

Graduate School of Public Policy  
The University of Tokyo

## ***Sovereign Debt***

Course No. 5123433  
A-Semester (A1/A2) 2015

### **COURSE SYLLABUS**

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Time: Period 5, 16:50-18:35, Mondays (unless otherwise announced)  
Location: Seminar Room No. 3 (Room 710), 7<sup>th</sup> floor, Administration Bureau Building 2  
Instructor: Toshiro NISHIZAWA, Project Professor  
TA: TBA  
Credits: 2 credits  
Language: English  
Office: Room 624, 6<sup>th</sup> floor, Administration Bureau Building 2  
Office hours: By appointment  
Contact info: tnishizawa@pp.u-tokyo.ac.jp; 03-5841-1343

*\*Please feel free to send me e-mails 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 the course number 5123433** when you send e-mails.*

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#### **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. Furthermore, there has been ongoing debate about how to get under control Japan's sovereign debt which represents more than twice the OECD members' average debt-to-GDP ratio.

A sovereign default is the *failure or refusal* of a government to make 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 are 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, we should look at the interaction not only between creditors and debtors, but

also between creditors as suggested by 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 challenges we are faced with in today's world.

## 2. Schedule

Day 1	Monday, September 14	Introduction	Nishizawa
Day 2	Saturday, September 19; make-up class (period 4, 14:55-16:40)†	Key concepts and background	Nishizawa
Day 3	Saturday, September 19; make-up class (period 5, 16:50-18:35)†	The nature of sovereign default: "To pay, or not to pay, that is the question"	Nishizawa
Day 4	Monday, September 21	Economic and political aspects of sovereign debt problems	Nishizawa
...	Tuesday, September 22	Course registration period for A-semester ends	...
Day 5	Monday, September 28	Debt sustainability analysis for market-access countries	Nishizawa
...	Friday, October 2	Course withdrawal period for A-semester ends	...
...	Monday, October 5	No class	...
Day 6	Monday, October 12	Debt sustainability analysis for low-income countries	Nishizawa
Day 7	Monday, October 19	Students' mid-term presentation	Nishizawa
...	Tuesday, October 20 -Friday, October 23	Oral feedback on student mid-term presentations will be provided individually by appointment during this period.	Nishizawa
Day 8	Monday, October 26	Sovereign debt restructuring	Nishizawa
...	Monday, October 26	Mid-term reports due by 21:00	...
...	Friday, October 30	Written feedback on student	...

		mid-term reports will be provided individually.	
Day 9	Monday, November 2	Sovereign credit rating: the case of Turkey (tentative)	Nishizawa Nakagawa‡
Day 10	Monday, November 9	Issues on odious debt: sovereignty and legitimacy	Nishizawa
...	Monday, November 16	No class	...
...	Monday, November 23	No class	...
...	Monday, November 30	No class	...
Day 11	Monday, December 7	Discussion on selected issues (TBD)	Nishizawa
...	Tuesday, December 8 -Wednesday, December 11	Individual consultation on student final presentation will be arranged by appointment during this period.	...
Day 12	Monday, December 14	Student final presentation	Nishizawa
Day 13	Monday, December 21	Feedback on student final presentations and follow-up discussion	Nishizawa
...	Monday, December 21	Year-end evening gathering to be held jointly with Course 5140723 (tentative and optional)	...
...	Monday, January 11	Final report due by 21:00	...

† For those who are not able to attend the make-up class sessions on Saturday, September 19 *for compelling reasons*, a shortened session will be organized in the following week.

‡ Guest speaker: Mr. Satoshi Nakagawa, Chief Analyst & Special Representative for Asia, Japan Credit Rating Agency, Ltd. (JCR)

### 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, motivation, 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 toward the end of the course *either (a) on one of her/his choice from the subjects given by the instructor or (b) on a topic of his/her interest in the context of the course objective as described above*. 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 own idea about the best interpretation of the key messages of the author, (b) a summary of the main points of the controversy, if any, and your own position with supporting reasons; (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 electronically or handed out in class. While students are not required to purchase any materials listed below, two books marked with a "#" sign (Coggan 2011 and Reinhart and Rogoff 2009) 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). 2014. *2014 Report on Implementation of the Principles for Stable Capital Flows and Fair Debt Restructuring*. Washington, DC: Institute of International Finance, Inc. Accessed September 2, 2015.

