

Introduction to Public Debt

Introduction to Public Debt

(A concise, structured overview for students and anyone new to the subject)

1. What Is Public Debt?

Term	Definition
Public Debt	The total amount of money that a government owes to creditors, both domestic and foreign.
Borrower	The sovereign state (central government) or its sub-national entities (states, provinces, municipalities).
Creditor	Individuals, banks, institutional investors, foreign governments, and international organizations that purchase government securities.
Debt Instruments	Treasury bills, notes, bonds, savings bonds, and other securities issued by the government.

2. Why Governments Borrow

1. **Financing Deficits** – When annual expenditures exceed revenues (taxes, fees, royalties).
 2. **Stabilizing the Economy** – Counter-cyclical fiscal policy: borrowing to fund stimulus during recessions and repaying during expansions.
 3. **Funding Long-Term Projects** – Infrastructure, education, health, and defense often require upfront capital that will generate benefits over many years.
 4. **Managing Cash Flow** – Short-term borrowing (e.g., Treasury bills) smooths timing mismatches between revenue receipt and spending.
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3. Main Categories of Public Debt

Category	Typical Characteristics	Examples
Domestic Debt	Issued in the country's own currency; held by residents and domestic institutions.	U.S. Treasury securities, UK Gilts, Japanese Government Bonds (JGBs).

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Category	Typical Characteristics	Examples
External (Foreign) Debt	Issued in foreign currencies or by foreign investors; subject to exchange rate risk.	Euro-denominated bonds sold to European investors, World Bank loans.
Short-Term Debt	Maturities up to 1 year (e.g., Treasury bills).	3-month T-bill, commercial paper issued by the Treasury.
Long-Term Debt	Maturities longer than 1 year (notes, bonds).	10-year Treasury note, 30-year sovereign bond.
Concessional Debt	Loans with below-market interest rates or generous repayment terms, often from multilateral institutions.	IMF standby arrangements, World Bank "soft" loans.

4. How Public Debt Is Measured

Metric	Formula	Interpretation
Debt-to-GDP Ratio	$\left(\frac{\text{Total Public Debt}}{\text{GDP}} \right) \times 100\%$	Shows debt relative to the size of the economy; a common gauge of sustainability.
Debt Service Ratio	$\left(\frac{\text{Annual Debt Payments (interest + principal)}}{\text{Government Revenue}} \right) \times 100\%$	Indicates the share of revenue needed to meet debt obligations.
Net Public Debt	Total debt – Financial assets held by the government (e.g., sovereign wealth funds).	Reflects the "real" borrowing burden after accounting for government holdings.
Primary Balance	$(\text{Revenue} - \text{Non-interest Expenditure})$	Positive primary balance means the government can cover its operating costs without borrowing for interest.

5. Advantages & Risks of Public Debt

Advantages

- **Liquidity & Flexibility** – Immediate funding without raising taxes.

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- **Economic Stimulus** – Enables counter?cyclical spending to boost demand.
- **Intergenerational Equity** – Spreads the cost of long?lasting projects across