

Graduate School of Public Policy
The University of Tokyo

Sovereign Debt: Lessons from History and Future Implications I

Course No. 5123431
Winter 2014

COURSE SYLLABUS

Time: 14:50-16:30, Fridays (unless otherwise announced)
Location: Seminar Room No. 3 (Room 710), 7th floor, Administration Bureau Building 2
Instructor: Toshiro NISHIZAWA, Professor (practitioner faculty member)
TA: Ms. Tatum Blaise Tan
Credits: 2 credits
Language: English
Office: Room 605, 6th floor, Administration Bureau Building 2
Office hours: By appointment
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**Please feel free to send me e-mails (cc to Ms. Tatum Blaise Tan) with any question about the course or if you want to make an appointment. To help me not to miss your incoming e-mails, please start the subject line with "5123431" (Course No.) when you send e-mails.*

1. Objectives/Overview

Since the global financial crisis of 2008-2009 and following the Eurozone crisis, high levels of government debt in advanced economies have raised renewed market concerns over possible sovereign defaults. A sovereign default is the *failure or refusal* of a government to meet payments on its debt obligations to either domestic or external creditors, or to both. In fact, history gives us many precedents of sovereign default by both developed and developing countries as well as many crisis cases that brought a government to the verge of default.

As financial journalist Philip Coggan described in his book titled *Paper Promises: Money, Debt and the New World Order*, economic history could be viewed as "a war between creditors and debtors" while borrowing and lending money is essential to make an economy function. As any other players in the economy, a government needs to borrow or assume some form of liabilities, both direct and indirect (contingent), when it runs deficits, rescues the financial system, guarantees projects, tries to maintain exchange rates, and so on. Therefore, the government is not necessarily immune from a struggle against its creditors.

Furthermore, consideration is needed not only for the interaction between creditors and debtors, but also between creditors as evident from inter-creditor equity issues in debt restructuring as observed in the recent Greek case and the ongoing dispute vis-à-vis Argentina.

Therefore, dealing with sovereign debt has serious *political* and *legal*, as well as *economic*,

consequences, which should require *public policy and legitimacy considerations*.

The aim of the course is to clarify the nature of sovereign debt (*conceptual framework*), to familiarize students with sovereign risk assessment methodologies on the basis of particular cases, including default and debt restructuring (*lessons from history*), and then to provide students with an opportunity to discuss and consider how government liabilities should be managed and sovereign debt crises should be avoided or dealt with (*future implications*). More broadly, we should also keep in mind how we could pull the global economy out of a vicious circle of debt trap and credit addicted growth strategy with a growing sovereign debt as a consequence, which appears to be one of the global economic challenges we are faced with.

2. Schedule

...	Friday, October 3	no class	...
Day 1	Friday, October 10	Introduction and the key concepts	Nishizawa
...	Friday, October 17	no class <i>*Individual consultation could be arranged by appointment either on Monday, October 20 (15:00-18:00) or Wednesday, October 22 (13:00-17:00).</i>	...
Day 2	Friday, October 24	Students' presentation on topics of their interest, followed by discussion <i>*Each student is given up to 5 minutes to present a topic or topics of his/her interest as described in the pre-class assignment form attached to the course memorandum dated September 29.</i>	Nishizawa
Day 3	Saturday, October 25 make-up class (14:50-16:30)	Cases of sovereign debt, default, and restructuring	Nishizawa
Day 4	Saturday, October 25 make-up class (16:40-18:20)	Cases of sovereign debt, default, and restructuring; followed by brainstorming exercise for research topics	Nishizawa
Day 5	Friday, October 31	TBA	Nishizawa
Day 6	Friday, November 7	Students' mid-term presentation	Nishizawa
Day 7	Friday, November 14	TBA	Nishizawa
Day 8	Friday, November 21	TBA	Nishizawa
Day 9	Friday, November 28	TBA	Nishizawa
Day 10	Friday, December 5	TBA	Nishizawa
Day 11	Friday, December 12	TBA	Nishizawa
Day 12	Friday, December 19	TBA	Nishizawa

Day 13	Friday, January 9	TBA	Nishizawa
Day 14	Friday, January 16	TBA	Nishizawa
Day 15	Friday January 23	Students' final presentation	Nishizawa

3. Teaching methods

This course will be organized as a seminar with introductory lecture followed by class discussion. *Active participation in discussion* is expected based on student different backgrounds, life-experiences, knowledge, skills, and reading of assigned materials. The working language is English.

Guest speakers will be invited to discuss specific issues from various perspectives and/or based on different fields of professional expertise.

4. Course requirements and grading

Students are required to make presentations at least twice in the middle and at the end of the course *either (a) on a topic of his/her interest in the context of the course objective as described above or (b) on one of her/his choice from the subjects given by the instructor*. Each student is also required to submit reports based on his/her presentations in the middle and at the end of the course.

