

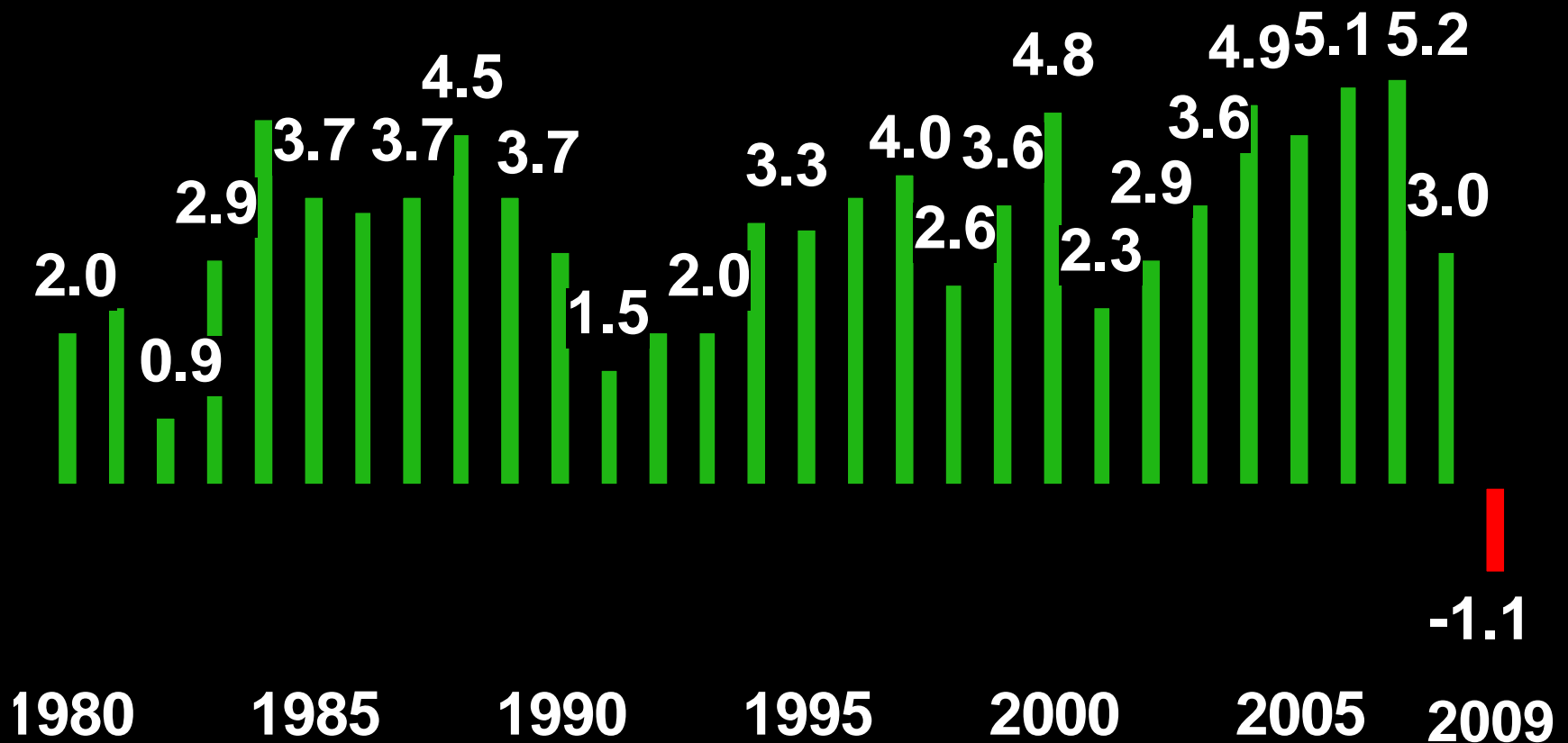


H. Calero  
Consulting Group, Inc.

# The Road to Recovery

**Puerto Rico 2009 - 2012**

# The first outright decline of world GDP in decades





# Let's get fiscal

## Stimulus packages as % of GDP

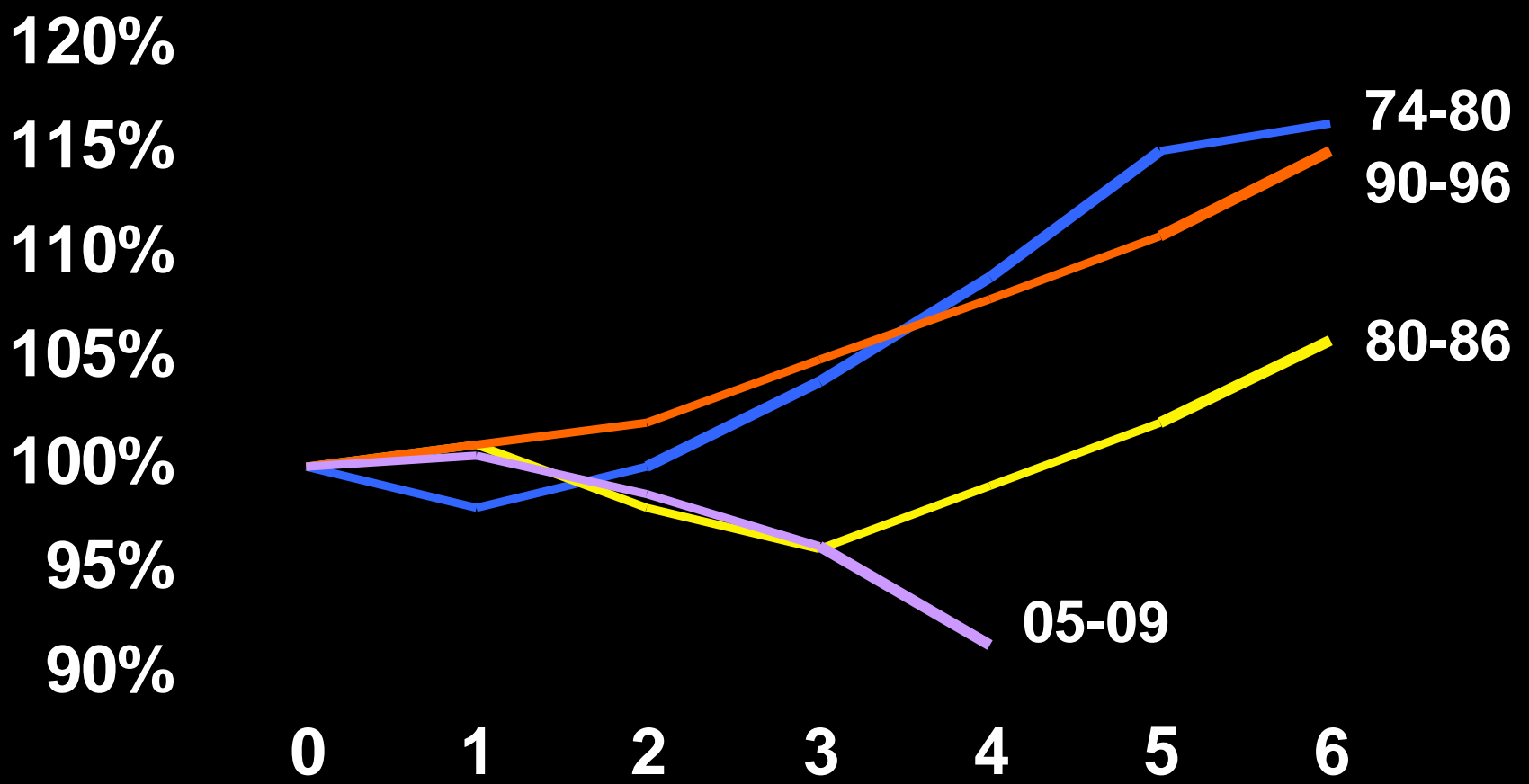
	2008	2009	2010	Total
<b>US</b>	<b>1.1</b>	<b>2.0</b>	<b>1.8</b>	<b>4.8</b>
<b>Germany</b>	<b>0.0</b>	<b>1.5</b>	<b>2.0</b>	<b>3.4</b>
<b>Canada</b>	<b>0.0</b>	<b>1.5</b>	<b>1.3</b>	<b>2.7</b>
<b>Japan</b>	<b>0.4</b>	<b>1.4</b>	<b>0.4</b>	<b>2.2</b>
<b>Britain</b>	<b>0.2</b>	<b>1.4</b>	<b>-0.1</b>	<b>1.5</b>
<b>France</b>	<b>0.0</b>	<b>0.7</b>	<b>0.7</b>	<b>1.3</b>
<b>India</b>	<b>0.0</b>	<b>0.5</b>	<b>-</b>	<b>0.5</b>
<b>Italy</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>	<b>0.3</b>

