

Graduate School of Public Policy  
The University of Tokyo

## ***SOVEREIGN DEBT***

Course No. 5123433  
A1/A2 2017

### **COURSE SYLLABUS**

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Time: Period 6 (18:45-20:30), Mondays (unless otherwise announced)  
Location: Seminar Room C (1218), 12<sup>th</sup> floor, International Academic Research Building  
Instructor: Toshiro NISHIZAWA, Project Professor  
[http://gsdm.u-tokyo.ac.jp/en/curriculum\\_coach\\_Toshiro\\_Nishizawa.html](http://gsdm.u-tokyo.ac.jp/en/curriculum_coach_Toshiro_Nishizawa.html)  
<http://pari.u-tokyo.ac.jp/gsdm/en/publication/982/>  
Credits: 2 credits  
Language: English  
Category: Practical training  
Office: Room 1120, 11<sup>th</sup> floor, International Academic Research Building  
Office hours: By appointment  
Contact info: [tnishizawa@pp.u-tokyo.ac.jp](mailto: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**

This course aims to clarify the nature of sovereign debt (*conceptual framework*), to familiarize students with sovereign risk assessment on the basis of selected cases (*lessons from history*) and 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 in a real-world setting with selected country cases (*policy implications*). More broadly, we will keep in mind how we could pull a particular country or the global economy out of a vicious circle of debt trap since the credit addicted growth strategy with a growing debt, both public and private, as a consequence appears to be one of the challenges we are faced with in today's world. As a practical training course, students will have the opportunity to debate, work in a team, make oral presentation and produce memos and reports.

The rationale for offering this course is as follows.

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. Also, there has been an 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. Furthermore, in some of the emerging and developing countries, governments are struggling with public debt management while aiming at economic development by accumulating public sector liabilities to various creditors.

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 of 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 rate stability, and so on. As such, the government is not necessarily immune from a struggle with its creditors while the nature of government indebtedness is different from borrowing by private entities.

Furthermore, we should look at the interaction not only between creditors and debtors, but also between creditors as reminded by inter-creditor equity issues in debt restructuring as observed in the recent Greek and Argentine cases. Equity issues could also be discussed from intergenerational perspectives.

The rationale for offering this course, therefore, is based on the presumption that dealing with sovereign debt has serious *political* and *legal*, as well as *economic*, consequences which should require *public policy and legitimacy considerations*.

## 2. Schedule

Day 1	Monday, September 25	Introduction	Nishizawa
Day 2	Monday, October 2	The nature of sovereign debt	Nishizawa
...	Wednesday, October 4 - Tuesday, October 10—course registration period		
Day 3	Saturday, October 7 Period 5 (16:50-18:35)	Creditor-debtor settlement	Nishizawa
...	Monday, October 9 National Holiday "Sports Day"	No class	...
Day 4	Monday, October 16	Lessons from the past default and debt restructuring episodes	Nishizawa
...	Monday, October 16 - Thursday, October 19—course withdrawal period		
Day 5	Monday, October 23	Selected cases of low income	Nishizawa

countries' debt management			
Day 6	Monday, October 30	Student mid-term presentation on term paper proposal	Nishizawa
Day 7	Monday, November 6	Debt sustainability analysis and implications for debt management	Nishizawa
Day 8	Monday, November 13	Guest speaker session "Tracking Global Demand for Sovereign Debt"(TBC)	Nishizawa Tsuda†
Day 9	Monday, November 20	Inter-creditor equity issues	Nishizawa
Day 10	Monday, November 27	Guest speaker session "Argentine debt restructuring" (TBC)	Nishizawa Hosono†
Day 11	Monday, December 4	Guest speaker session "Credit rating" (TBC)	Nishizawa Nakagawa†
Day 12	Monday, December 11	One-to-one interview and consultation on the subject chosen for term paper	Nishizawa
Day 13	Monday, December 18	Student term paper presentation	Nishizawa
...	Monday, December 18	End-of-semester evening gathering to be held jointly with Course 5140723 (tentative and optional)	...
...	Monday, January 15	Final report due by 18:00	...