<https://www.iif.com/news/2014-report-implementation-principles-stable-capital-flows-and-fair-debt-restructuring>

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 September 2, 2015.

<http://www.imf.org/external/pubs/ft/wp/wp9872.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 September 2, 2015.

<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 September 2, 2015.

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

International Monetary Fund (IMF). 2013c. *Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries*. Washington DC: IMF. Accessed September 2, 2015.

<http://www.imf.org/external/np/pp/eng/2013/110513.pdf>

International Monetary Fund (IMF). 2014. *Revised Guidelines for Public Debt Management*. IMF Policy Paper. Washington, DC: IMF. Accessed September 2, 2015.

<http://www.imf.org/external/np/pp/eng/2014/040114.pdf>

International Monetary Fund (IMF). 2015. *Staff Guidance Note on the Implementation of Public Debt Limits in Fund-Supported Programs*. Washington DC: IMF. Accessed September 2, 2015.

<http://www.imf.org/external/np/pp/eng/2015/052715.pdf>

Japan Credit rating Agency, Ltd. (JCR). 2014. *Rating Methodology: Sovereign and Public Sector Entities*. Tokyo: JCR. Accessed September 2, 2015

[http://www.jcr.co.jp/english/coc/coc14\\_3.pdf](http://www.jcr.co.jp/english/coc/coc14_3.pdf)

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.

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

Rodrik, Dani. 2012. *The Globalization Paradox: Why Global Markets, States, and Democracy Can't Coexist*. New York: Oxford University Press.

Standard & Poor's Ratings Services. 2014. *Sovereign Rating Methodology*. New York: Standard & Poor's Ratings Services. Accessed September 2, 2015

[https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1377165&SctArtId=288448&from=CM&ns1\\_code=LIME&sourceObjectId=8950072&sourceRevId=2&fee\\_in d=N&exp\\_date=20241223-20:52:02](https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1377165&SctArtId=288448&from=CM&ns1_code=LIME&sourceObjectId=8950072&sourceRevId=2&fee_in d=N&exp_date=20241223-20:52:02)

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

I would suggest that you read chapters (particularly, Chapters 1, 2, 5, 6 and 7) of the following reference book. This is one of the widely-known classical 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 (¥2,288) 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.

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Attachment (1) Detailed Course Schedule

Attachment (2) Titles of student final papers submitted in AY2013 and AY2014

As of September 8, 2015

Graduate School of Public Policy  
The University of Tokyo  
*Sovereign Debt*  
Course No. 5123433  
A-Semester (A1/A2) 2015

## DETAILED COURSE SCHEDULE

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### Day 1: Monday, September 14

#### Introduction

As an introduction to the subject, we learn a couple of recent cases of sovereign debt crisis and concerns about Japan's debt burden by watching videos taken from various sources. Then, the instructor will present the aim of this course as well as the teaching methods and approaches to follow. You are asked to share with others in class your motivation to work on the course subject and your background, life-experiences, knowledge, skills and so on.

#### *Video clips*

Greek crisis in 90 seconds | FT Markets (June 22, 2015; 1:52 minutes)

Accessed September 2, 2015

<https://www.youtube.com/watch?v=ojGoaq0nsR0>

Argentina debt in 60 seconds | FT World (June 17, 2014; 1:16 minutes)

Accessed September 2, 2015

<https://www.youtube.com/watch?v=uIbMAxqKmx8>

Japan in focus: Debt burden escalates, USD/JPY returning to 124? (Tip TV Finance, August 4, 2015; 12:00 minutes)

Accessed September 2, 2015

<https://www.youtube.com/watch?v=-voFLgtHd48>

#### *Reading materials*

None

#### *Assignment*

Assignment 00: You are asked to provide your background information as well as your motivation to take this course by filling out the form distributed in class or made available upon request. The form should be submitted to Nishizawa (tnishizawa@pp.u-tokyo.ac.jp) by e-mail before 18:00 on Friday, September 18.

Assignment 01: You should read Introduction of Kolb 2011 (Reading 01) and prepare a short note (up to 400 words) to describe your own idea about the author's key messages prior to attending the class on Day 2 (September 19).

