuda.....	96.5	110.8	96.6
Latin America, excluding Caribbean financial centers.....	30.0	38.3	46.6
Asia.....	370.7	407.2	456.0
<i>Of which:</i> Japan.....	241.2	253.3	288.5
China.....	48.9	65.6	59.5
Hong Kong.....	24.5	26.2	31.6
Africa.....	2.8	3.1	2.7
Other countries.....	23.3	32.7	43.8
<i>Of which:</i> Australia.....	13.9	22.7	31.2

purchases and modest price changes (table M). In 2007, net foreign purchases of U.S. stocks were \$182.4 billion, the strongest since 2000 when net purchases were a record \$192.5 billion. Price changes were \$103.2 billion, as the S&P 500 Index gained 4 percent and the Dow Jones Industrial Average gained 6 percent, well below their double-digit gains in 2006. Returns for U.S. stocks in 2007 were attributable to strong performance in the first half of the year, fueled by strong corporate profits, robust merger and acquisition activity, and increases in dividend payouts and share buybacks amid relatively calm credit conditions. However, gains in U.S. stock prices were limited by sharp price declines in July and November, when concerns about U.S. credit markets heightened.

At yearend 2007, investors in Europe accounted for \$1,533.7 billion, or 54 percent, of total foreign holdings of U.S. stocks. Outside of Europe, investment funds in Caribbean financial centers accounted for \$456.7 billion, or 16 percent, of total foreign holdings, Canadian investors accounted for \$348.8 billion, or 12 percent, of total holdings, and Japanese investors accounted for \$213.9 billion, or 8 percent, of total holdings.

Table M. Foreign Private Holdings of U.S. Corporate Stocks by Major Area and Country at Yearend
[Billions of dollars]

	2005	2006	2007
Total holdings	2,109.9	2,547.5	2,833.1
Europe	1,162.4	1,397.1	1,533.7
<i>Of which:</i> United Kingdom	291.4	377.8	444.5
Belgium and Luxembourg	191.9	243.5	246.6
Netherlands	163.1	167.6	178.6
Switzerland	139.8	162.2	168.6
France	82.9	116.1	135.8
Germany	80.2	84.3	97.0
Ireland	63.4	75.3	79.1
Sweden	47.7	50.6	53.0
Denmark	26.4	31.1	31.5
Italy	30.2	29.1	24.1
Canada	253.6	318.4	348.8
Caribbean financial centers	317.2	391.8	456.7
<i>Of which:</i> Cayman Islands	164.8	220.8	272.7
Bermuda	59.9	72.0	84.2
Netherlands Antilles	25.8	25.3	18.5
Latin America, excluding Caribbean financial centers	33.9	40.4	43.5
Asia	268.4	310.1	349.3
<i>Of which:</i> Japan	187.6	213.3	213.9
Singapore	32.0	45.5	45.5
Hong Kong	13.1	11.1	41.8
Africa	4.7	5.5	5.8
Other countries	69.7	84.2	95.3
<i>Of which:</i> Australia	61.2	74.8	86.4

U.S. currency

U.S. currency held by foreigners decreased \$10.7 billion to \$272.0 billion in 2007. Net U.S. currency shipments to foreigners slowed considerably in recent years, and in 2007, there were net returns of currency to the United States for first time since 2000. More stable economic and political conditions in countries where dollars have been used for savings and transactions as a result of instability appear to have encouraged local residents to shift to bank deposits and local currencies for a larger share of their savings and transactions.

Foreign direct investment in the United States

The stock of foreign direct investment in the United States increased \$271.2 billion to \$2,422.8 billion in 2007, mostly as a result of financial flows (table N). Financial flows were \$237.5 billion in 2007, down slightly from \$242.0 billion in 2006. Net equity capital investment in the United States increased \$147.4 billion in 2007, up from an increase of \$117.8 billion in 2006, reflecting the strengthening global merger and acquisition activity for both years. Reinvested earnings were \$68.5 billion in 2007, virtually unchanged from \$68.8 billion in 2006. Net intercompany debt investment in the United States increased \$21.6 billion, compared with an increase of \$55.3 billion in 2006.

