



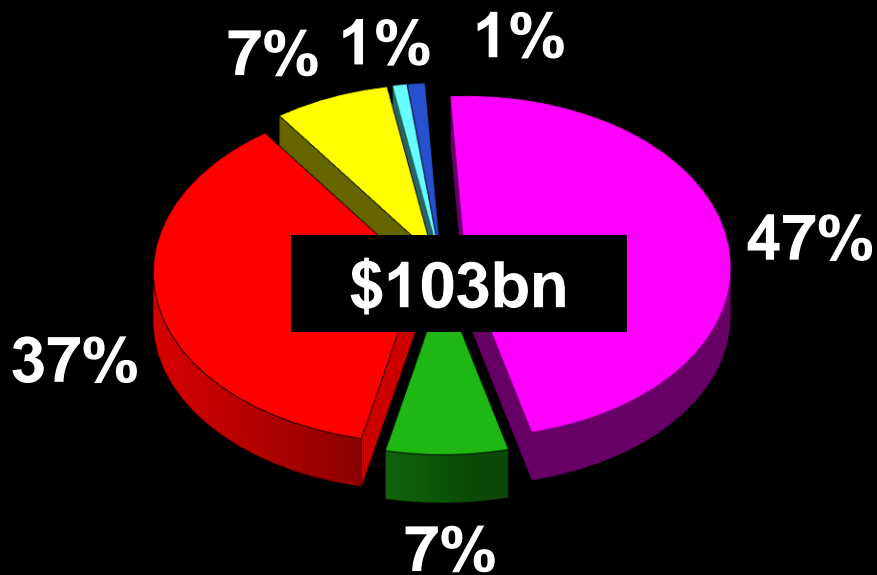
H. Calero  
Consulting Group, Inc.