Assignment 02: You should read Chapter 1 of Kolb 2011 (Reading 02) and prepare a short note (up to 400 words) to summarize the main arguments prior to attending the class on Day 3 (September 19).

**Day 2: Saturday, September 19**

**Key concepts and background**

The instructor discusses the nature of debt and credit and then explain the concept of balance sheet.

*Video clips*

Northern Rock Panic (BBC News 24, September 24, 2007: 4:32 minutes)

Accessed September 2, 2015.

[http://www.youtube.com/watch?feature=player\\_detailpage&v=sKjdT8I6TnE](http://www.youtube.com/watch?feature=player_detailpage&v=sKjdT8I6TnE)

We See Solvency Issues in Spain: RBS (CNBC, November 5, 2012; 6:57 minutes)

Accessed September 2, 2015.

<http://video.cnbc.com/gallery/?video=3000126884>

*Reading materials*

Introduction, Kolb 2011 (Reading 01) and Lecture Note 01

*Assignment*

None

**Day 3: Saturday, September 19**

**The nature of sovereign default: "To pay, or not to pay, that is the question"**

The instructor discusses the nature of sovereign default, which is either the *failure or refusal* of a government to make payments on its debt obligations.

*Video clips*

None

*Reading materials*

Chapter 1, Kolb 2011 (Reading 02) and Lecture Note 02

*Assignment*

Assignment 03: You should read Chapter 3 and Chapter 15 of Kolb 2011 (Reading 03 and Reading 04) and prepare a short note (up to 400 words) to summarize the main arguments prior to attending the class on Day 4.

**Day 4: Monday, September 21**

**Economic and political aspects of sovereign debt problems**

The instructor discusses a multifaceted nature of sovereign debt problems not only with economic but also political consequences.

*Video clips*

None

*Reading materials*

Chapter 3 and Chapter 15 of Kolb 2011 (Reading 03 and Reading 04) and Lecture Note 03.

*Assignment*

Assignment 04: You should read pages 4-38 of IMF 2013b (Reading 05) and prepare a one-page list of terms and concepts that you need clarification prior to attending the class on Day 5.

**Day 5: Monday, September 28**

**Debt sustainability analysis for market-access countries**

We learn a framework called "debt sustainability analysis for market-access countries" developed by IMF.

*Video clips*

None

*Reading materials*

Pages 4-38 of IMF 2013b (Reading 05).

*Assignment*

Assignment 05: You should read pages 8-17 of IMF 2013c (Reading 06) and prepare a one-page list of terms and concepts that you need clarification prior to attending the class on Day 6.

**Day 6: Monday, October 12**

**Debt sustainability analysis for low-income countries**

We learn a framework called "debt sustainability analysis for low-income countries" developed by IMF.

*Video clips*

None

*Reading materials*

Pages 8-17 of IMF 2013c (Reading 06).

*Assignment*

None

**Day 7: Monday, October 19**

**Student mid-term presentation**

Each of you is expected to give a mid-term presentation within five minutes, followed by questions and answers. If you form a group, the group is given three minutes multiplied by the number of group members. You might wish to use power point slides (no more than 10 slides), but only to include key messages. In your presentation, you should state *your main research question* together with *the reason why you think it is worth asking*, and include *a tentative outline* (e.g., introduction, method, issues to be discussed, conclusion) together with *a list of main reference materials*. Unless you are a very experienced and skilled speaker, it is strongly recommended that you prepare talking points as well as a Power-Point presentation or handouts. Punctuality is required so that you are asked to stop even in the middle of your



presentation.

Oral feedback on student mid-term presentations will be provided individually by appointment during this period from Tuesday, October 20 to Friday, October 23.

Following your mid-term presentation, you are expected to submit by 21:00 on Monday, October 26 your mid-term report (no more than 1,000 words or about two to three pages long, excluding a list of main reference materials) based on your mid-term presentation. Written feedback on student mid-term reports will be provided individually on Friday, October 30.

*Video clips*

None

*Reading materials*

None

*Assignment*

Assignment 06: You should read Chapter 19 and Chapter 21 of Kolb 2011 (Reading 07 and Reading 08) and prepare a one-page list of terms and concepts that you need clarification prior to attending the class on Day 8.

**Day 8: Monday, October 26**  
**Sovereign debt restructuring**

The instructor discusses various frameworks for sovereign debt restructuring and mechanisms being discussed in the context of the international financial architecture.

