Pinky Rani
Assistant Professor (Guest Faculty)
Department of Economics
Maharaja College
Veer Kunwar Singh University, Ara
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Topic- Public Debt

INTRODUCTION

Public Debt can be defined as the loan taken by the government from its public and foreign countries. The government can take loans from its public, financial institutions, banks, business organisations, etc., and from foreign countries as well. Public debts are subject to a fixed interest and are repaid by the government to the creditors after the expiry of the stipulated period.

Public debt is one of the important source of income to the government in times of financial crisis, emergencies like war, drought, etc.

The act of borrowing by public authority creates a Public debt or Public borrowing.

Public debt: Government bonds or securities

• In India: Treasury bills, Post office, saving certificates, National Saving Certificates, etc.

Types of Public Debt

Short-term, Medium-term, and Long-term Debts: Treasury bills are short-term debt instruments that mature in less than a year, typically ranging from a few days to a year. Unlike bonds, T-bills do not provide regular interest payments, instead, they are sold at a discount to their face value. Treasury notes are intermediate-term debt instruments, falling between bonds and T-bills in terms of maturity. They have fixed interest payments and maturity that typically range from two to ten years. Bonds are long-term debt securities with fixed interest rates and maturity periods. Investors who purchase government bonds are essentially lending money to the government and receiving periodic interest payments until the bond’s maturity, at which they receive the principal amount back.

Internal and External Debt

The government’s borrowing within the country is known as internal debt. The government can borrow this debt from sources like banks, individuals, business firms and other internal sources.

On the other hand, the government's borrowing from abroad or international is known as external debt. These types of debts contribute to the development programmes. A few of the sources are bilateral borrowings, multilateral borrowings, loans from the Asian Development Bank, World Bank etc.

Productive And Unproductive Debt

If the loan is financed for projects that will bring revenue to the government is known as productive debt. They are self-liquidating in nature—for example, irrigation, power projects, infrastructure, etc.

When the loans are a net burden on the community, they are known as unproductive debts. In this case, the government charged additional taxation for service and repayment.

Compulsory And Voluntary Debt

Loans that are raised due to the government's borrowing from the public by using coercive methods are known as compulsory debt—for example, the taxes paid by the public.

The members of the public and institutions like commercial banks can subscribe to the securities issued by the government loans, which is known as voluntary debt. For example, the public borrowings.

Redeemable And Irredeemable Debt

The debt that the government repays after a fixed period is known as redeemable debt. To sell securities to the public, the government borrows money from them. The interest on this debt is paid irregularly.

The debt that has no promised date of repayment by the government is known as irredeemable debt. Therefore, the interest paid may be regular. But such borrowings are not reported by the government.

Funded Debts and Unfunded Debts: Funded debts are the debts, for the repayment of which government forms a separate fund. Each year, the government adds some amount into that fund, which is used to repay the principal amount of debts. Funded Debts are generally for some productive purpose and are long-term debts. Unfunded debts are the debts taken by the government to cope with short-term financial needs. There is no fund maintained by the government to repay such debt amounts. The government repay these debts out of their regular income.