# **Puerto Rico at a Crossroads**

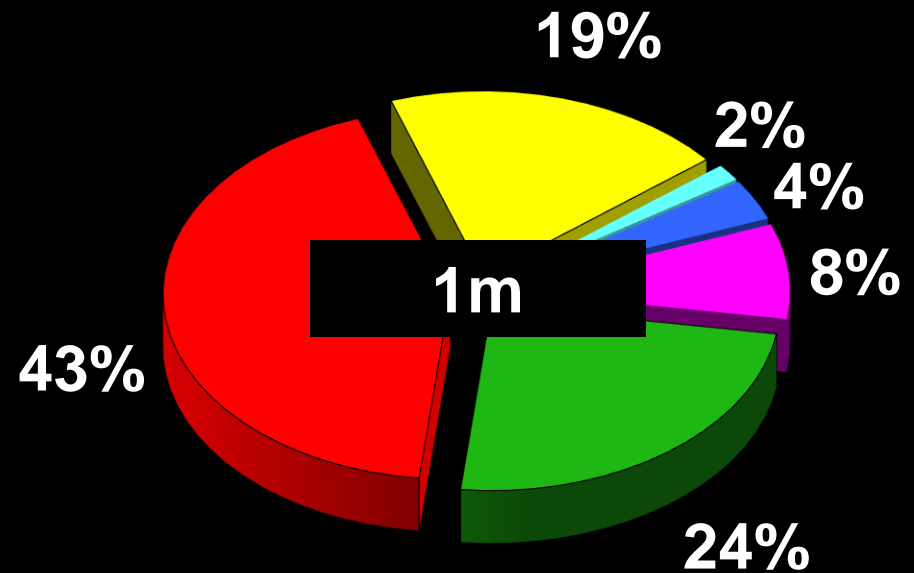
## **Facts & Proposals**

# Size of the PR Economy 2015

## GDP



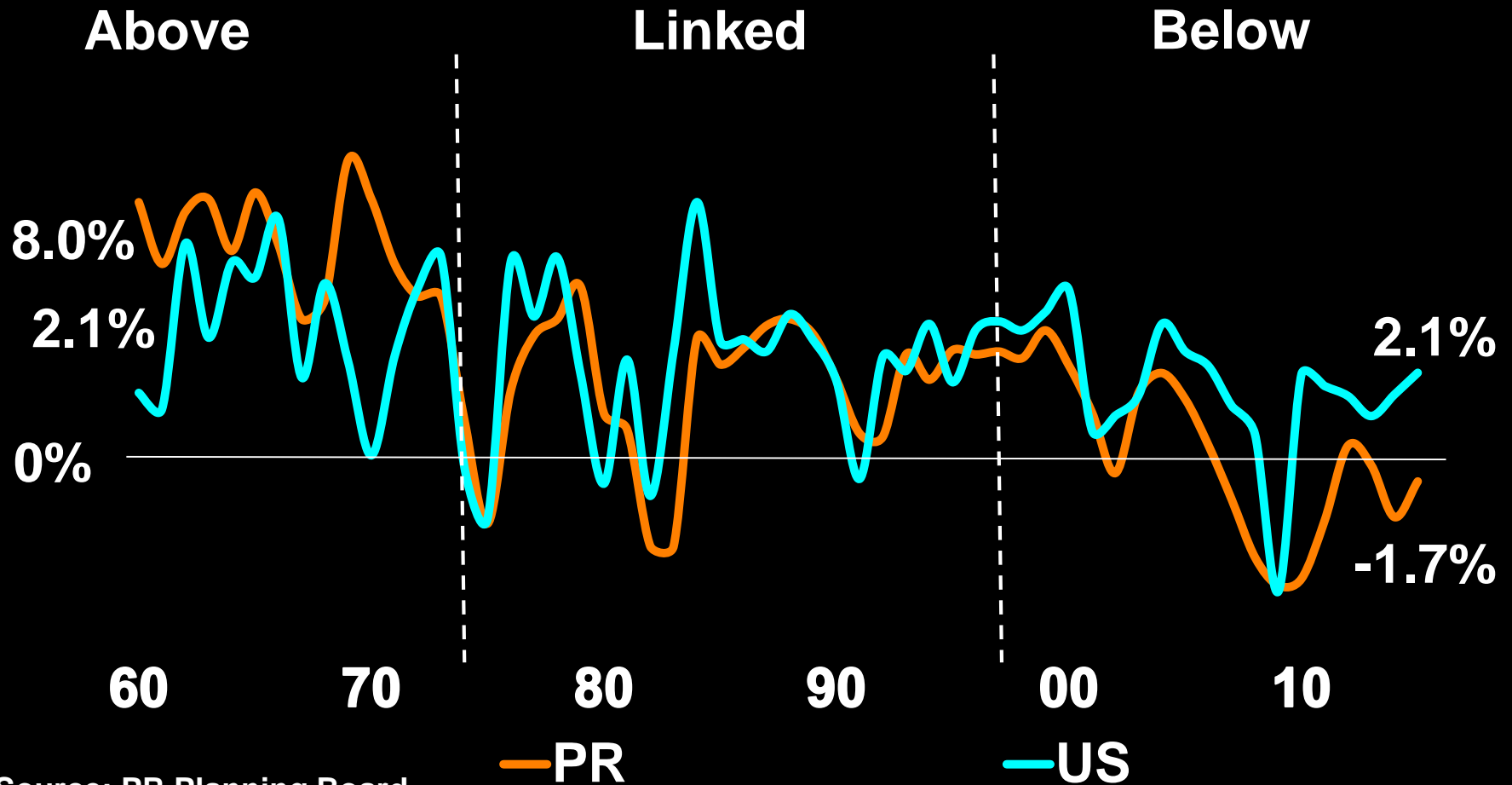
## Jobs



■ Agric/Min ■ Constr. ■ Mfg. ■ Trade ■ Services ■ Gov