# Where is Puerto Rico today



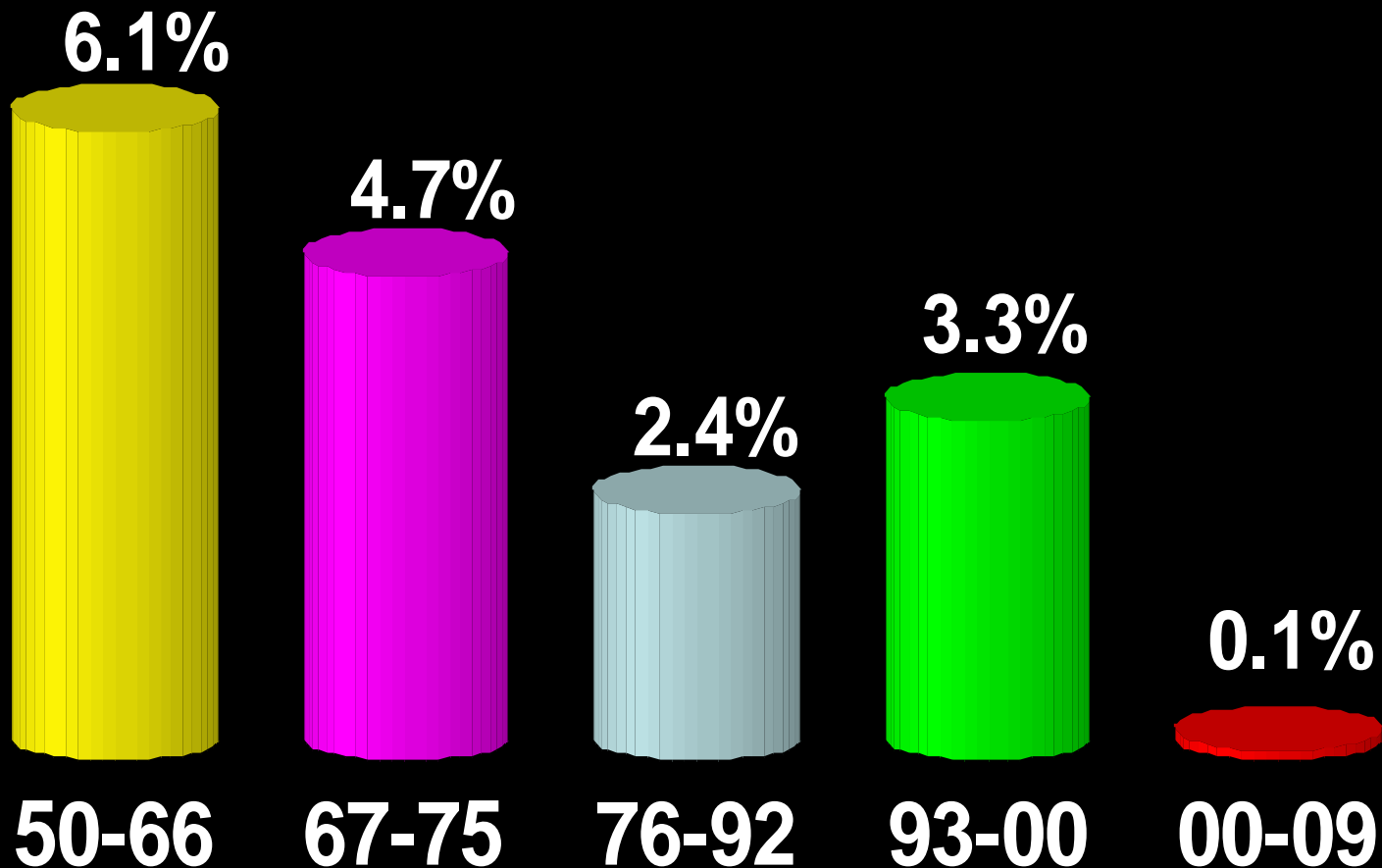
# It's the second worst crisis

Past performance of recessions



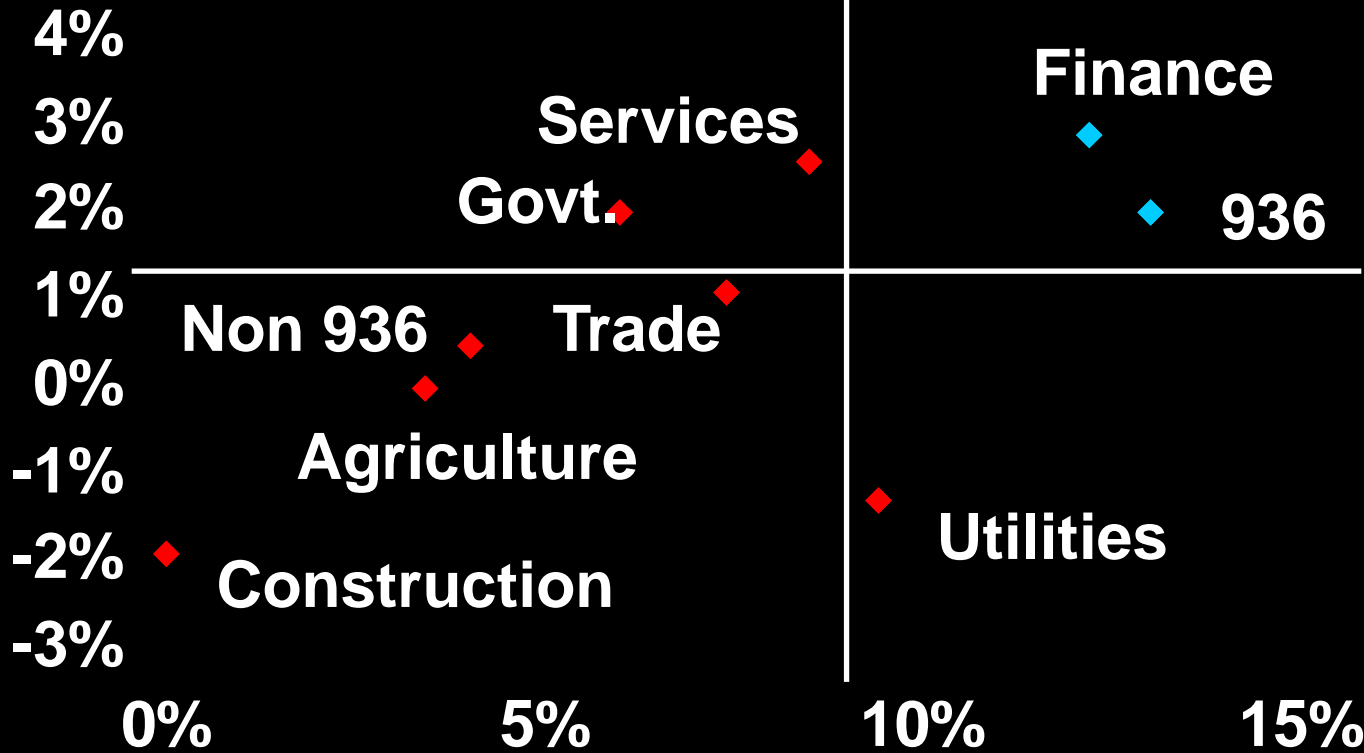
# Transformation of GNP

Average real rate of growth



# Comparative rates of growth (1977-1984)

Employment



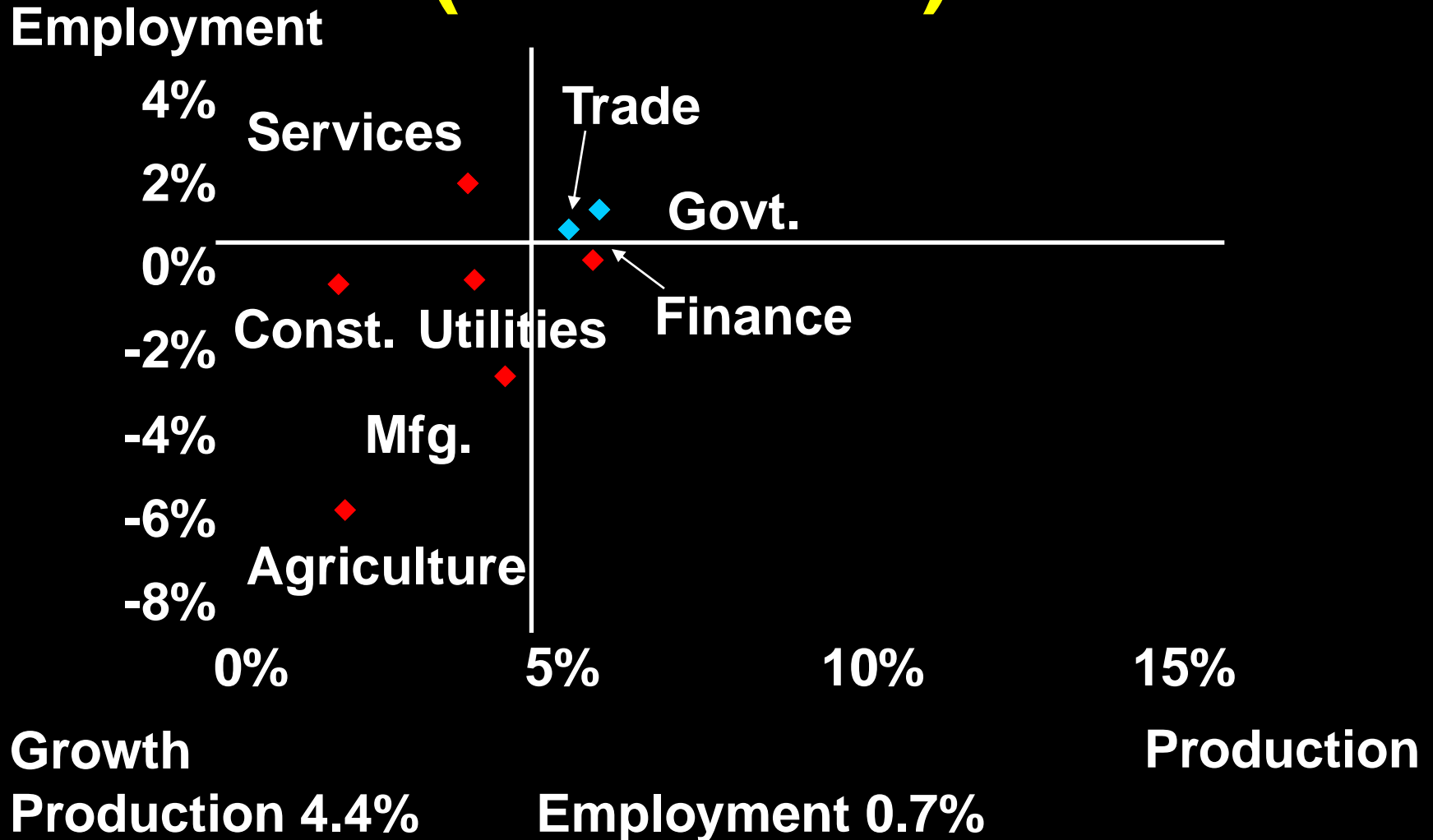