Furthermore, students are required *from time to time to make a brief presentation or write a short note (up to 400 or 600 words) about one of the readings assigned for a particular class* and to submit the note by e-mail in principle at least twenty four (24) hours before the beginning of the class. Unless otherwise instructed, the note should cover: (a) your understanding of key ideas and questions raised by the author, (b) terms and concepts that you need clarification, and (c) issues identified for further discussion.

The course grade will be based on:

Presentations 35% (10% for mid-term and 25% for final)

Individual reports 35% (10% for mid-term and 25% for final)

Class attendance and participation 30% (10% for attendance and 20% for participation)

5. Required readings

Required readings, mainly excerpts taken *selectively* from the following reference books and other materials, will be either made available via e-mail or handed out in class. While students are not required to purchase any materials listed below, the three books marked with a "#" sign (Coggan 2011, Reinhart and Rogoff 2009, and Wolf 2014) are easily available in paperback and may be a useful source of information and ideas to help students work on issues of sovereign debt.

Coggan, Philip. 2011. *Paper Promises: Money, Debt and the New World Order*. New York: Penguin Press.

Institute of International Finance, Inc. (IIF). 2012. *Report of the Joint Committee on*

Strengthening the Framework for Sovereign Debt Crisis Prevention and Resolution. Washington, DC: Institute of International Finance, Inc. Accessed October 3, 2014.

<http://www.iif.com/press/press+393.php>

International Monetary Fund (IMF). 1998. *External Debt Histories of Ten Low-Income Developing Countries: Lessons from Their Experience*. IMF Working Paper, WP/98/72, Corrected: 5/26/98. Washington, DC: IMF. Accessed October 3, 2014.

<http://www.imf.org/external/pubs/ft/wp/wp9872.pdf>

International Monetary Fund (IMF). 2003. *Guidelines for Public Debt Management*. Washington, DC: IMF. Accessed October 3, 2014.

<http://www.imf.org/external/np/mfd/pdebt/2003/eng/am/120903.pdf>

International Monetary Fund (IMF). 2013a. *Sovereign Debt Restructuring--Recent Development and Implications for the Fund's Legal and Policy Framework*. Washington, DC: IMF. Accessed October 3, 2014.

<http://www.imf.org/external/np/pp/eng/2013/042613.pdf>

International Monetary Fund (IMF). 2013b. *Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries*. Washington DC: IMF. Accessed October 3, 2014.

<http://www.imf.org/external/np/pp/eng/2013/050913.pdf>

International Monetary Fund (IMF). 2013c. *Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative*. IMF Factsheet. Washington, DC: IMF. Accessed October 3, 2014. <http://www.imf.org/external/np/exr/facts/hipc.htm>

International Monetary Fund (IMF). 2013. *The Multilateral Debt Relief Initiative*. IMF Factsheet. Washington, DC: IMF. Accessed October 3, 2014.

<http://www.imf.org/external/np/exr/facts/mdri.htm>

Kolb, Robert W., ed. 2011. *Sovereign Debt: From Safety to Default*. Hoboken, NJ: John Wiley&Sons.

Lastra, Rosa M., and Lee Buchheit, eds. 2014. *Sovereign Debt Management*. Oxford: Oxford University Press.

Lienau, Odette. 2014. *Rethinking Sovereign Debt: Politics, Reputation, and Legitimacy in Modern Finance*. Cambridge, MA: Harvard University Press.

Polackova Brix, Hana, and Allen Schick, ed. 2002. *Government at Risk: Contingent Liabilities and Fiscal Risk*. Washington, DC: The World Bank.

Reinhart, Carmen M., and Kenneth S. Rogoff. 2009. *This Time Is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press.

Sturzenegger, Federico, and Jeromin Zettelmeyer. 2006. *Debt Defaults and Lessons from a Decade of Crises*. Cambridge, MA: The MIT Press.

Waibel, Michael. 2011. *Sovereign Defaults before International Courts and Tribunals*. New York: Cambridge University Press.

Wolf, Martin. 2014. *The Shifts and the Shocks: What We've Learned - and Have Still to Learn - from the Financial Crisis*. New York: Penguin Press.

I would suggest that you read chapters (particularly, Chapters 1, 2, 5, and 6) of the following reference book. This is one of the widely-known classic reference books to help students or professionals to do research and to write a good research paper. You can easily purchase one from amazon.com (¥1,835) or borrow one from Nishizawa.

Turabian, Kate L. Revised by Booth, Wayne C., Gregory G. Colomb, Joseph M. Williams, and the University of Chicago Press Editorial Staff. 2013. *A Manual for Writers of Research Papers, Theses, and Dissertations*. 8th ed. Chicago: University of Chicago Press.