Table N. Foreign Direct Investment in the United States
[Billions of dollars]

	2006	2007
Total position at yearend	2,151.6	2,422.8
Total change	245.6	271.2
Financial inflows	242.0	237.5
Equity capital	117.8	147.4
Intercompany debt	55.3	21.6
Reinvested earnings	68.8	68.5
Price changes	31.4	18.6
Exchange-rate changes.....	3.3	3.9
Other valuation changes	-31.0	11.1

Tables 1 and 2 follow.

Table 1. International Investment Position of the United States at Yearend, 2006 and 2007

[Millions of dollars]

Line	Type of investment	Position, 2006 ¹	Changes in position in 2007					Position, 2007 ^p
			Attributable to				Total (a+b+c+d)	
			Valuation adjustments					
			Financial flows (a)	Price changes (b)	Exchange-rate changes ¹ (c)	Other changes ² (d)		
1	Net international investment position of the United States (lines 2+3)	-2,225,804	-774,345	197,683	438,711	-78,074	-216,025	-2,441,829
2	Financial derivatives, net (line 5 less line 25) ³	59,836	-6,496	(⁴)	(⁴)	⁴ 30,189	23,693	83,529
3	Net international investment position, excluding financial derivatives (line 6 less line 26).....	-2,285,640	-767,849	197,683	438,711	-108,263	-239,718	-2,525,358
4	U.S.-owned assets abroad (lines 5+6)	14,381,297	(⁵)	(⁵)	(⁵)	(⁵)	3,258,657	17,639,954
5	Financial derivatives (gross positive fair value).....	1,238,995	(⁵)	(⁵)	(⁵)	(⁵)	1,045,586	2,284,581
6	U.S.-owned assets abroad, excluding financial derivatives (lines 7+12+17).....	13,142,302	1,289,854	420,581	516,968	-14,332	2,213,071	15,355,373
7	U.S. official reserve assets.....	219,853	122	52,758	4,478	0	57,358	277,211
8	Gold.....	165,267	0	⁵ 52,758		⁶ 0	52,758	218,025
9	Special drawing rights.....	8,870	154		452	0	606	9,476
10	Reserve position in the International Monetary Fund.....	5,040	-1,021		225	0	-796	4,244
11	Foreign currencies.....	40,676	989		3,801	0	4,790	45,466
12	U.S. government assets, other than official reserve assets.....	72,189	22,273			9	22,282	94,471
13	U.S. credits and other long-term assets ⁷	71,635	-1,629			9	-1,620	70,015
14	Repayable in dollars.....	71,362	-1,629			9	-1,620	69,742
15	Other ⁸	273	0		(⁹)		0	273
16	U.S. foreign currency holdings and U.S. short-term assets.....	554	23,902		(⁹)		23,902	24,456
17	U.S. private assets.....	12,850,260	1,267,459	367,823	512,490	-14,341	2,133,431	14,983,691
18	Direct investment at current cost.....	2,935,977	333,271	25,579	69,631	-31,630	396,851	3,332,828
19	Foreign securities.....	5,604,475	288,731	342,244	413,236	0	1,044,211	6,648,686
20	Bonds.....	1,275,515	170,708	3,918	27,946	0	202,572	1,478,087
21	Corporate stocks.....	4,328,960	118,023	338,326	385,290	0	841,639	5,170,599
22	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns.....	1,163,102	706		12,329	-110	12,925	1,176,027
23	U.S. claims reported by U.S. banks, not included elsewhere.....	3,146,706	644,751		17,294	17,399	679,444	3,826,150
24	Foreign-owned assets in the United States (lines 25+26)	16,607,101	(⁹)	(⁹)	(⁹)	(⁹)	3,474,682	20,081,783
25	Financial derivatives (gross negative fair value).....	1,179,159	(⁹)	(⁹)	(⁹)	(⁹)	1,021,893	2,201,052
26	Foreign-owned assets in the United States, excluding financial derivatives (lines 27+34).....	15,427,942	2,057,703	222,898	78,257	93,931	2,452,789	17,880,731
27	Foreign official assets in the United States.....	2,825,628	411,058	84,554		15,790	511,402	3,337,030
28	U.S. government securities.....	2,167,112	230,330	73,387		32,002	335,719	2,502,831
29	U.S. Treasury securities.....	1,558,317	58,865	54,397		25,786	139,048	1,697,365
30	Other.....	608,795	171,465	18,990		6,216	196,671	805,466
31	Other U.S. government liabilities ⁹	18,682	5,342			0	5,342	24,024
32	U.S. liabilities reported by U.S. banks, not included elsewhere.....	297,012	108,695			0	108,695	405,707
33	Other foreign official assets.....	342,822	66,691	11,167		-16,212	61,646	404,468
34	Other foreign assets.....	12,602,314	1,646,645	138,344	78,257	78,141	1,941,387	14,543,701
35	Direct investment at current cost.....	2,151,616	237,542	18,628	3,935	11,075	271,180	2,422,796
36	U.S. Treasury securities.....	567,885	156,825	22,362		-12,296	166,891	734,776
37	U.S. securities other than U.S. Treasury securities.....	5,372,361	573,850	97,354	52,974	35,899	760,077	6,132,438
38	Corporate and other bonds.....	2,824,879	391,440	-5,867	52,974	35,899	474,446	3,299,325
39	Corporate stocks.....	2,547,482	182,410	103,221		0	285,631	2,833,113
40	U.S. currency.....	282,627	-10,675			0	-10,675	271,952
41	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns.....	797,495	156,290		6,895	-1,136	162,049	959,544
42	U.S. liabilities reported by U.S. banks, not included elsewhere.....	3,430,330	532,813		14,453	44,599	591,865	4,022,195
Memoranda:								
43	Direct investment abroad at market value.....	4,454,635	333,271	108,353	267,198	-15,505	693,317	5,147,952
44	Direct investment in the United States at market value.....	3,293,739	237,542	6,264		-13,945	229,861	3,523,600