Growth

Production 9.8%

Employment 1.3%

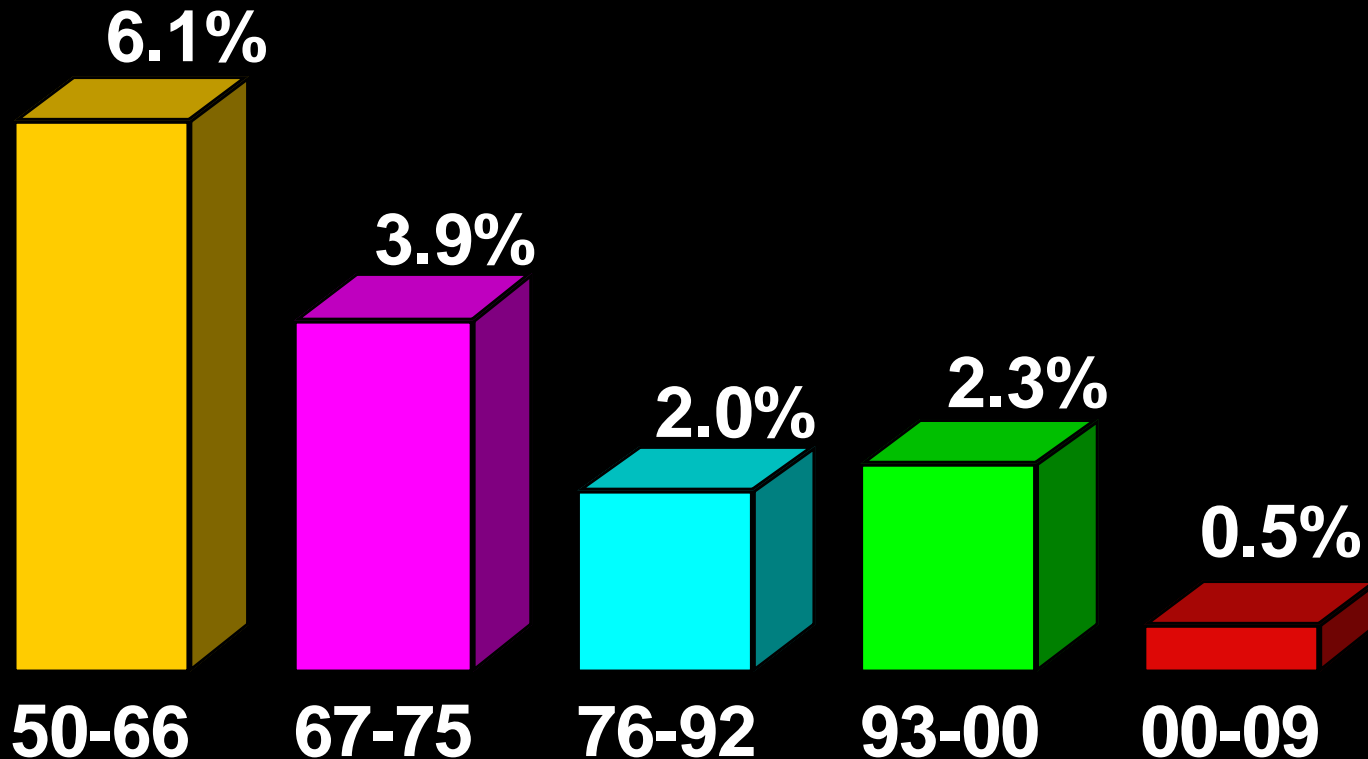
Production

# Comparative rates of growth (2000-2008)

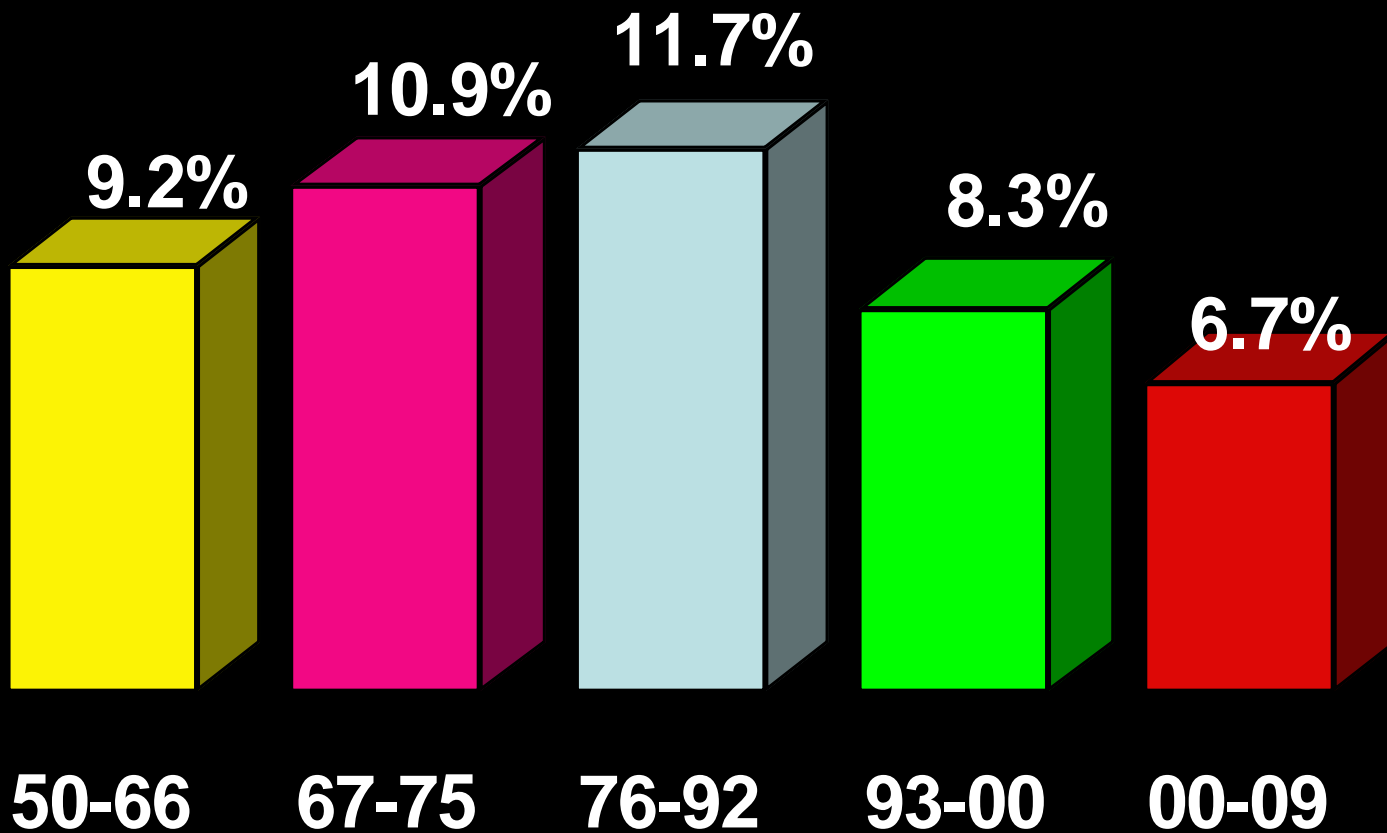


# with falling Productivity...

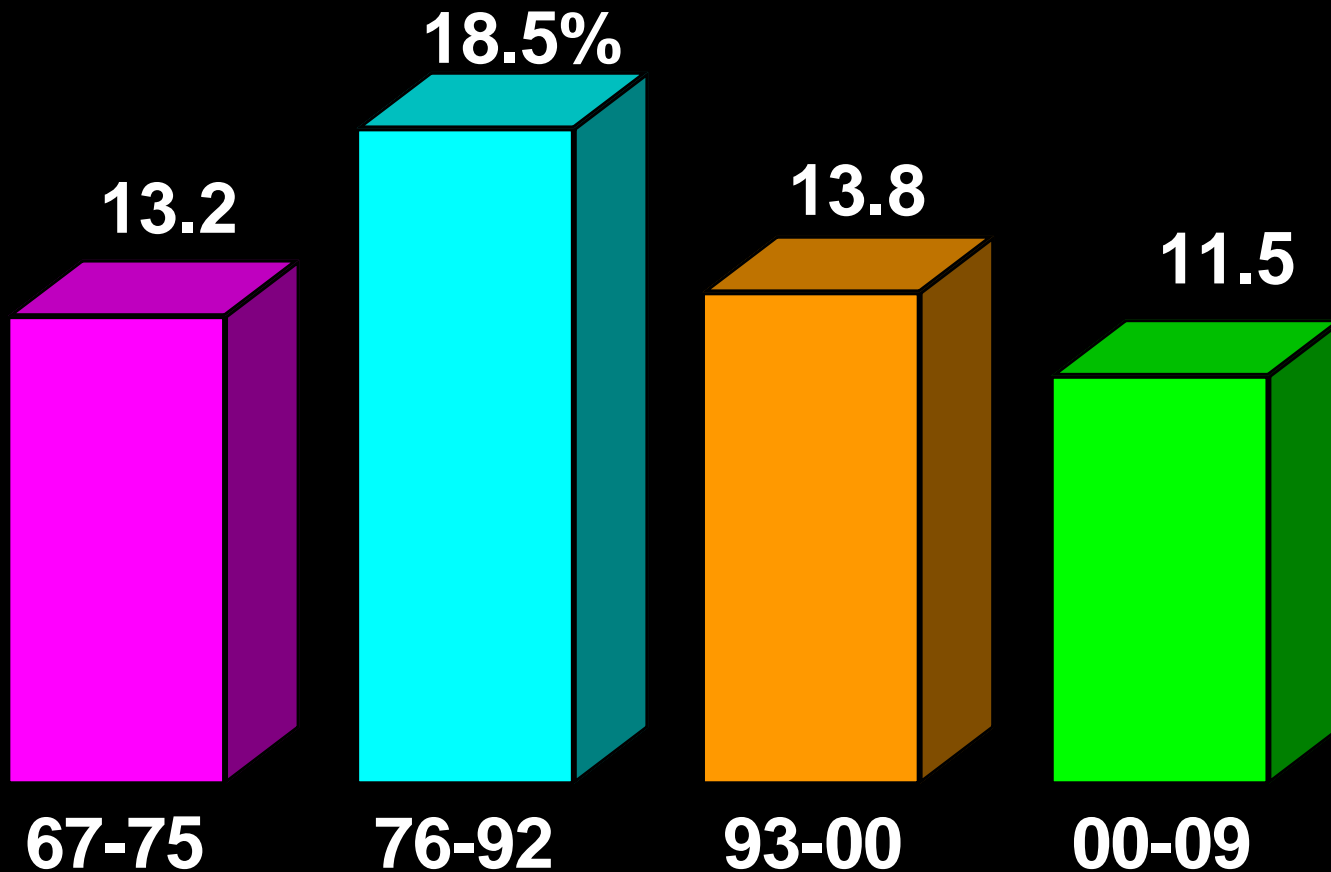
Average growth: Real GDP/ Employment



# ... slowing Profits



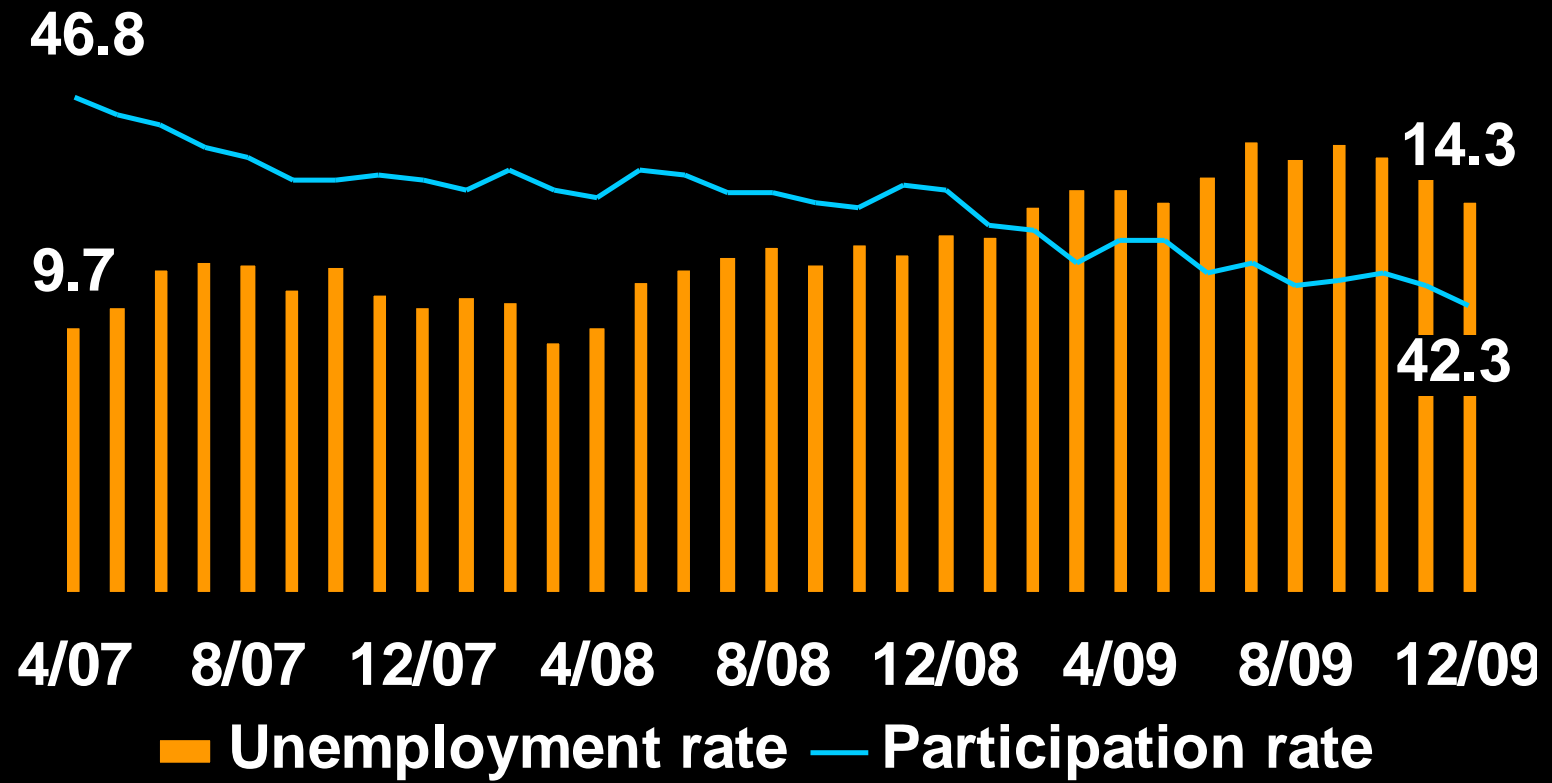
