

Public Debt Management

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Public debts refer to obligations of governments, particularly those evidenced by securities, to pay certain sums to the holders at some future date.

National Debt is a debt which a state owes to its subjects or the nationals of other countries.

Gross Debt & Net Debt

Factors Responsible for Change in Net Debt:

1. Budget Surplus or Deficit
2. Increase or Decrease in the treasury Balance.
3. Decrease in the sinking fund balance.

Reasons for increasing Public Debt

1. The government may borrow when its revenue falls short of its expenditure.
2. There may be sudden increase in govt. Expenditure due to works, internal disorder and natural calamities.
3. The philosophy of functional finance.

Compensatory Aspect of Public Debt

Objects and Public Borrowings

1. To fill the gap between anticipated public expenditure and current public expenditure.
2. To mop up excessive purchasing power from the public during an inflationary period.
3. To overcome depression by spending more through the creation of public debt.
4. To finance development plans
5. To meet war finance.

Sources of Public Borrowings

1. Internal Sources of Public Debt.
 - a. Borrowing from individuals
 - b. Borrowing from Non-banking Financial Institutions
 - c. Borrowing from Commercial bank
 - d. Borrowing from Central bank

Borrowing from External Sources

- a. International Financial Institution like IMF, IBRD, IDA and IFC.
- b. Govt. Assistance from friendly nations.

Forms of Public Debt

- i. Internal and External Debts
- ii. Productive and unproductive Debt.
- iii. Redeemable and Irredeemable Debts.
- iv. Funded and unfunded Debts.
- v. Short-Period, Medium- term and long terms loans.
- vi. Voluntary and Compulsory Loans
- vii. Marketable and Non- Marketable Debt.
- viii. Gross and Net Debt.

Economic Effects of Public Debt

- i. Effects on production
- ii. Effects on consumption
- iii. Effects on Distribution

Burden of Public Debt

1. Internal burden of public debt.

- i. Direct money burden
- ii. Indirect money burden
- iii. Direct real burden

2. External Burden of Public Debt.

- i. Direct money burden
- ii. Indirect money burden
- iii. Direct real burden
- iv. Indirect real burden

Redemption of Public Debt

- i) Repudiation**
- ii) Refunding**
- iii) Conversion of loans**
- iv) Sinking fund**
- v) Terminal Annuities**
- vi) Surplus Budgets**
- vii) Buying of Loans**
- viii) Serial Bond Redemption**
- ix) Capital Levy**
- x) Surplus BoP**