† Guest speakers: Mr. Takahiro Tsuda (Budget Bureau, Ministry of Finance), Mr. Kenji Hosono (Deputy Director General, Country Credit Department, Japan Bank for International Cooperation), Mr. Satoshi Nakagawa (Chief Analyst & Special Representative for Asia, Japan Credit Rating Agency, Ltd.)

### 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. Guest speakers will be invited to discuss specific issues from various perspectives and/or based on different fields of professional expertise. The working language is English.

### 4. Course requirements and grading

Students will be required to make brief oral presentations occasionally on a given topic or one of his/her choice either individually or as a team depending on the total number of registered students. Each student is also required to submit a proposal and term paper based on his/her presentations in the middle and at the end of the course.

The course grade will be based on:

Oral presentations 35% (10% for mid-term and 25% for final)  
Term paper 35% (10% for proposal and 25% for term paper)  
Participation in discussion 20%  
Class attendance 10%

## 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.

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

Ferguson, Niall. 2008. *The Ascent of Money: A Financial History of the World*. New York: Penguin Press.

International Monetary Fund (IMF). 2013a. *Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries*. Washington DC: IMF. Accessed September 22, 2017.

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

International Monetary Fund (IMF). 2013b. *Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries*. Washington DC: IMF. Accessed September 22, 2017.

<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 22, 2017.

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

Japan Credit Rating Agency, Ltd. (JCR). 2014. *Rating Methodology: Sovereign and Public Sector Entities*. Tokyo: JCR. Accessed September 22, 2017.

[https://www.jcr.co.jp/en/pdf/dm29/Sovereign and Public Sector Entities20141107.pdf](https://www.jcr.co.jp/en/pdf/dm29/Sovereign%20and%20Public%20Sector%20Entities20141107.pdf)

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

Standard & Poor's Ratings Services. 2017. *Default, Transition, and Recovery: 2016 Annual Sovereign Default Study and Rating Transitions*. New York: Standard & Poor's Ratings Services. Accessed September 22, 2017.

[http://media.spglobal.com/documents/SPGlobal Ratings Article 3+April+2017 201+Annual+Sovereign+Default+Study+and+Rating+Transitions.pdf](http://media.spglobal.com/documents/SPGlobal%20Ratings%20Article%203+April+2017%201+Annual+Sovereign+Default+Study+and+Rating+Transitions.pdf)

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

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Attachment (1) Titles of student final papers submitted in AY2013-AY2016  
Attachment (2) About the instructor

**Titles of student final papers submitted in AY2013-AY2016**

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

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

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

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

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

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

\*: Group work completed by two students

*Sovereign Debt* (Course No. 5123433, A1/A2 2015)

- Creditability of credit rating agencies—why the S&P's rating of Brazil sovereign debt is unreliable?
- Debt management strategy for Myanmar
- Japan: Debt and deleveraging
- Malaysian government debt: in pursuit of strategic borrowing
- Sovereign debt in Rwanda: towards a new phase

- The impact of domestic and external debt on the economic development of Myanmar
- The local characteristics of Chinese sovereign debt
- Will China fall into a debt-deflation trap?

*Sovereign Debt* (Course No. 5123433, A1/A2 2016)

- A medium term debt strategy for The Philippines
- Indebtedness of "energy sector" state owned enterprises and implications for central government's fiscal management
- Philippine sovereign debt analytics—debt level assessment, transmission channels, and policy imperatives
- The resource curse and sovereign debt—the relationship between natural resource wealth and unsound lending
- Venezuela's woes: status, options and implications

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**TOSHIRO NISHIZAWA**

Mr. Toshiro Nishizawa is Project Professor at the Graduate School of Public Policy (GraSPP) of the University of Tokyo. Immediately prior to his current position, he was Professor at the GraSPP (2013-15) after serving as Director General of Country Credit Department at the Japan Bank for International Cooperation (JBIC). He also served as Deputy Director General of JBIC Institute (the research department) and Director of Asia Department II at the Japan Center for International Finance (JCIF).