# & widespread unemployment



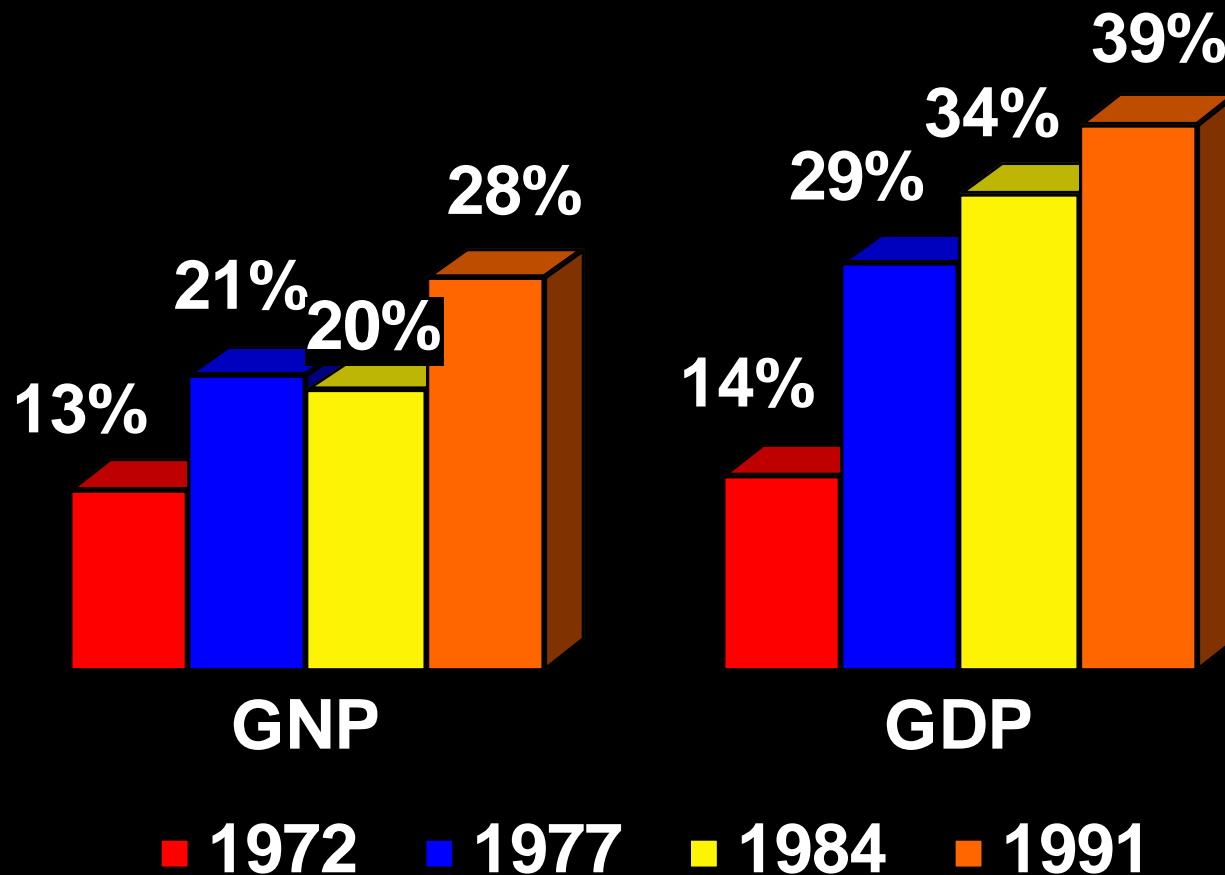
# More people are out of a job with poor incentives to work

Unemp %

Part %



# The economy lost a powerful stimulus: 936



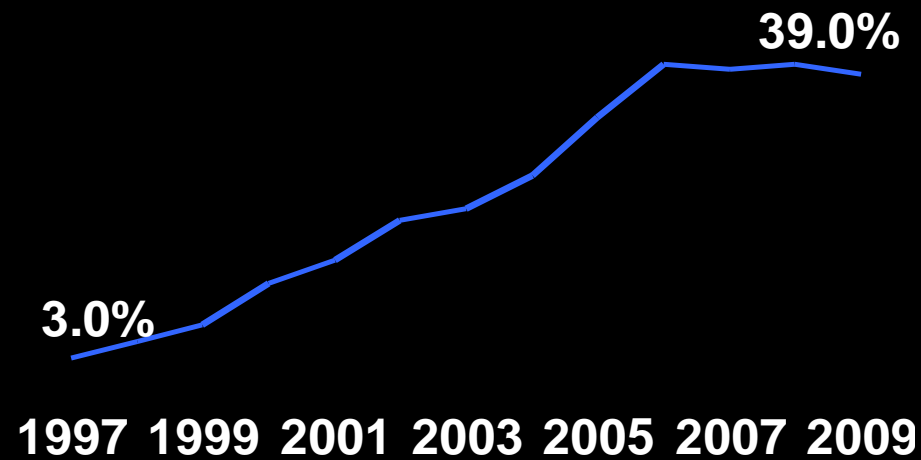
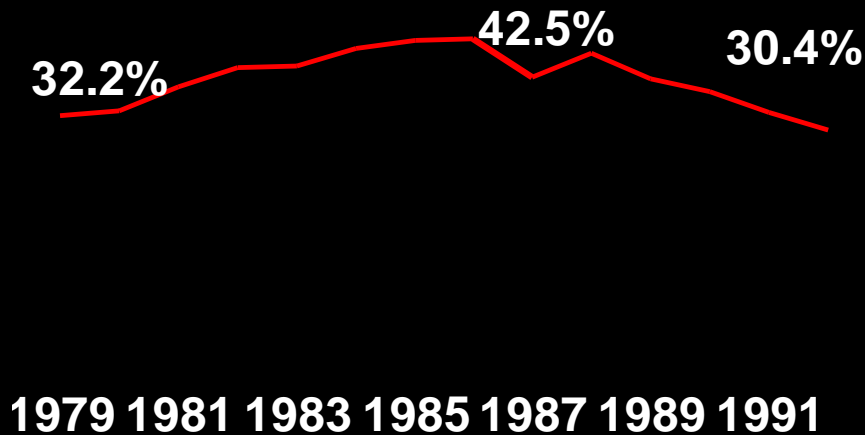
# which also impacted banks

