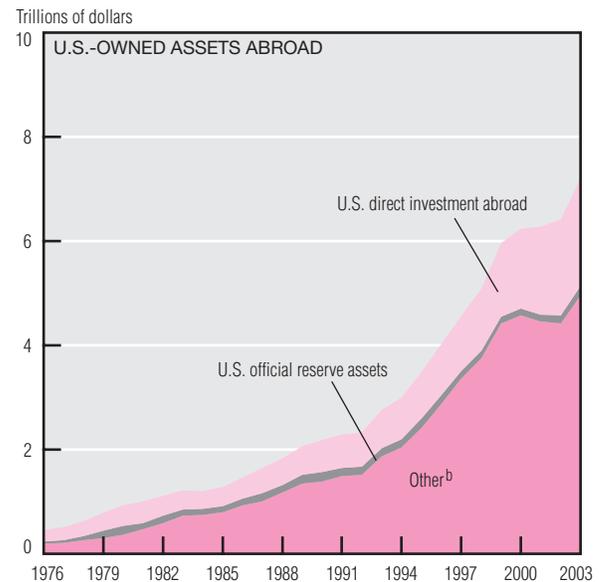
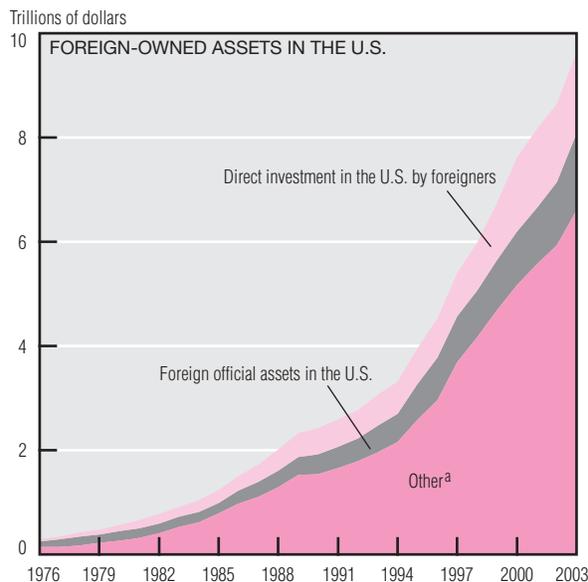
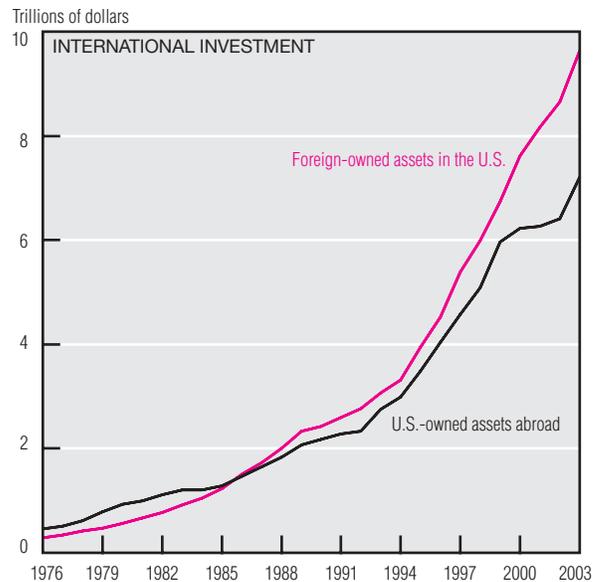
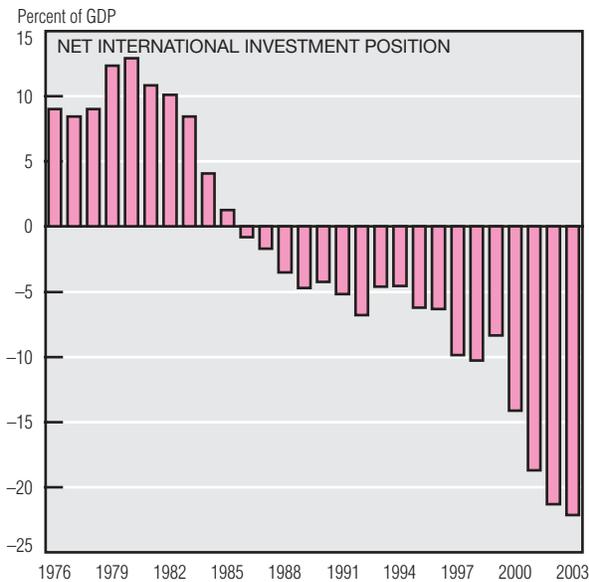


# U.S. Net International Investment Position



NOTE: All direct investment positions are valued on a current-cost basis.

a. Includes foreign holdings of U.S. currency and securities, U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns, and U.S. liabilities reported by U.S. banks not included elsewhere.

b. Includes U.S. Government assets other than official reserve assets, U.S. private holdings of foreign securities, U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns, and U.S. claims reported by U.S. banks not included elsewhere.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

By recent estimates, the net international investment position of the U.S. was  $-\$2.4$  trillion in 2003, or  $-22.1\%$  of our GDP. This amount is the difference between U.S.-owned assets abroad ( $\$7.2$  trillion) and foreign-owned assets in the U.S. ( $\$9.6$  trillion). Most of these assets are held in relatively liquid forms, such as corporate bonds, stocks, government securities, and bank accounts.

The negative net international investment position of the U.S. stems from our persistent trade deficits over

the past two decades. When we run a trade deficit, we effectively pay for the extra imports by providing foreigners with financial claims against the U.S. (or foreign-owned assets here). Because we must pay interest on these claims and roll them over, their ratio to GDP—a measure of our ability to do so—is particularly important. Although no one really knows how low is too low for this ratio, many observers are especially disconcerted by the continuing, and often rapid, drop in our net international investment position relative to GDP.

Although its descent slowed in 2003, this ratio is likely to move lower over the next couple of years. It cannot, however, keep declining indefinitely. At some point, foreign investors will become reluctant to hold additional dollar-denominated assets. Their caution will encourage a dollar depreciation and higher real interest rates in the U.S., thereby reducing our trade deficit and any further deterioration in our net international investment position. This adjustment is likely to be slow and smooth.