Public Debt: Definition and Classification

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Definition of Public Debt

Public debt may be defined as the loans incurred by the government to finance its activities.Public debt is incurred when the government borrows internally or externally from banks,other nations or mulilateral financial institutions.

Since debt is to be repaid with interest,it does not constitute income.

Governments resort to publuc debt when other means of government earnings are not sufficient to meet its requirements.

Classification of Public debt

Public debt can be classified as follows:

1.Internal and external debt

2.Sort term and long term debt

3.Funded and unfunded debt

4.Redeemable and irredemable debt

5.Productive and unproductive debt

Internal and External debt

Debt owned to citizens is internal debt,while debt owned to foreigners is external debt.

Internal debt is the government loans floated in the capital market within the country.Such loans are subscribed by individuals and institutions of the nation whose government raises loan.

External loans are public loans floated in the capital markets abroad.Such loans are subscibed by individuals,foreign government and multilateral financial institutions.It is also known as external debt.

Short-term and long term debts

Loans of shorter maturity period i.e. less than 90 days are called short term loans by government.Treasury bills or ways and means advances which are short -term interest bearing securities are called short term loans.Government takes such short-term advances from the Central bank to overcome temporary deficit in budget.

Long period loans by government usually has a tenure longer than 10years.Such loans are taken for development purposes.Government comes to the public for such loans.

Funded and Unfunded debt.

Funded debt is along term debt,exceeding one year.It comprises of securities which are marketabke in stoch exchanges. For the repayment of such debt,the government maintains a separate fund.

Unfunded or floating debt are those which are repayaple in a short period,often less than a year.No separate fundis kept for its repayment.Unfunded debts are a temporary measure to meet current needs.

Redeemable and Irredeemable debt

Redeemable debt are those which the government promises to pay off on a future date.They are terminable or have a maturity period.

Irredeemable debt are those for which the government does not promise to pay the principal ;only interest is paid regularly.If the government takes iredeemable debt,the society bears the burden of perpetual debt.

Productive and Unproductive debt.

Public debt is called productive,if it is used in income generating enterprise.Such debts are raised to increase the production capacity of the economy.A productive debt generates income ,out of which the debt is paid.Loans taken by government for infrastructure funds are called productive loans or debt as they have the potential to generate income.

Unproductive or deadweight loans are those which are not capable of creating assets or generating income for the economy.Loans taken for war may be called unproductive debt.