Share of 936 deposits

Share of Brokered deposits

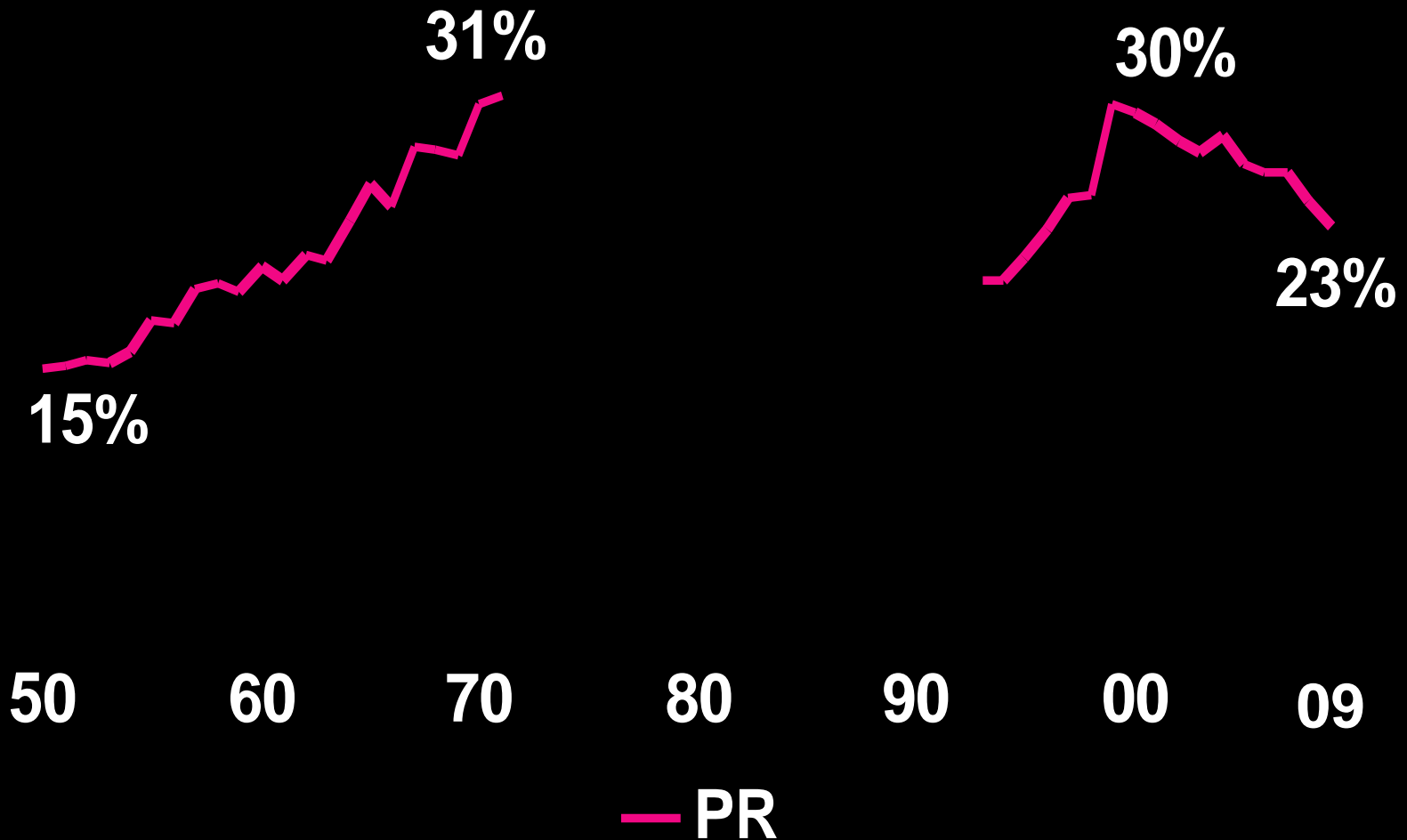
Before 2000

After 2000



# Transformation of investment

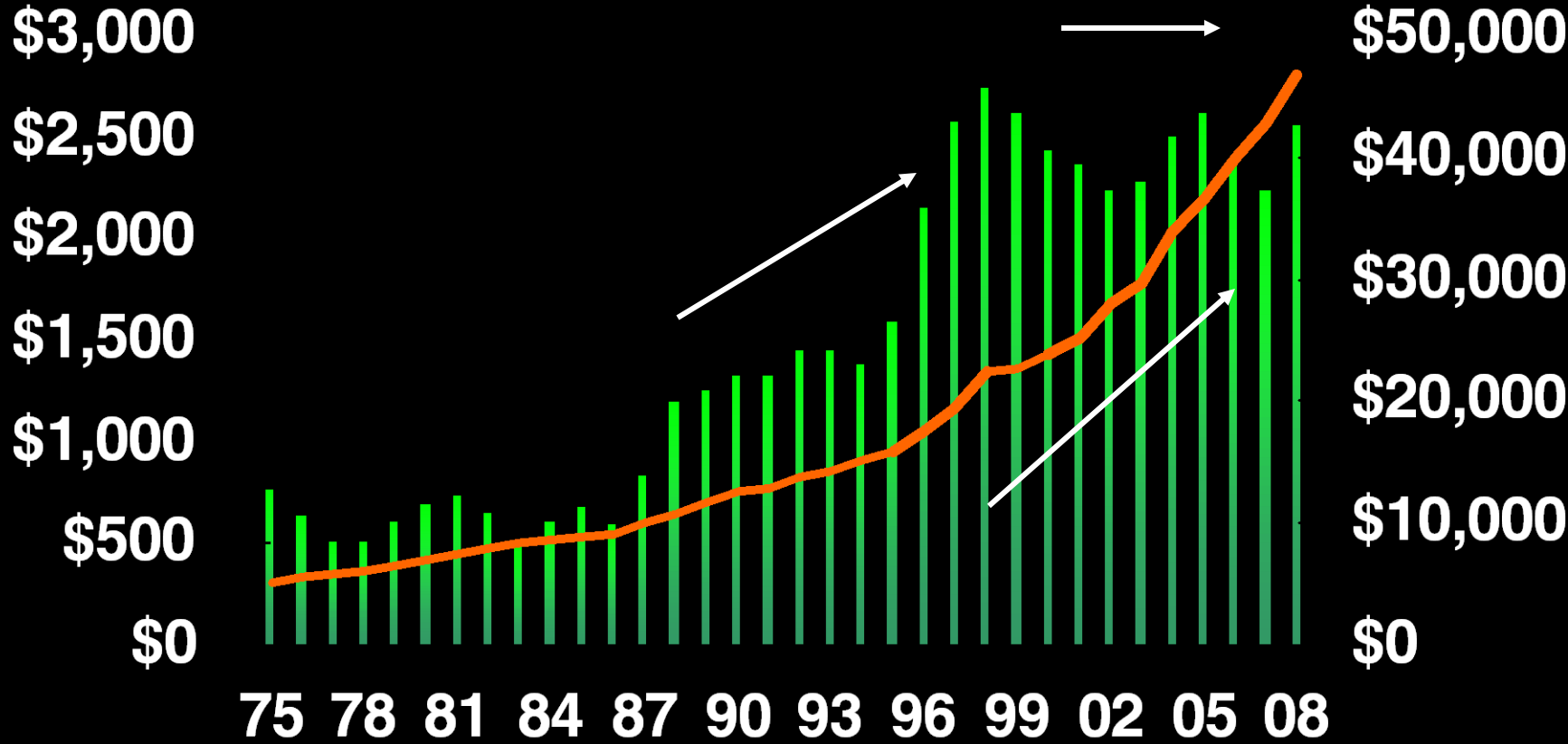
Real investment share of GNP



# Debt finances less Infrastructure

Investment  
\$000s

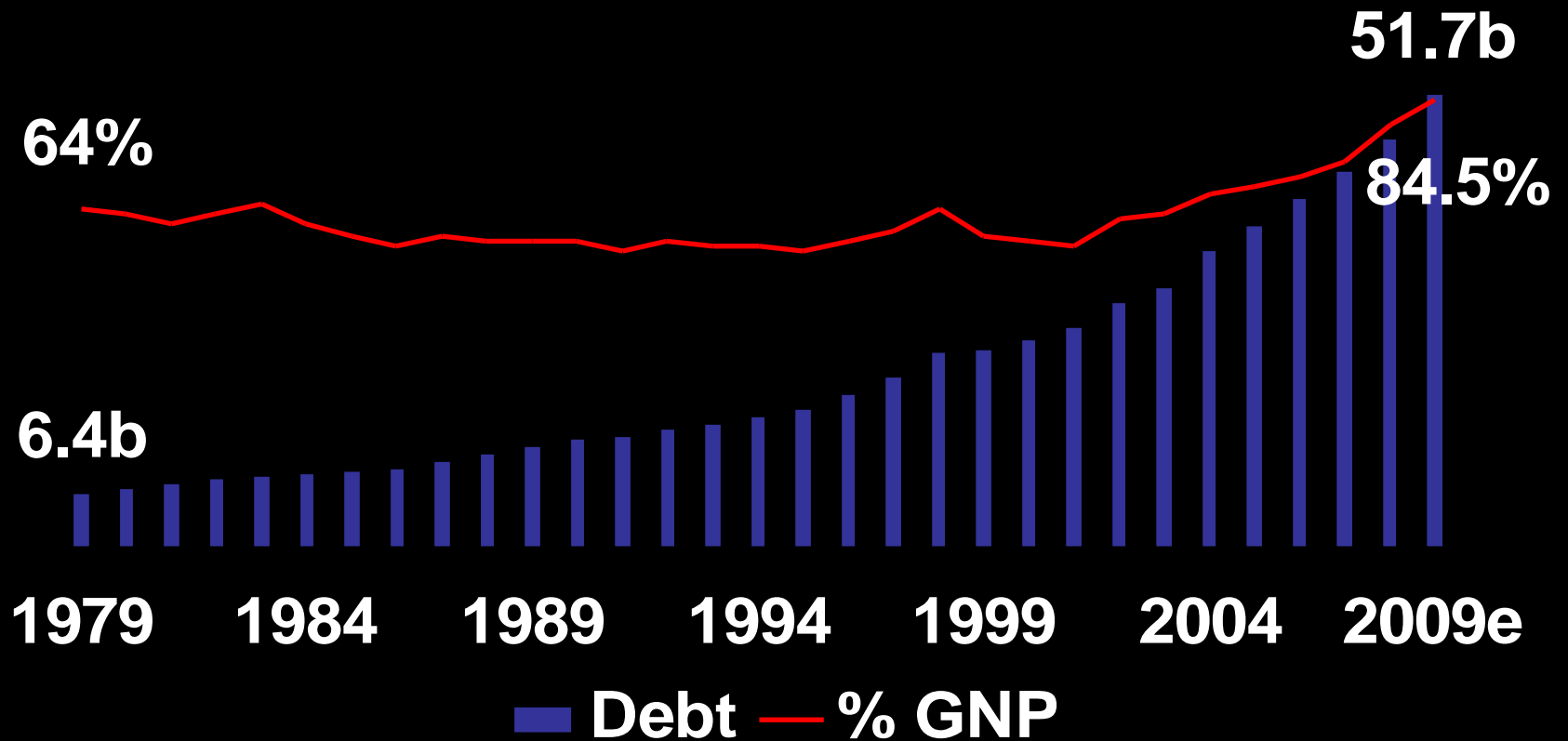
Debt \$000s



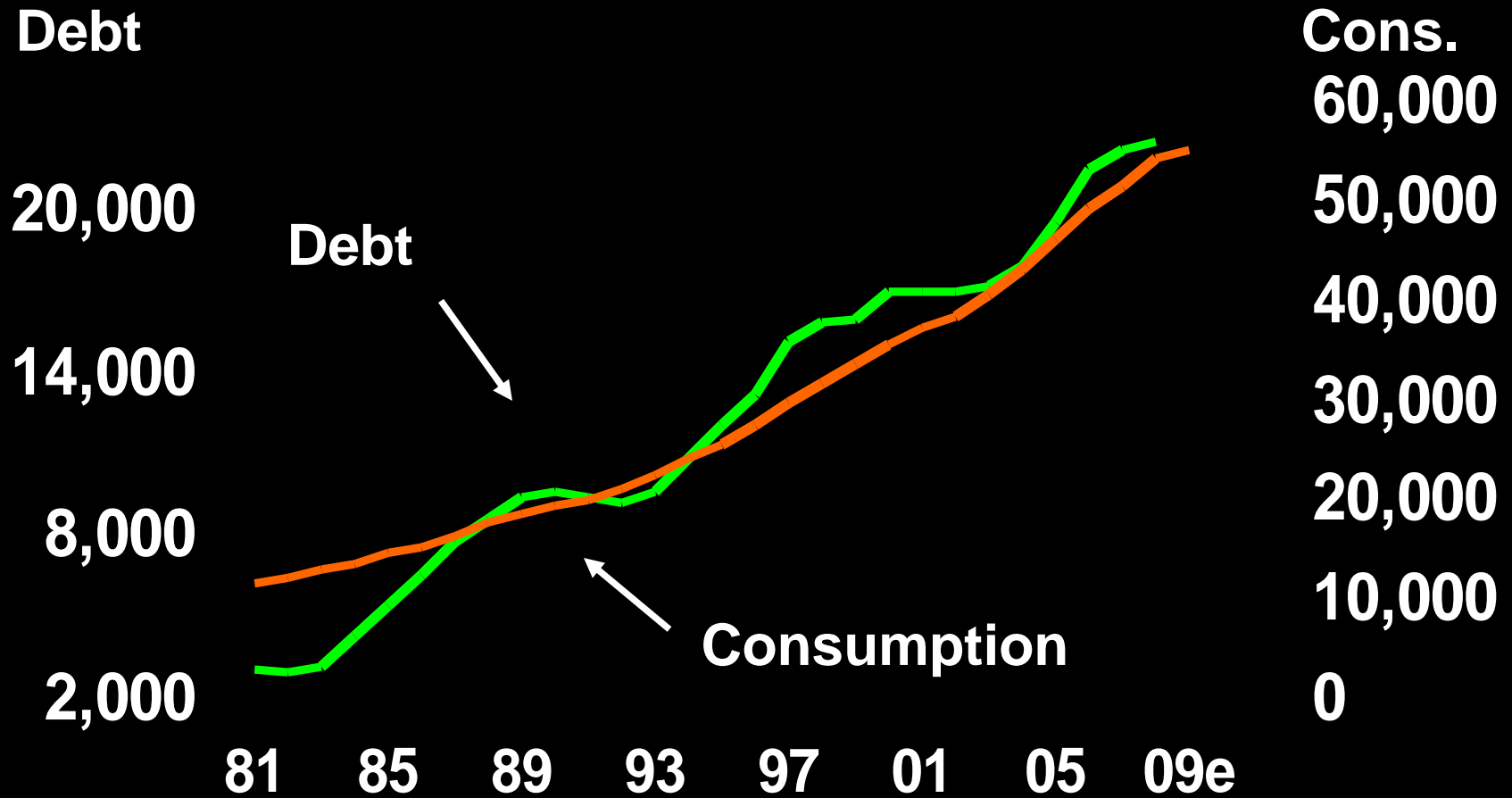
Investment — Public Debt