# PR is a regional economy of US

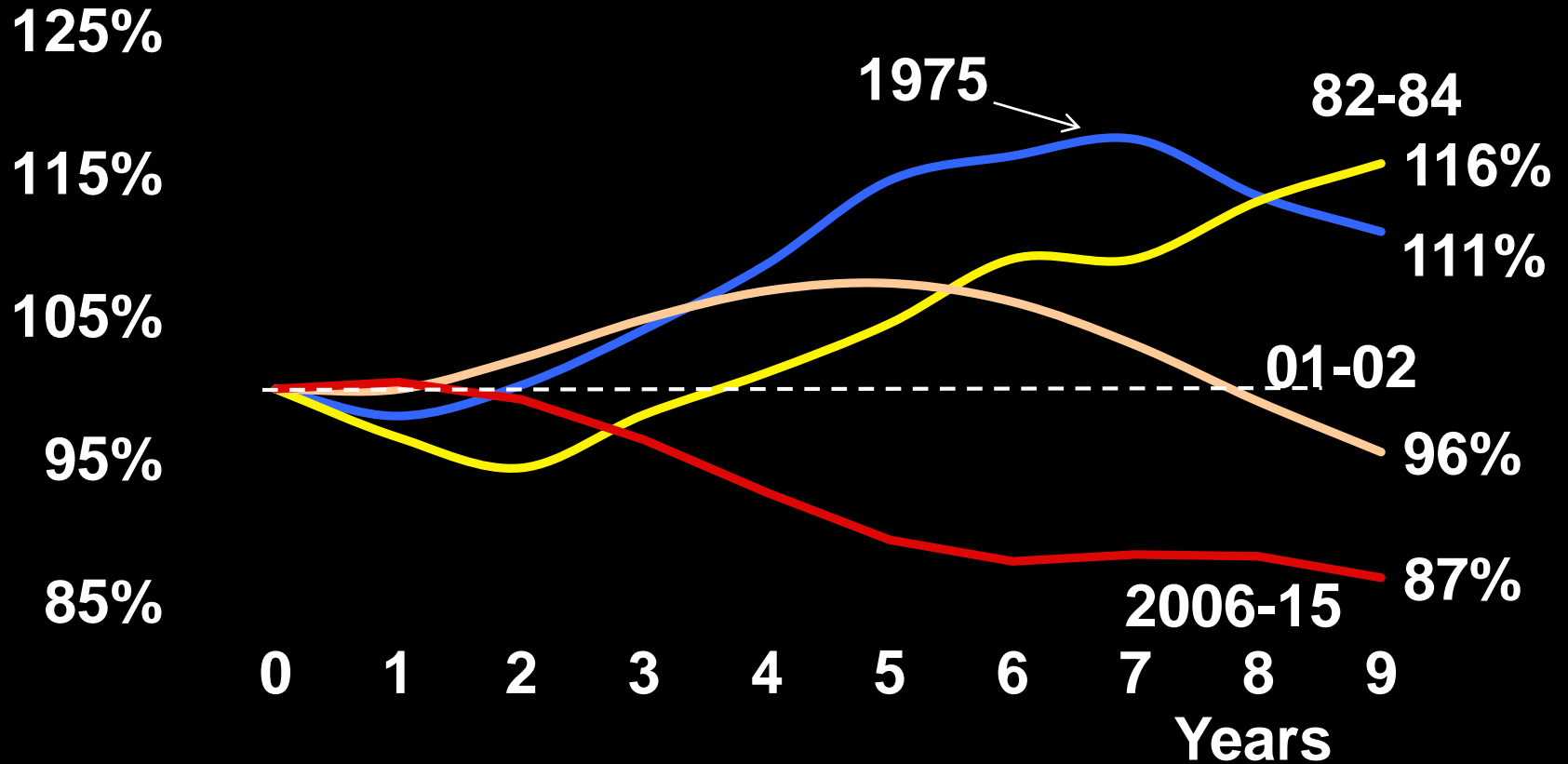
Real GNP growth, %



Source: PR Planning Board

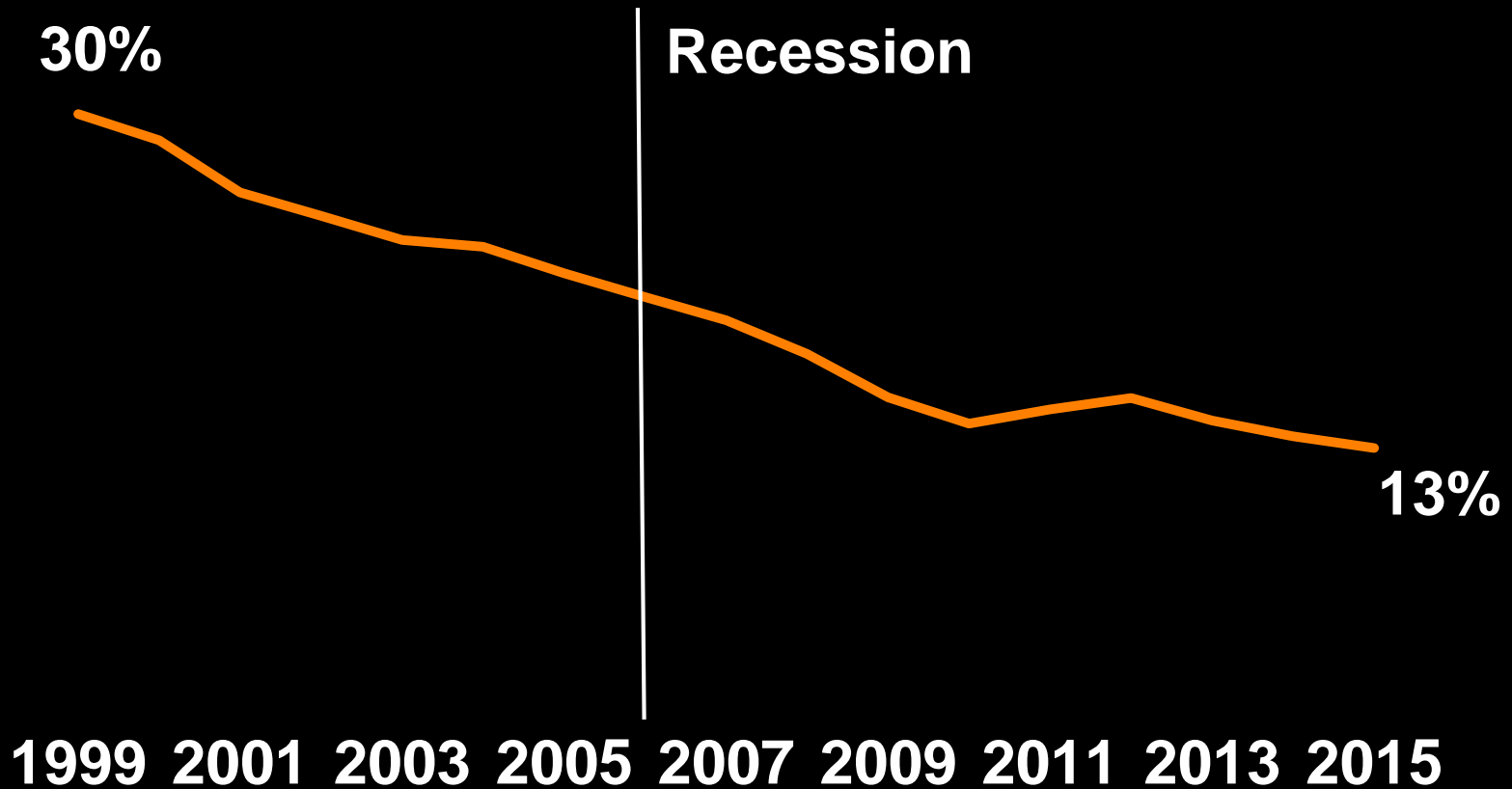
# It is the worst recession

Real GNP, Base year = 100 (year prior start of recession)



