

Public Debt

- **Meaning of Public Debt**
- **Types of Public Debt**
- **Burden of Public Debt**
- **Management of Public Debt**

Public Debt

- **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

- **Public debt: Government bonds or securities**
- **In India: Treasury bills, Post office, saving certificates, National Saving Certificates, etc.**
- **Public debt: Internal or External.**
- **Internal debt refers to the public loan floated within country, while external refers to the obligation of a country to foreign governments or foreign nationals, or international institutions.**

Role of Public Debt

- **Smoothening out the tax rate.**
- **Macro economic stabilization**
- **Financing war or other emergency expenditures**
- **Meeting part of current expenditure**
- **Remunerative capital formation by the government**
- **Filing saving and investment gap**

Types of Public debt

Productive and Unproductive debt

Voluntary and Compulsory debt

Internal and External debt

Short term , Medium Term, and Long term debt

Redeemable and Irredeemable Debt

Funded and Unfunded debt

Burden of Public debt

- **Public debt constitutes the financial obligation or liabilities of the government**
- **Debt burden is measured as ratio of outstanding debt to GNP**
- **Debt= Outstanding Debt/ GNP**
- **Burden of Public Debt consist of the sacrifice that tax payer have to make for financial repayment of principle and interest.**

Burden of Internal debt

- **Increases inequality: Purchasing power transfers from poor to rich.**
- **Adversely affects the ability and desire to work, save and invest**
- **Transfer purchasing power from young to older generation.**
- **Burden of unproductive debt: not self liquidating**
- **Reduces private investment.**

Burden of External debt

- **Direct money burden:** The size of the burden would depends on the rate of interest and amount of the loan incurred.
- **Direct Real burden:** It is measured in terms of loss of welfare suffered by people of the debtor of the country due to repayment of debt.
- **Indirect money burden and Indirect Real burden :** This is measured in terms of effect on the production and allocation of resources.

Burden of External Debt

- **Burden of unproductive foreign debt :The magnitude depends upon whether the debt is incurred for productive purpose or unproductive purpose. If incurred for unproductive purpose it will create greater burden on the community.**
- **Foreign currency burden increases**

Management of Public Debt

- **Strategy for managing the government's debt in order to:**
 - ✧ **Raise the required amount of funding**
 - ✧ **Achieve its risk and cost objectives**
 - ✧ **To meet any other debt management goals of the government such as developing and maintaining an efficient market for government securities.**

Redemption of Public Debt

- Refers to escaping from the burden of public debt.

Various methods of Debt Redemption are as follows:

- 1. Repudiation: Writing off the loans i.e. not repaying**
- 2. Refunding: Issue of new bonds and securities by the govt. to repay the matured loans**

Redemption of Public Debt

- 3. Conversion:** Refers to a process by which public debt with higher interest is converted to a debt of lower interest rate.
- 4. Capital levy:** Refers to a very heavy once for all tax on capital assets, property and wealth.

Redemption of Public Debt

5. Sinking Fund: Accumulating a part of public revenue every year for the repayment of debt.

The most systematic and best method for debt redemption.

6. Surplus budget: When Public revenue is more than public expenditure there is a surplus budget. The surplus budget is used to clear off the public debts.

Importance of Public Debt Management

- **Helps to reduce the cost of borrowing.**
- **Helps to develop the domestic financial market**
- **Facilitates economic development**
- **Make countries less vulnerable to financial risks.**

Framework for Public debt management

- **Debt Management objectives:** Ensure payments obligation and financial needs are met at lowest possible cost.
- **Transparency and Accountability:** Objectives of the Debt management should be clearly defined and publicly disclosed.
- **Institutional Framework:** Legal framework which clarify the authority to borrow and issue new debt.

Framework for Public debt management

- **Debt security and Risk Management:** Effective debt strategy should be implemented and risk in portfolio should be mitigated.
- **Efficient Market for Government Securities:** To ensure the policies and operations are consistent with an efficient market for government securities.

Public Debt Management Policy Of GOI

- 1. Greater reliance on domestic borrowing over external debt.**
- 2. Preference for market borrowing over instruments carrying administered interest rate**
- 3. Consolidation of the debt portfolio**
- 4. Development of deep and wide market for government securities to improve liquidity in the secondary market**

Management of Public Debt

Institutions responsible for management of public debt

- **Reserve Bank of India**
- **Ministry of Finance, Office of Aid and Accounts Division**
- **Ministry and Finance, Budget Division and Reserve Bank of India.**