# Public debt chokes the economy

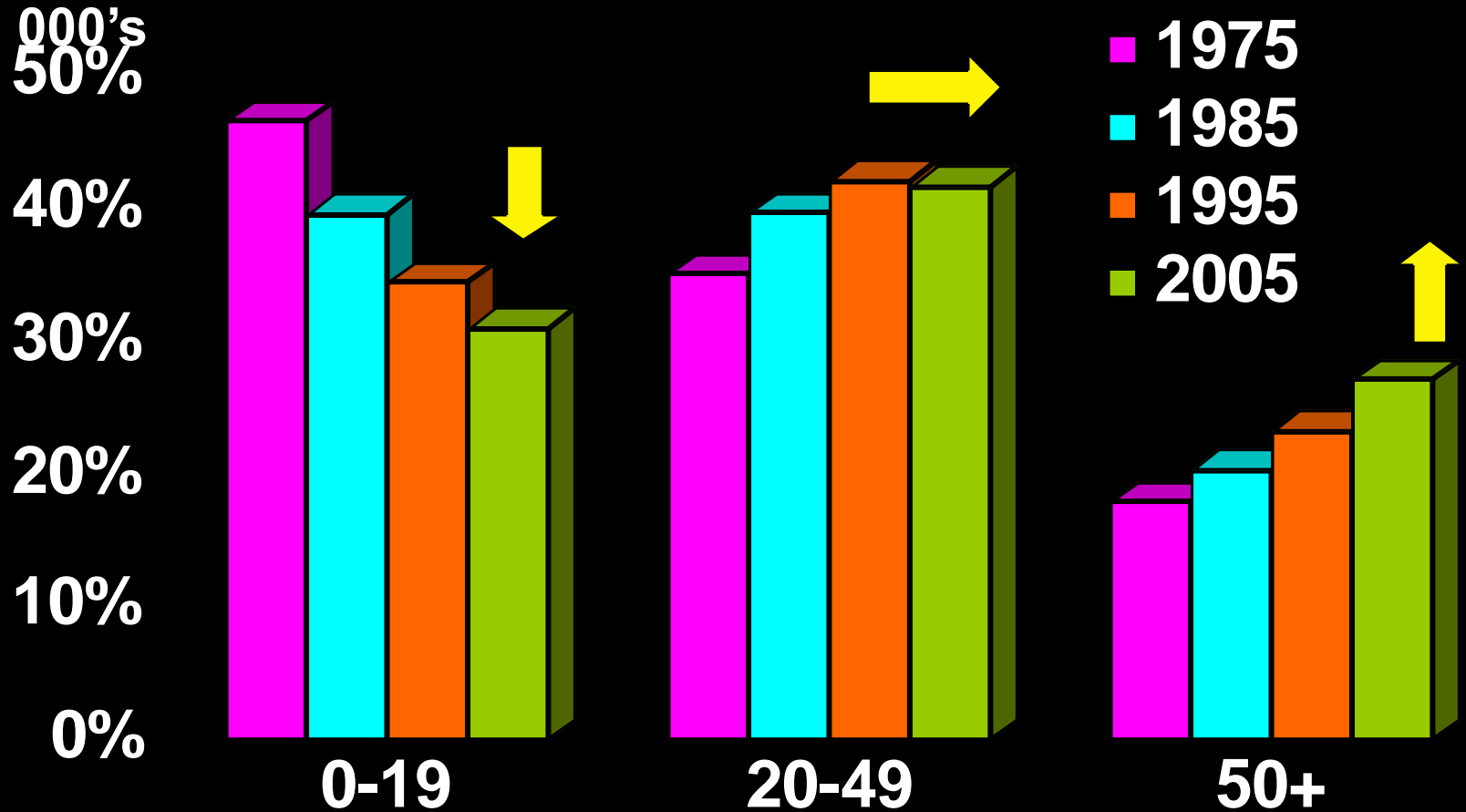
As % of GNP



# Consumers feed on debt (\$mm)



# Older Population



# **In short:**

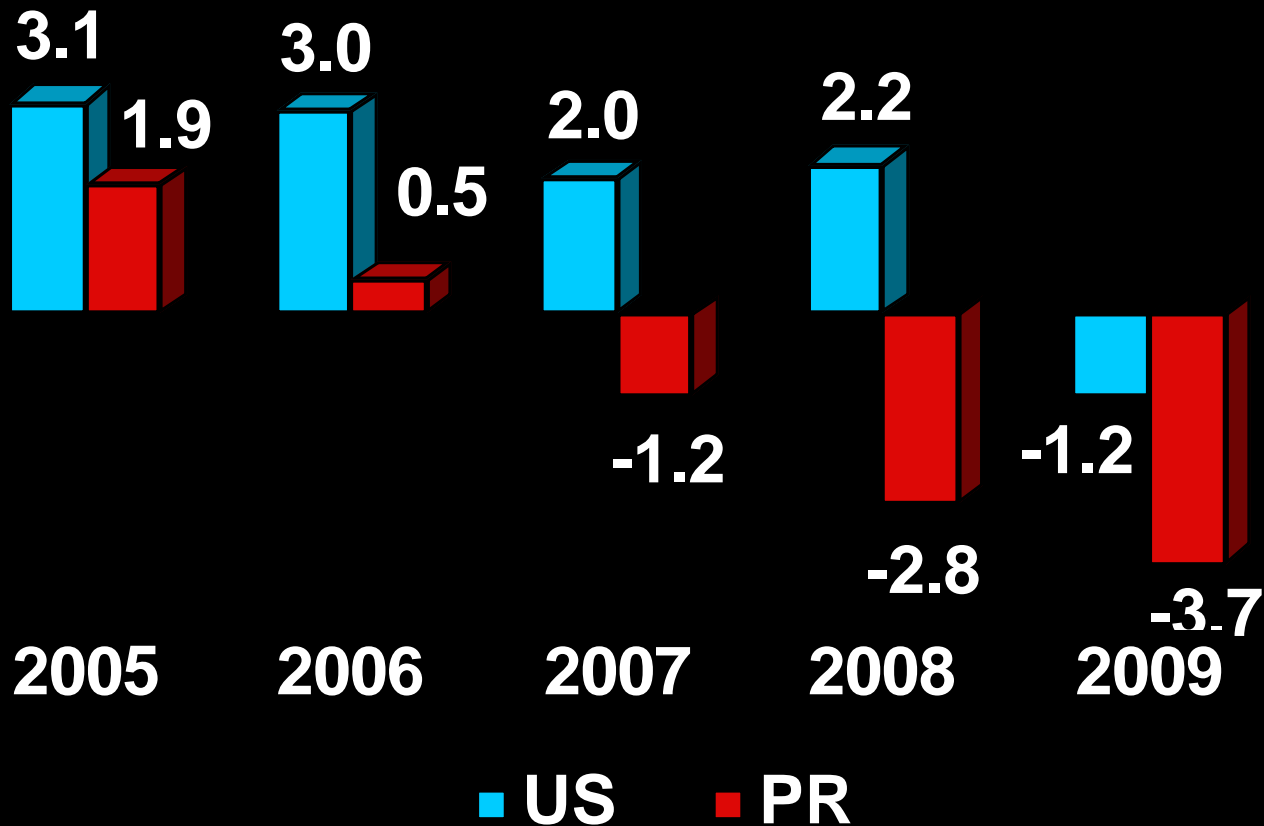
- 1. PR faces a world economy in financial and economic crisis.**
- 2. Economic growth is stagnant.**
- 3. Productivity and profits have decelerated.**
- 4. Unemployment is still high.**
- 5. No replacement of Section 936.**