# Investment went down

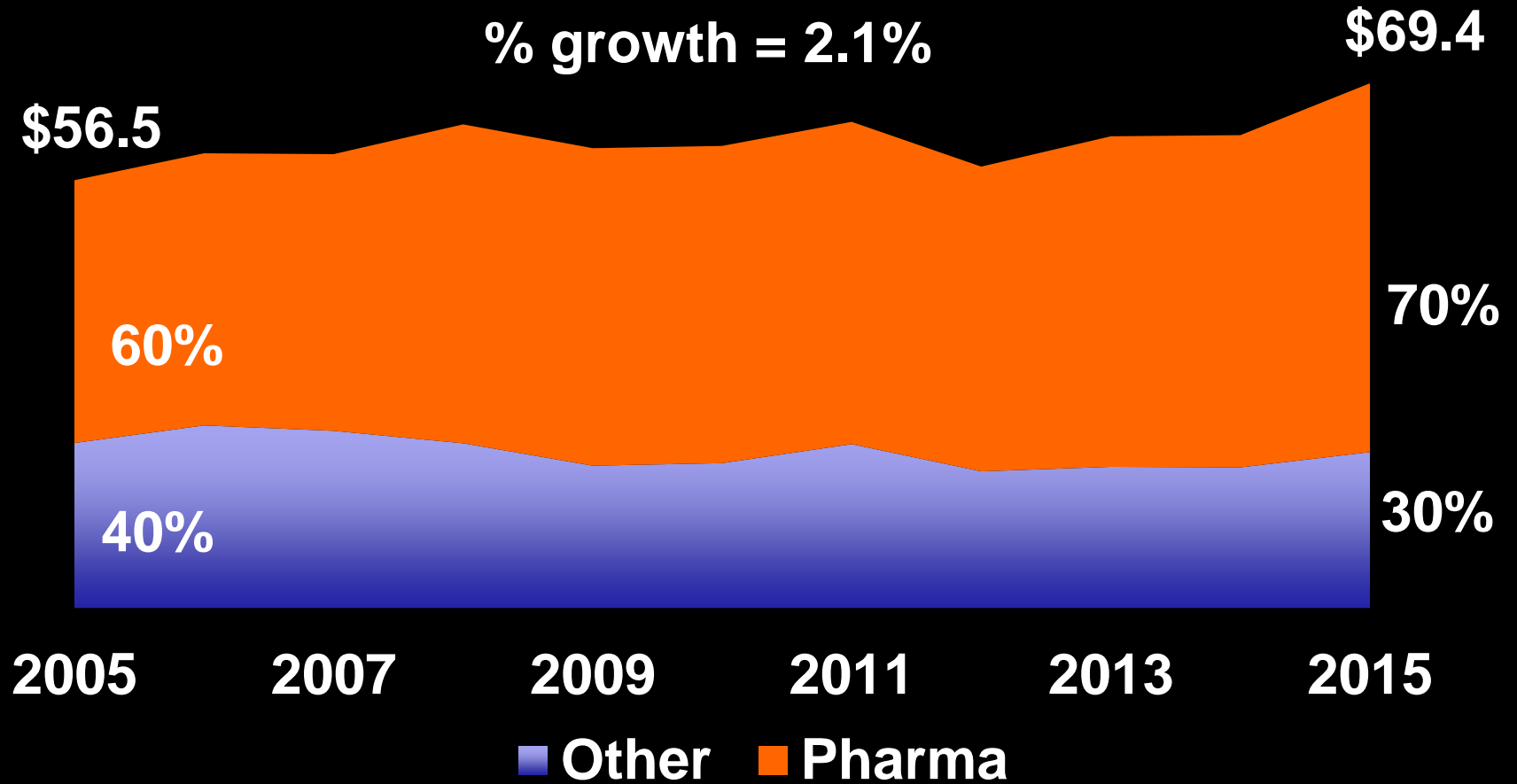
Investment as % of GNP



Source: PR Planning Board

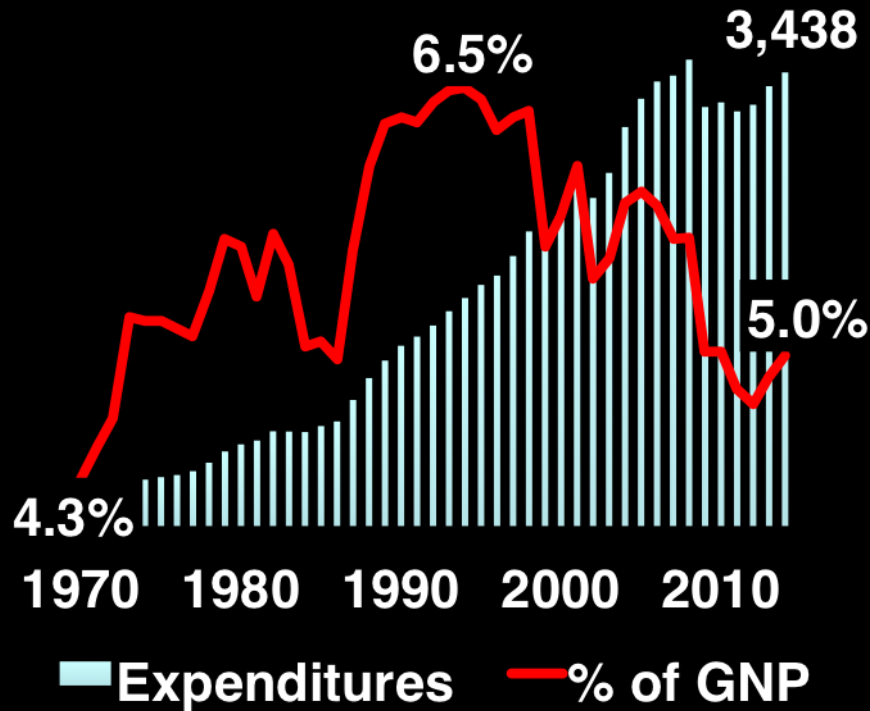
# PR's total exports

\$ Billion

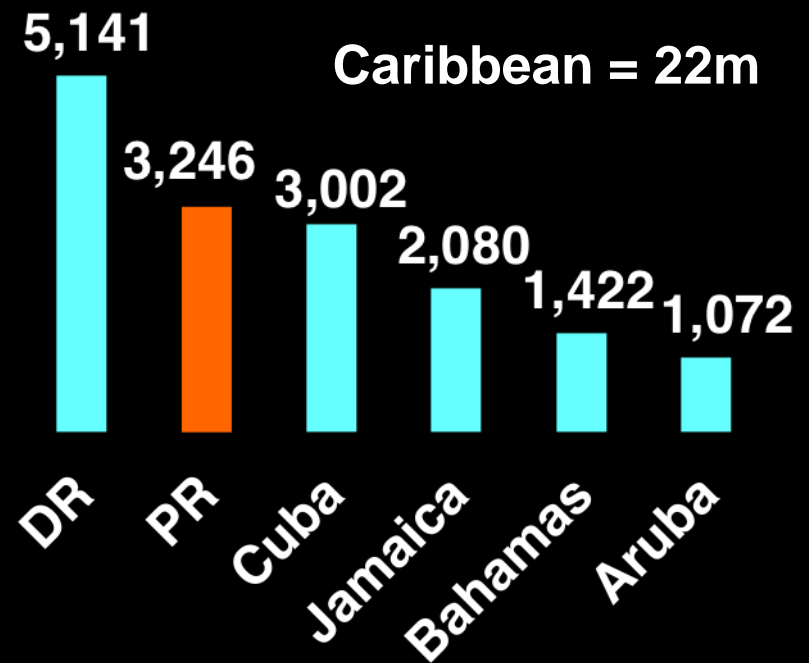