He was involved in JBIC's country operations as Deputy Director General of International Finance Department I (Asia and Oceania) (2004-06) and served as Chair of the UNEP FI Asia Pacific Task Force Outreach Group (2005-06). He held various positions including: loan officer at the Export-Import Bank of Japan; researcher in the Economic Cooperation Bureau of the Ministry of Foreign Affairs; economist in the Policy Development and Review Department of the International Monetary Fund (IMF); and advisor in the Private Sector Development Department of the World Bank.

Mr. Nishizawa has been actively engaged in policy dialogue and research activities with the main focus on emerging and developing economies in Asia. He has published a number of articles and written a chapter in a few publications on Asian economies, financing for development, Public-Private Partnerships (PPPs) and sovereign risk assessment.

Mr. Nishizawa was a guest lecturer and professor at the Osaka School of International Public Policy (OSIPP) of Osaka University (2004-14) and was a visiting lecturer at Kobe University and Chuo University. He was also a part-time lecturer to teach PPPs at GraSPP (2010-13) and invited as a visiting professor by Chulalongkorn University in Thailand and by the Escola de Administração de Empresas de São Paulo da Fundação Getulio Vargas (EAESP-FGV) in Brazil, both in 2014.

He served as a member of the Expert Group on Financial Cooperation with Asian Countries under the Council on Customs, Tariff, Foreign Exchange and Other Transactions (2013-14), and has been a member of the IMF Study Group and a senior visiting fellow at Policy Research Institute (PRI) of Japan's Ministry of Finance (MOF). He was also invited by the Japan International Cooperation Agency (JICA) to serve as a member of the Support Committee for the Project for Capacity Building of Public Private Partnership in Mongolia.

Mr. Nishizawa holds a BA in Latin American studies from Tokyo University of Foreign Studies (1982), a BA in economics from the University of Tokyo (1984) and an MSc in economics from the University of Wisconsin-Madison (1988).

Mr. Nishizawa was born in Tokyo, Japan in 1959 and is married with two children.

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As of October 3, 2016

Graduate School of Public Policy  
The University of Tokyo  
*Sovereign Debt*  
Course No. 5123433  
A-Semester (A1/A2) 2016  
By Toshiro Nishizawa

## 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*

Throwing Stones & Molotov Cocktails: Greek Debt Crisis (Dispatch 2) (Vice News, July 16, 2015; 4:15 minutes) Accessed September 2, 2015  
<https://www.youtube.com/watch?v=u1NzMe7vOC0>

Risks Remain One Year After Lehman Collapse (VOA News, September 15, 2009; 2:59 minutes) Accessed September 2, 2015  
<https://www.youtube.com/watch?v=nZVphgJduKI>

#### *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 explains 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 for Day 2

#### *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 for Day 3

#### *Assignment*

Assignment 03: You should read Chapter 3 and Chapter 15 of Kolb 2011 (Reading 03 and Reading 04a) 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 04a)

#### *Assignment*

Assignment 04: You should read pages 4-38 of IMF 2013b (Reading 05a) 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; and brainstorming for research topics**

We learn a framework called "debt sustainability analysis for market-access countries" developed by IMF. **Following discussion on debt sustainability analysis, we do brainstorming for your possible research topics.**

*Video clips*

None

*Reading materials*

IMF 2015 (Reading 04b), pages 4-38 of IMF 2013b (Reading 05a) and IMF 2015b (Reading 05b)

*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. **You should also read Boxes 1, 3, and 5 of IMF 2014 (Reading 07), but no need for a one-page list or note.**

**Day 6: Monday, October 12**

**Debt sustainability analysis for low-income countries; and debt management strategy**

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) and **Boxes 1, 3, and 5 of IMF 2014 (Reading 07)**

*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 08 and Reading 09) 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 08 and Reading 09)

*Assignment*

Assignment 07: You should read JCR 2014 and Standard & Poor's 2014 (Reading 10 and Reading 11) 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: **TBA**

**Day 10: Monday, November 9**

**Debt overhang**

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

*Video clips*

None

*Reading materials*

**TBA**

*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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#### **About the instructor**

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