# **In short:**

- 6. Poor incentives to work.**
- 7. The Puerto Rican consumer is leveraged, faces high unemployment, less spending money, and tight credit.**
- 8. Government is also highly leveraged.**
- 9. Aging population is a challenge.**

# Recession started earlier here

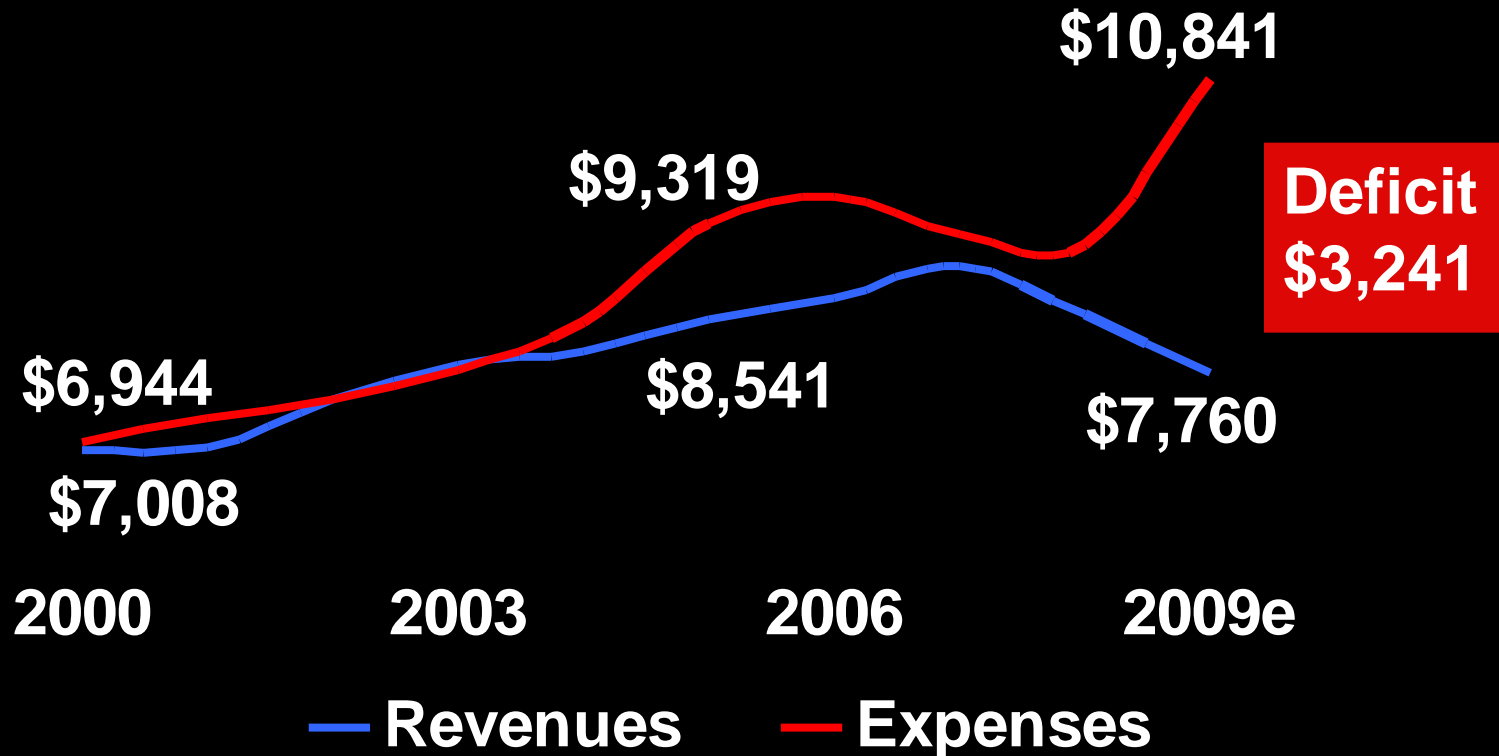
GNP real growth, FY



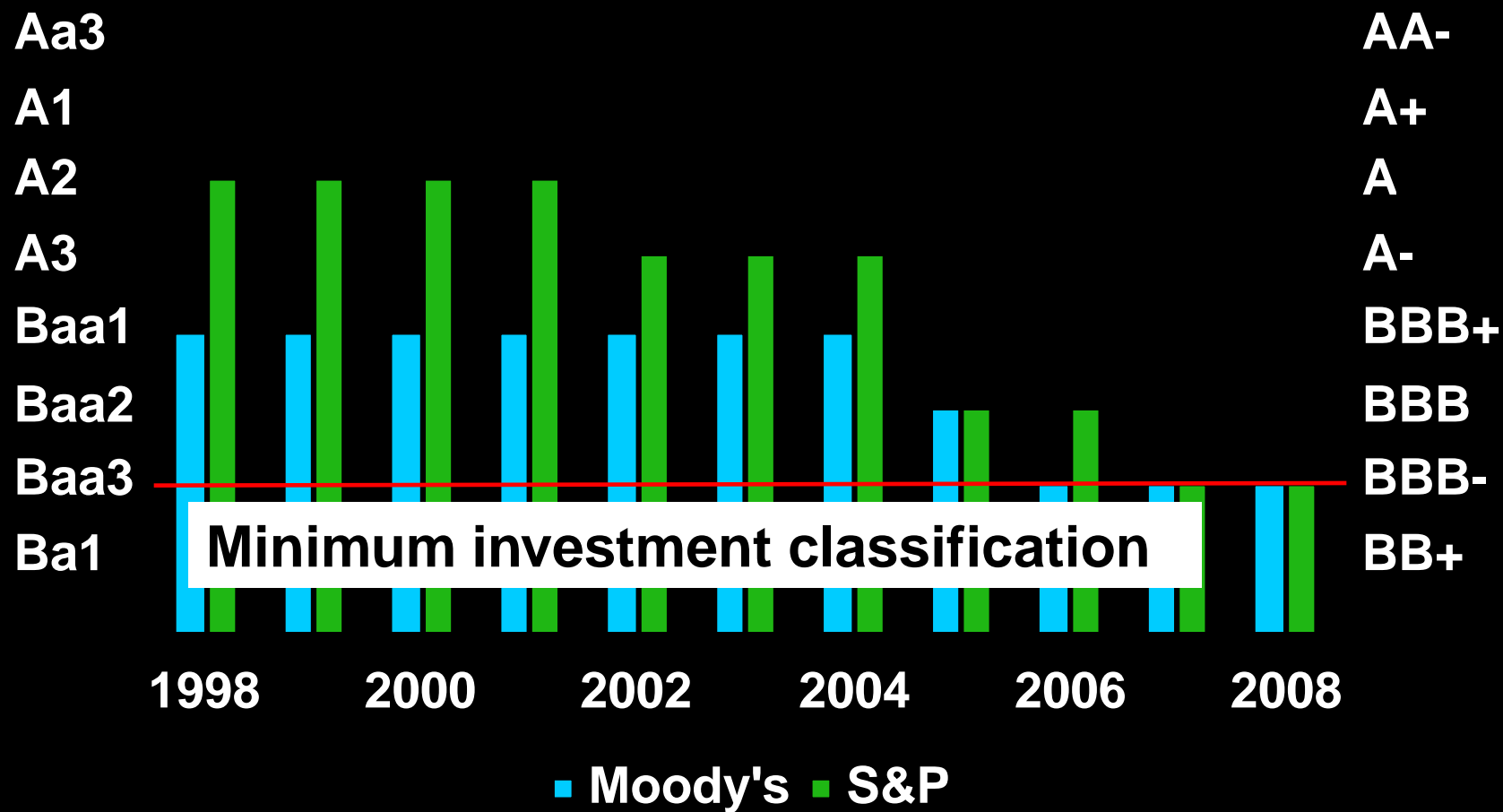
# Huge fiscal deficit

General fund revenues outlays

\$ million



# Warning! Downgrade risk



# Restoring fiscal discipline

Act 7 - March 9, 2009

## Permanent Measures

- Expands base for AMT on individuals
- Maintains Reseller Exemption Certificate for IVU - (technical amendments ongoing)
- Increases excise taxes on alcoholic beverages, cigarettes & motorcycle

# Act 7 - March 9, 2009, cont.

## Temporary Measures - Jan '09 to Dec '11

- Imposes 5% surtax on individuals above \$100,000 and on corporations
- 5% income tax on insurance & credit coops, IBEs
- 67% increase on property taxes: residential & commercial
- 3 yr. Moratorium on tax credits
- Measures to control government expenses - layoffs, freeze on collective agreements

# What are the rescue numbers?

## Federal & local stimulus package, (\$million)

Distribution	FY09	FY10	FY11	Total
<b>Federal stimulus</b>				
Federal bonus	\$500	\$665	\$165	\$1,330
Budget/fiscal relief	\$60	\$298	\$298	\$656
Relief for individuals	\$82	\$1,160	\$946	\$2,188
Capital improvements	\$39	\$413	\$344	\$796
				\$4,971
Subtotal federal	\$681	\$2,536	\$1,754	<b>\$6,046</b>
<b>Local stimulus</b>				
Merchant stimulus	-	\$90	\$90	\$180
Capital improv./infraest.	-	\$105	\$105	\$211
Consumer relief	-	\$47	\$47	\$94
Govt. spending/training	-	\$16	-	\$16
Govt. spending/cuts	-	-\$2,000	-\$1,000	-\$3,000
Subtotal local	\$0	-\$1,742	-\$758	-\$2,500
				\$2,471
<b>Total</b>	<b>\$681</b>	<b>\$794</b>	<b>\$996</b>	<b>\$3,547</b>

# PPPs play center stage?



**CARIBBEAN BUSINESS**

Puerto Rico Public-Private Partnerships Authority  
Will present

**25+ New Projects  
Worth \$5 Billion  
Potential Jobs:  
120,000**

at Puerto Rico  
Convention Center  
October 15-16

**Top Stories**  
Govt wants to  
invest \$60 million  
in 50 restaurants to  
create 1,000 jobs in  
next five years

**Focus**  
Closing Law could be done next week

**Private, Keynote**

Govt wants to invest \$60 million in 50 restaurants to create 1,000 jobs in next five years