# Tourism is not a major driver

Visitors' expenditures, \$m

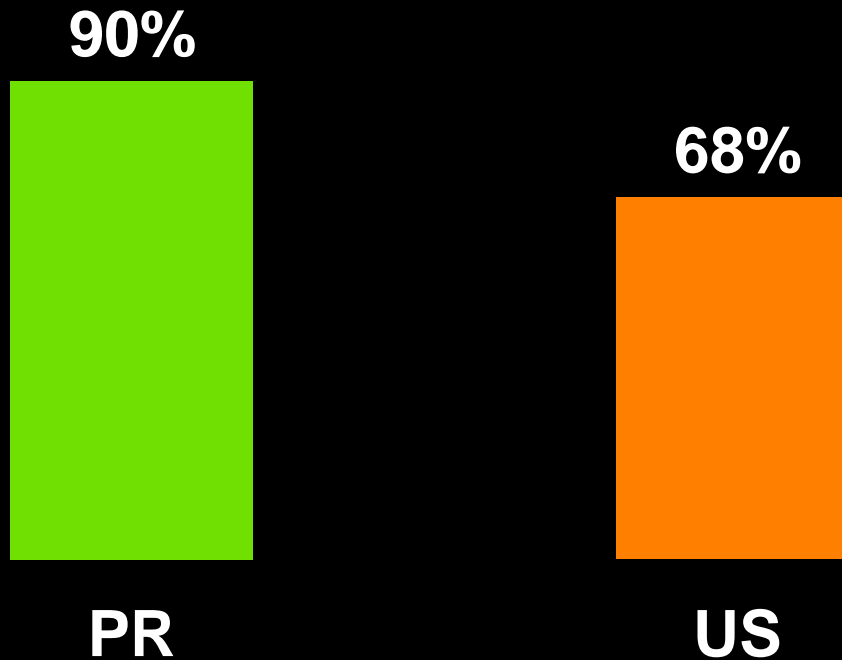


# tourists 2014, 000s



# How big is consumption?

Consumption as % of GNP, 2015

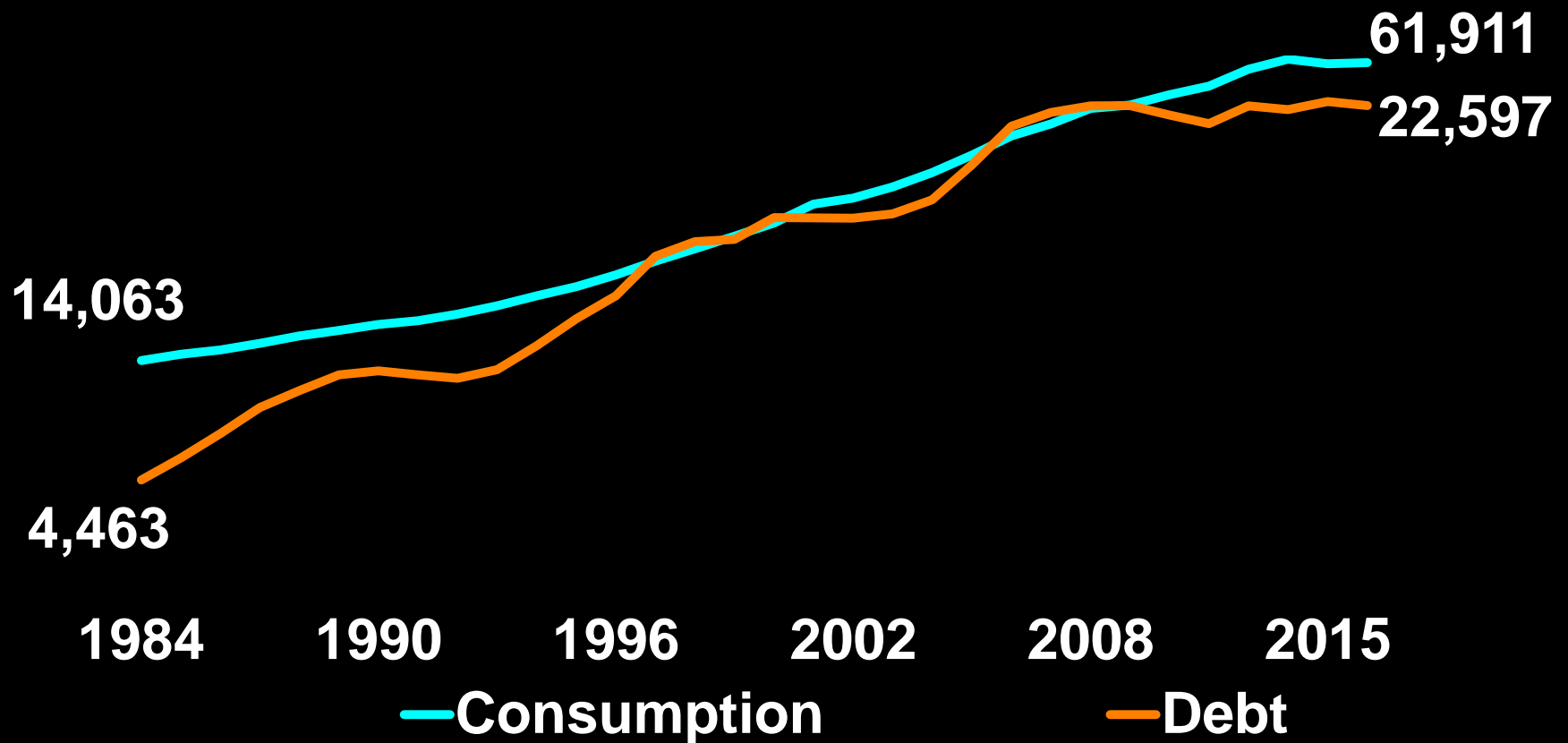


Source: PR Planning Board & BEA



