

Discussion of
**The United States and its Creditors: How Risky
is the US External Position?**
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Paper Outline

- Use various data sources to give the best estimates of U.S. international asset position
- In line with previous work, e.g., Bertaut et al. (2019) and Coppola et al. (2022), but for the whole external position for the U.S.
- Remarkable exercise: many problems in the available data. Try to give a better picture than the official numbers
 - The problems seem to have become worse. E.g., China's position in recent years or offshore centers

Paper Outline

- Despite the data imperfections, various interesting lessons can be drawn. For specific asset classes and for relevant countries
- Two major themes:
 - ① The role of equity prices
 - ② The foreign demand for US Treasuries
- Comment on these two issues

The Role of Equity Prices

- The larger increase in US stock prices has a significant impact on the US net investment position
- Increase in net equity liabilities mainly due to valuation effect rather than purchases
 - Decline in IIP larger than cumulative borrowing
- Doesn't seem to be a source of risk
 - Risk sharing with foreigners
 - Decline in US stock prices would improve the external balance
- High return on U.S. liabilities reduces or eliminates the "exorbitant privilege"
 - See Tabova and Warnock (2025)

US vs ROW Stock Prices

Stock Price Indices



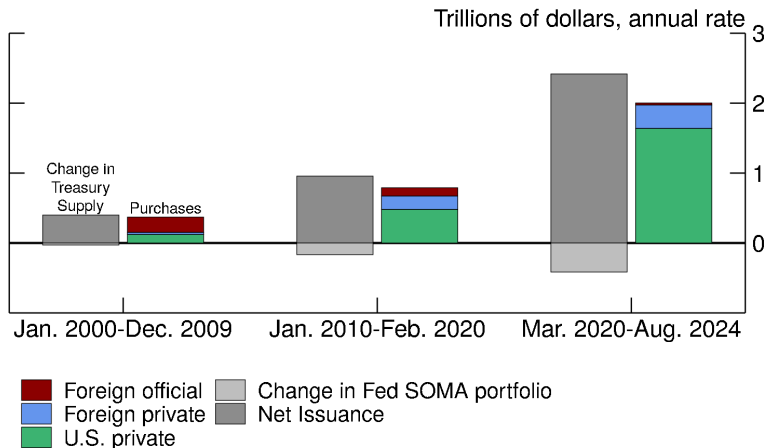
Demand for US Treasuries

- Main source of net inflows and of financing the CA deficit
- Academic question: what if the supply of new US debt stopped?
 - Other type of inflows or reduction in the CA deficit?
- More realistic question: what if the demand for US debt froze or declined (sudden stop)?
 - Other type of inflows or reduction in the CA deficit?
- Lessons from the data?

Supply and Demand for US Treasuries

Figure 10. Net issuance and purchases of U.S. Treasuries, 2000-2024

Transactions in Treasuries



Demand for US Treasuries by Foreign Central Banks

- The share held by foreigners is significantly lower than its peak in 2008
- Mainly due to decline in demand by foreign central banks, especially China and Japan. Unlikely to pick up
- The empirical analysis uncovers significant determinants for the demand by central banks
 - Could these determinants imply a significant reduction in demand by central banks?
 - What could be the maximum impact from geopolitical fragmentation?

Private Foreign Demand for US Treasuries

- Can private demand keep financing (partly) the growing U.S. public debt?
- The regressions are reassuring: demand for US Treasuries increases with the risk measure (RORO) or when the USD depreciates
- But what if increasing US debt is becoming more risky? The impact of risk shocks may change sign
- How much does foreign private demand finance U.S. fiscal deficits?
- Regression coefficient of 0.131 on US marketable debt ratio (Table 3):
 - Average "absorption" of new debt by foreign investors (13%?) ?
 - Could the marginal absorption become lower?

Conclusion

- Great data work
- By extending previous work, gives a detailed picture of recent US external financial position
- Many interesting details, I learned a lot
- Interesting empirical analysis. Uncovers relevant variables, but does not really help answering the question: How Risky is the US External Position?