*Video clips*

None

*Reading materials*

Chapter 19 and Chapter 21 of Kolb 2011 (Reading 07 and reading 08)

*Assignment*

Assignment 07: You should read JCR 2014 and Standard & Poor's 2014 (Reading 09 and Reading 10) and prepare a one-page list of terms and concepts that you need clarification prior to attending the class on Day 9.

**Day 9: Monday, November 2**  
**Sovereign credit rating: the case of Turkey (tentative)**

TBA

*Video clips*

None

*Reading materials*

TBA

*Assignment*

Assignment 08: You should read Chapter 26 and Chapter 27 of Kolb 2011 (Reading 11 and Reading 12) and prepare a short note (up to 400 words) to summarize the main arguments prior to attending the class on Day 10.

**Day 10: Monday, November 9**

**Issues on odious debt: sovereignty and legitimacy**

We look at various arguments on odious debt and have a guided group discussion on implications for particular cases.

*Video clips*

None

*Reading materials*

Chapter 26 and Chapter 27 of Kolb 2011 (Reading 11 and Reading 12)

*Assignment*

TBA

**Day 11: Monday, December 7**

**Discussion on selected issues (TBD)**

TBA

*Video clips*

TBA

*Reading materials*

TBA

*Assignment*

TBA

**Day 12: Monday, December 14**

**Student final presentation**

Each of you or your group is expected to give a final presentation. For individual presentation, ten minutes are allocated, followed by questions and answers. If you form a group, the group is given five minutes multiplied by the number of group members, followed by questions and answers. You might wish to use power point slides (no more than 20 slides), but only to include key messages. Unless you are a very experienced and skilled speaker, it is strongly recommended that you prepare talking points as well as a Power-Point presentation or handouts. Punctuality is required so that you are asked to stop even in the middle of your presentation.

Feedback on student final presentations will be provided in class on Day 13 with follow-up discussion.

Following your final presentation, each of you or your group is required to submit by 21:00 on Monday, January 11, 2016 your final report based on your final presentation. A

single-author report should have no more than 3,000 words. The multiple-author report should read as a single product prepared in a well-coordinated fashion by the group members while each of the group members should be responsible for at least one of the chapters or sections as the primary author. A multiple-author report should have no more than 6,000 words.

*Video clips*

None

*Reading materials*

None

*Assignment*

None

**Day 13: Monday, December 21**

**Feedback on student final presentations and follow-up discussion**

TBA

*Video clips*

None

*Reading materials*

None

*Assignment*

None

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***Sovereign Debt***  
Course No. 5123433  
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**Titles of student final papers submitted in AY2013 and AY2014**

*Sovereign Defaults: Lessons from History and Future Implications* (Course No. 5123430, Winter 2013)

- ✓ Treatment of sovereign risks in international financial regulation
- ✓ Greece debt sustainability: uncertainties and recent improvements
- ✓ Lessons from Greek sovereign debt restructuring
- ✓ Rethinking debt swap: to what extent can it aid in government liability management?
- ✓ Factors leading to sovereign default crisis
- ✓ Top rating agencies: power and regulation
- ✓ HIPCs and development finance: an analysis of debt
- ✓ Sovereign debt crisis in Italy

*Sovereign Debt: Lessons from History and Future Implications II* (Course No. 5123432, Summer 2014)

- ✓ Towards a new sovereign debt paradigm
- ✓ European debt crisis
- ✓ Will Japan default?: analysing sovereign risk of Japan
- ✓ Sovereign debt in Thailand: how to live with "Rice Scheme"

*Sovereign Debt: Lessons from History and Future Implications I* (Course No. 5123431, Winter 2014)

- ✓ Is the Bank of Japan distorting the JGB market? Is the Bank of Japan financing the country's budget deficit? \*
- ✓ Public debt in Vietnam: current status and possible solutions \*
- ✓ Real estate bubble and sovereign debt: comparison between Japan and China
- ✓ The US debt "problem" \*
- ✓ The Japanese sovereign debt: pessimistic and optimistic views
- ✓ The sustainability of US debt and the dominant status of US dollar
- ✓ A sustainable external borrowing strategy to enhance Myanmar's development potential
- ✓ Japanese ODA flows to Myanmar and public debt management

\*: Group work completed by two students

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