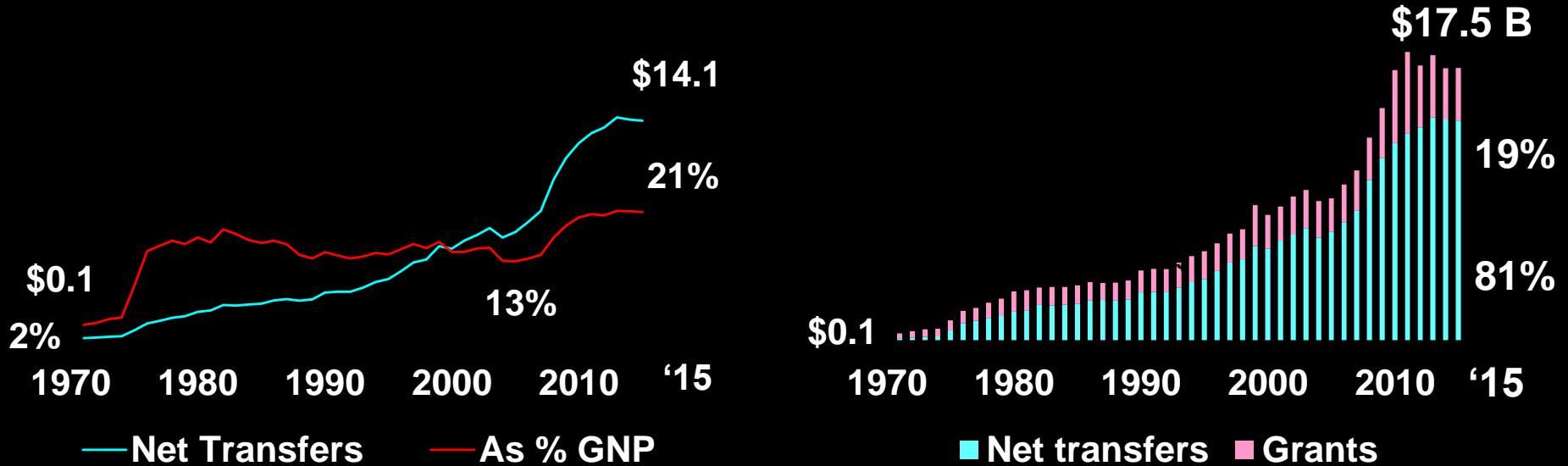
# Twins: consumption & debt

\$ million



# Contribution of federal funds

\$billion



\* Includes Net Transfers plus Federal Grants

# Trends in public debt

\$ Billion

Does not include \$50 B in unfunded pension liabilities.