p Preliminary

r Revised

¹ Less than \$500,000 (+/-)

..... Not applicable

1. Represents gains or losses on foreign-currency-denominated assets and liabilities due to their revaluation at current exchange rates.

2. Includes changes in coverage due to year-to-year changes in the composition of reporting panels, primarily for bank and nonbank estimates, and to the incorporation of survey results. Also includes capital gains and losses of direct investment affiliates and changes in positions that cannot be allocated to financial flows, price changes, or exchange-rate changes.

3. Financial flows and valuation adjustments for financial derivatives are available only on a net basis, which is shown on line 2; they are not separately available for gross positive fair values and gross negative fair values of financial derivatives. Consequently, columns (a) through (d) on lines 4, 5, and 24, 25 are not available.

4. Data are not separately available for the three types of valuation adjustments; therefore, the sum of all three types is shown in column (d). Price changes result from changes in the value of derivatives contracts due to changes in the value

of their underlying assets or reference rates, which may arise from movements in interest rates, stock prices, commodity prices, or other variables. Exchange-rate changes result from the revaluation of foreign-currency-denominated derivatives contracts at current exchange rates. "Other changes" can result when data on investment positions that had accumulated in prior periods are covered by a new or more complete survey.

5. Reflects changes in the value of the official gold stock due to fluctuations in the market price of gold.

6. Reflects changes in gold stock from U.S. Treasury sales of gold medallions and commemorative and bullion coins; also reflects replenishment through open market purchases. These demonetizations/monetizations are not included in international transactions financial flows.

7. Also includes paid-in capital subscriptions to international financial institutions and outstanding amounts of miscellaneous claims that have been settled through international agreements to be payable to the U.S. government over periods in excess of 1 year. Excludes World War I debts that are not being serviced.

8. Includes indebtedness that the borrower may contractually, or at its option, repay with its currency, with a third country's currency, or by delivery of materials or transfer of services.

9. Primarily U.S. government liabilities associated with military sales contracts and other transactions arranged with or through foreign official agencies.