Closing Law could be done next week

New government agency to deal with computer and information technology issues

\$176.2 million to ARRA stimulates energy building to be released next month creating 1,000 jobs

ARRA says \$1.1 billion to be used to create 10,000 jobs in the next 100 days

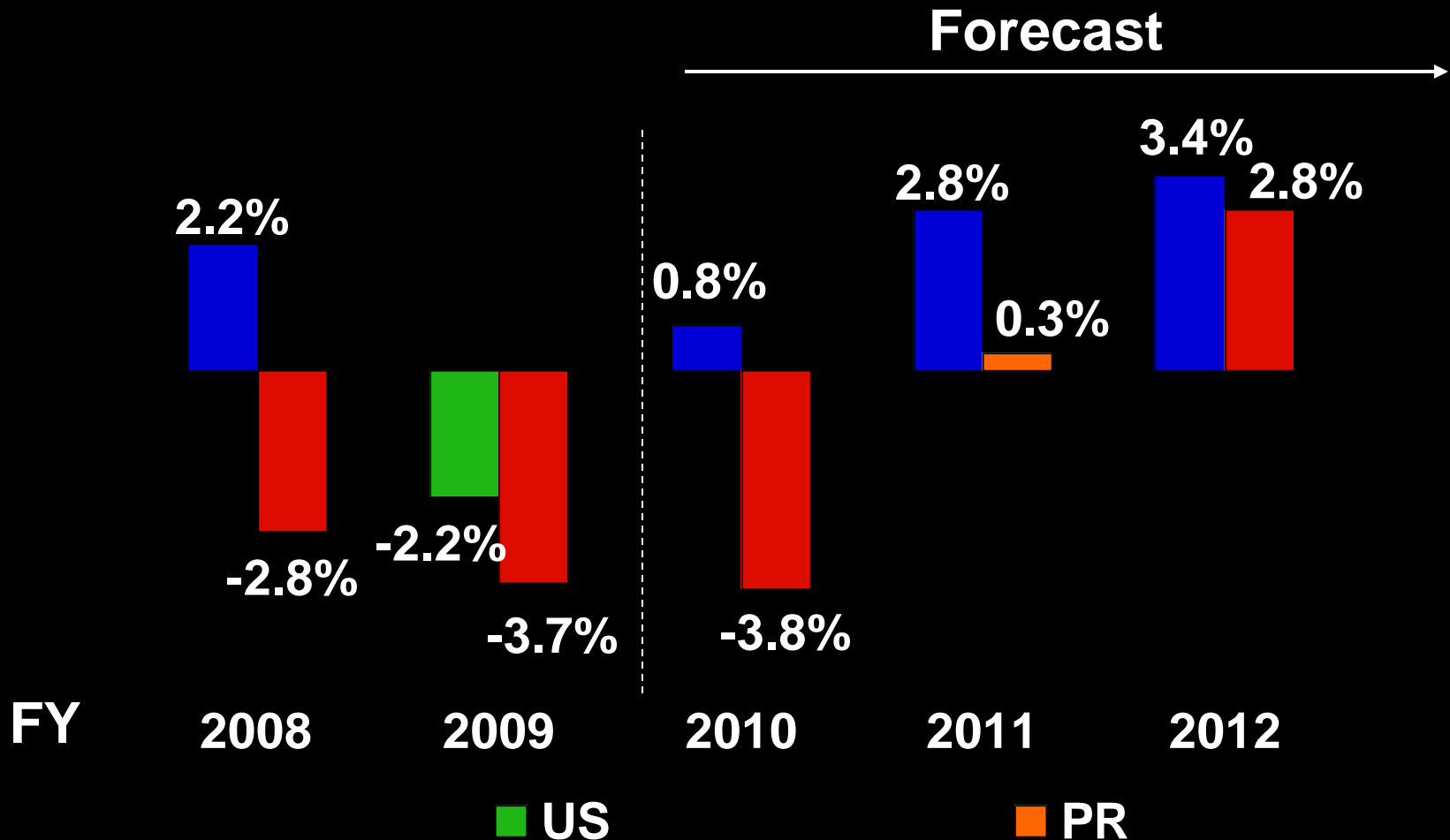
ARRA says \$1.1 billion to be used to create 10,000 jobs in the next 100 days

ARRA says \$1.1 billion to be used to create 10,000 jobs in the next 100 days



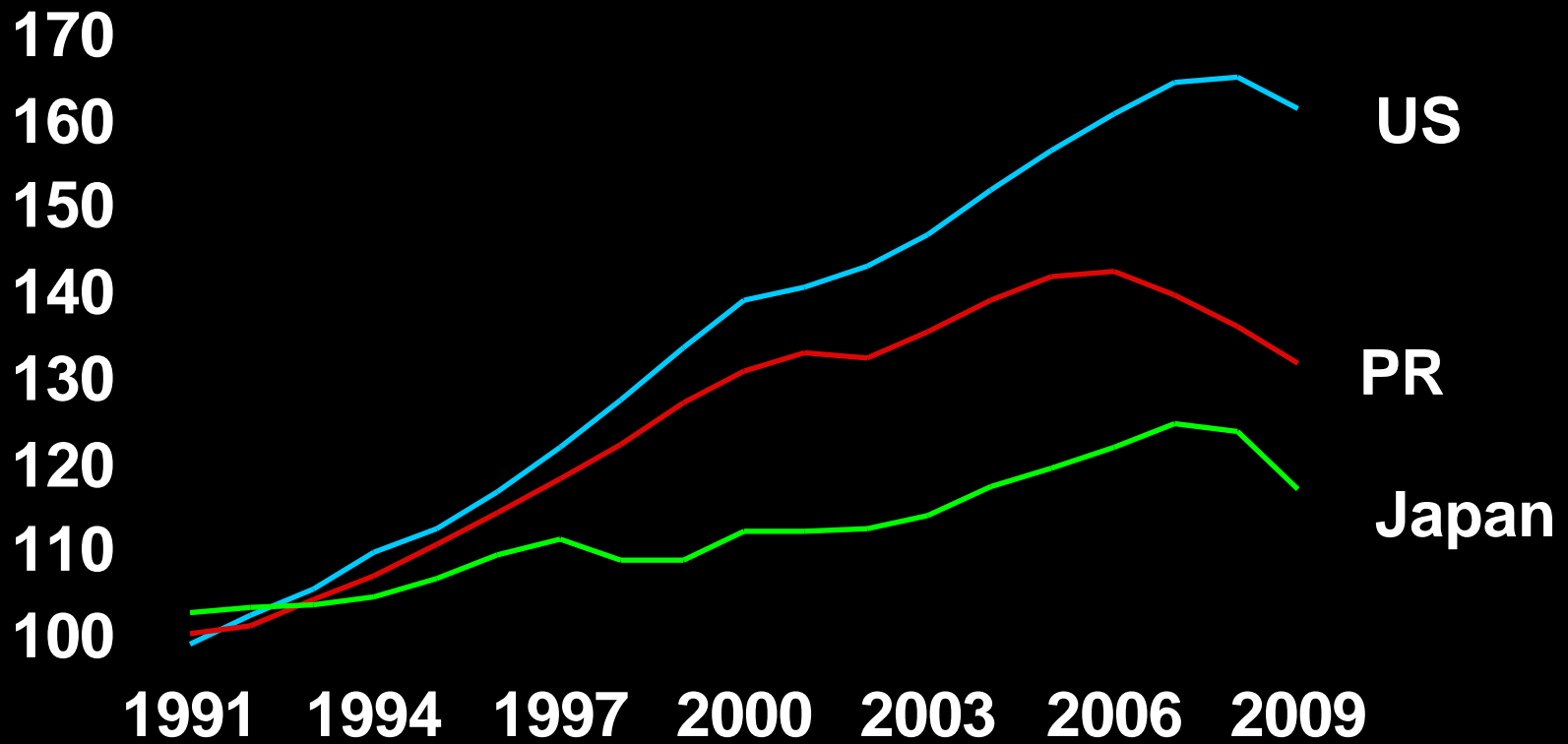
# Full recovery will take time...

Forecast of US and PR real GNP growth



# Road to nowhere

Real GDP 1990=100



# Consumption and Income

## Baseline

	History			Projected		
% change, real	2007	2008	2009	2010	2011	2012
Consumption	1.9%	-0.5%	-2.4%	-2.4%	-0.5%	0.8%
Dispos. Income	0.4%	2.0%	2.5%	-0.5%	0.0%	1.0%

# Investment

## Baseline

.	History			Projected		
% change, real	2007	2008	2009	2010	2011	2012
Construction	-7.6%	-9.0%	-20.1%	-18.8%	1.1%	12.9%
Machinery	1.0%	-9.0%	-6.6%	2.0%	3.2%	7.7%
Investment	-2.6%	-9.0%	-11.8%	-5.3%	2.5%	9.2%

# Exports

## Baseline

	History			Projected		
% change, real	2007	2008	2009	2010	2011	2012
Exports	-7.6%	1.0%	-5.6%	-0.3%	2.7%	2.9%

# Unemployment

## Baseline

	History			Projected		
% change	2007	2008	2009	2010	2011	2012
Unemployment	10.4%	11.0%	13.4%	15.7%	15.1%	13.1%

# Inflation

## Baseline

	History			Projected		
% change	2007	2008	2009	2010	2011	2012
Inflation	5.9%	7.1%	8.0%	5.3%	7.0%	7.5%

# Diagnosis

- PR's highly specialized growth strategy has ended.
- No more
  - cheap imported food,
  - low-priced energy,
  - cheap water,
  - population growth.
- We cannot rely on construction and traditional manufacturing to drive growth over the long term.
- Construction is limited by land and environmental conditions.
- Manufacturing is moving to emerging countries.

# **Diagnosis cont.**

- **The island economy is at a crossroads in a delicate balance between restoring fiscal discipline and not deepening the recession**
- **Federal stimulus package and PPP should help to restore some growth by FY 2011.**
- **It will take several decades for PR to regain high real growth rates.**

# What will it take?

- **A new focus on:**
  - **An economy based largely on high value added services**
  - **Innovation**
  - **Technological development**
  - **High value exports to new markets**
  - **Tourism**
  - **Entrepreneurship**
  - **New energy strategy**
  - **Increase local capital formation**

# The Biggest Challenge Ahead

**vision**