Congress ends  
Section 936

\$71.2 B

\$4

\$14

\$48

\$5

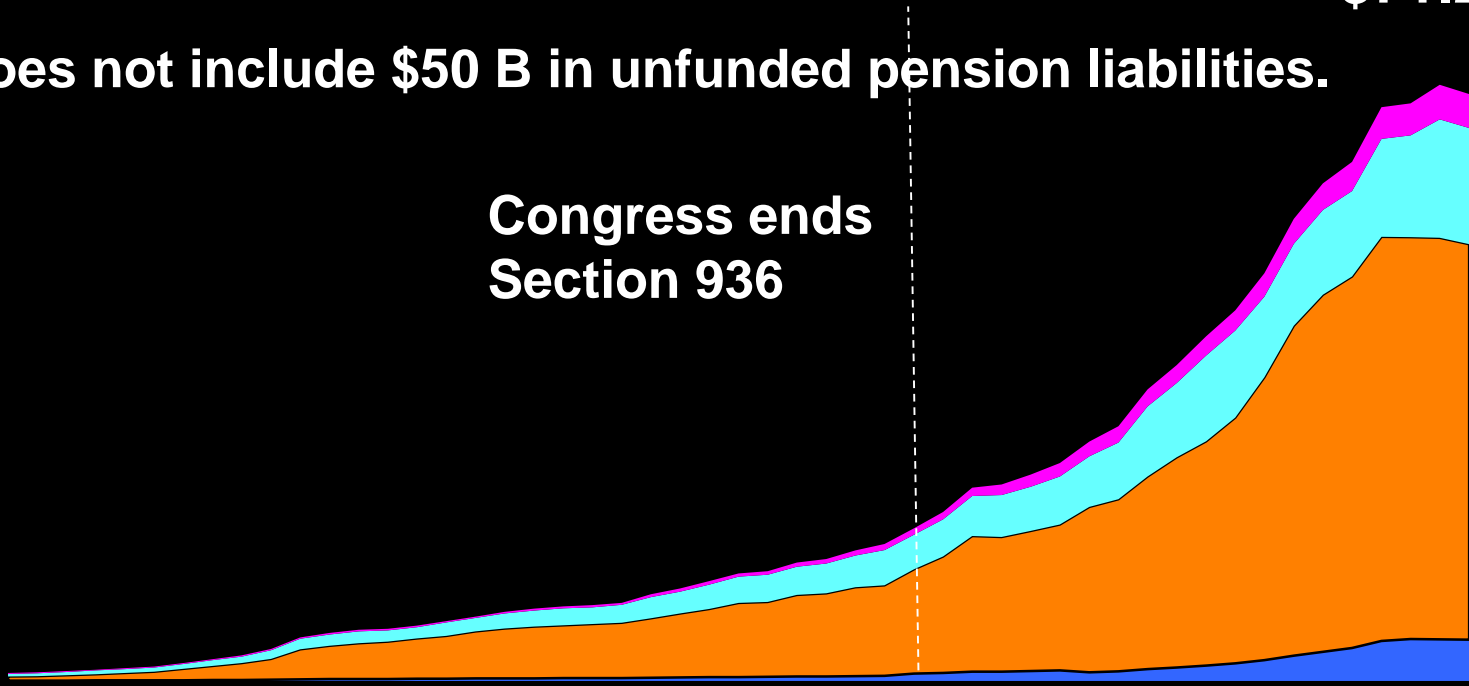
1965 1970 1975 1980 1985 1990 1995 2000 2005 2010 2015

■ Other

■ Public Corporations

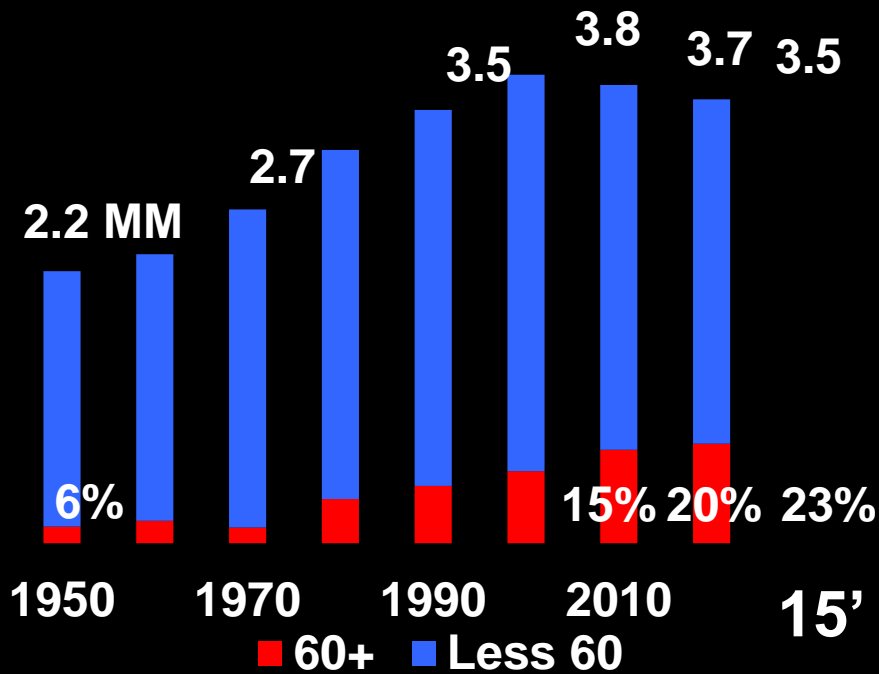
■ Central Government

■ Municipalities

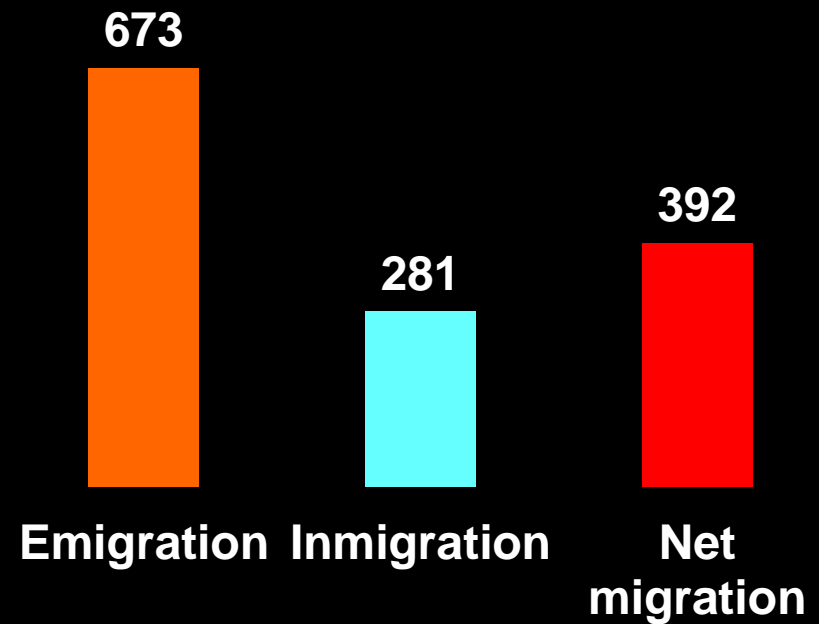


# Demographic time bomb in PR

PR population, million



2005-2014, 000s

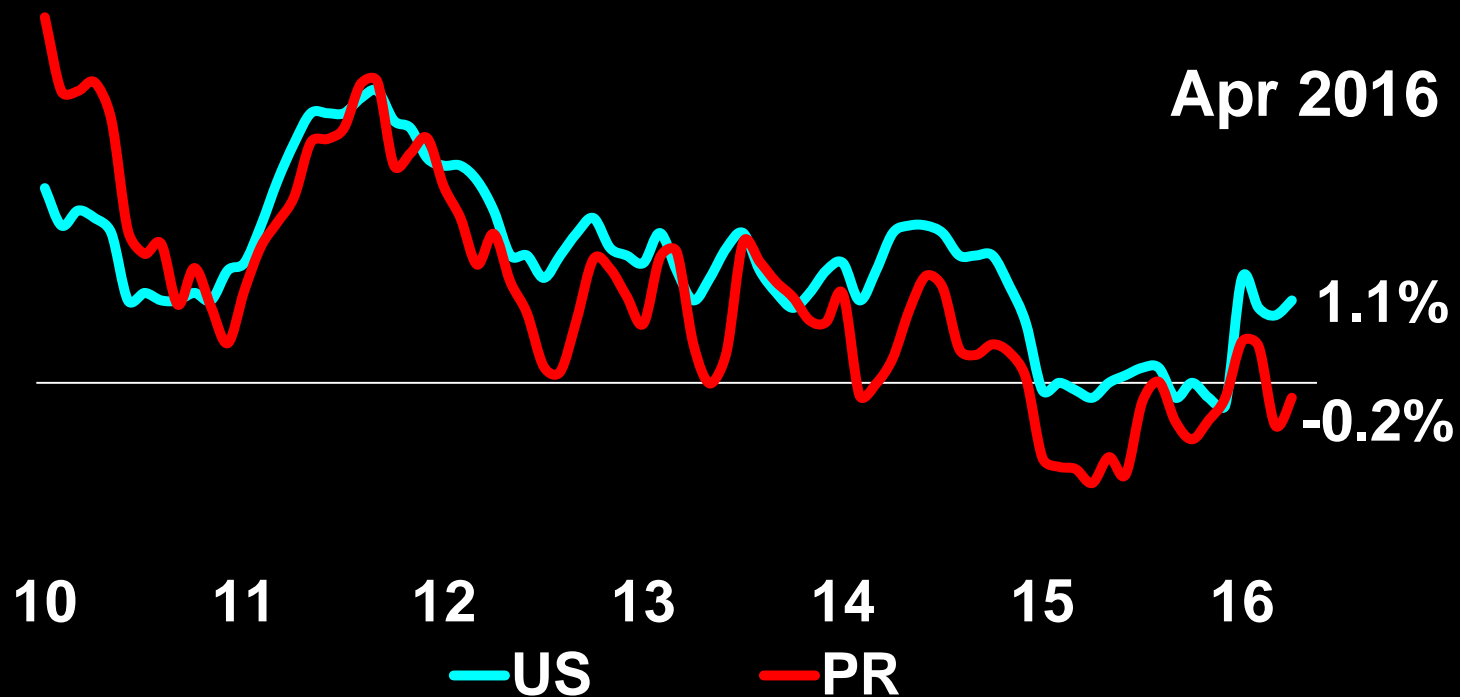


# The job challenge

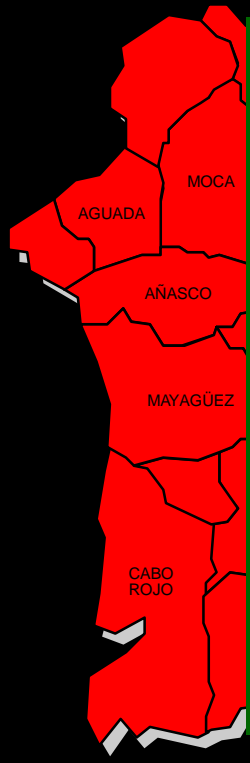
Low participation still a major problem



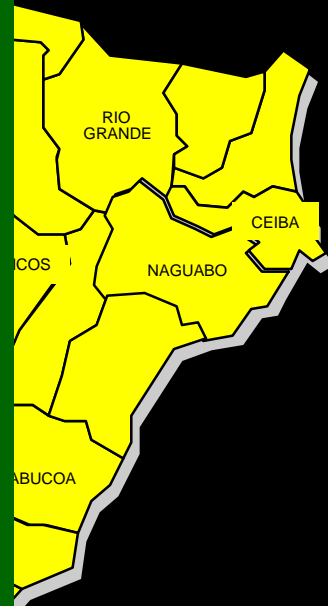
# Inflation is incredibly low



# Where is Puerto Rico today?

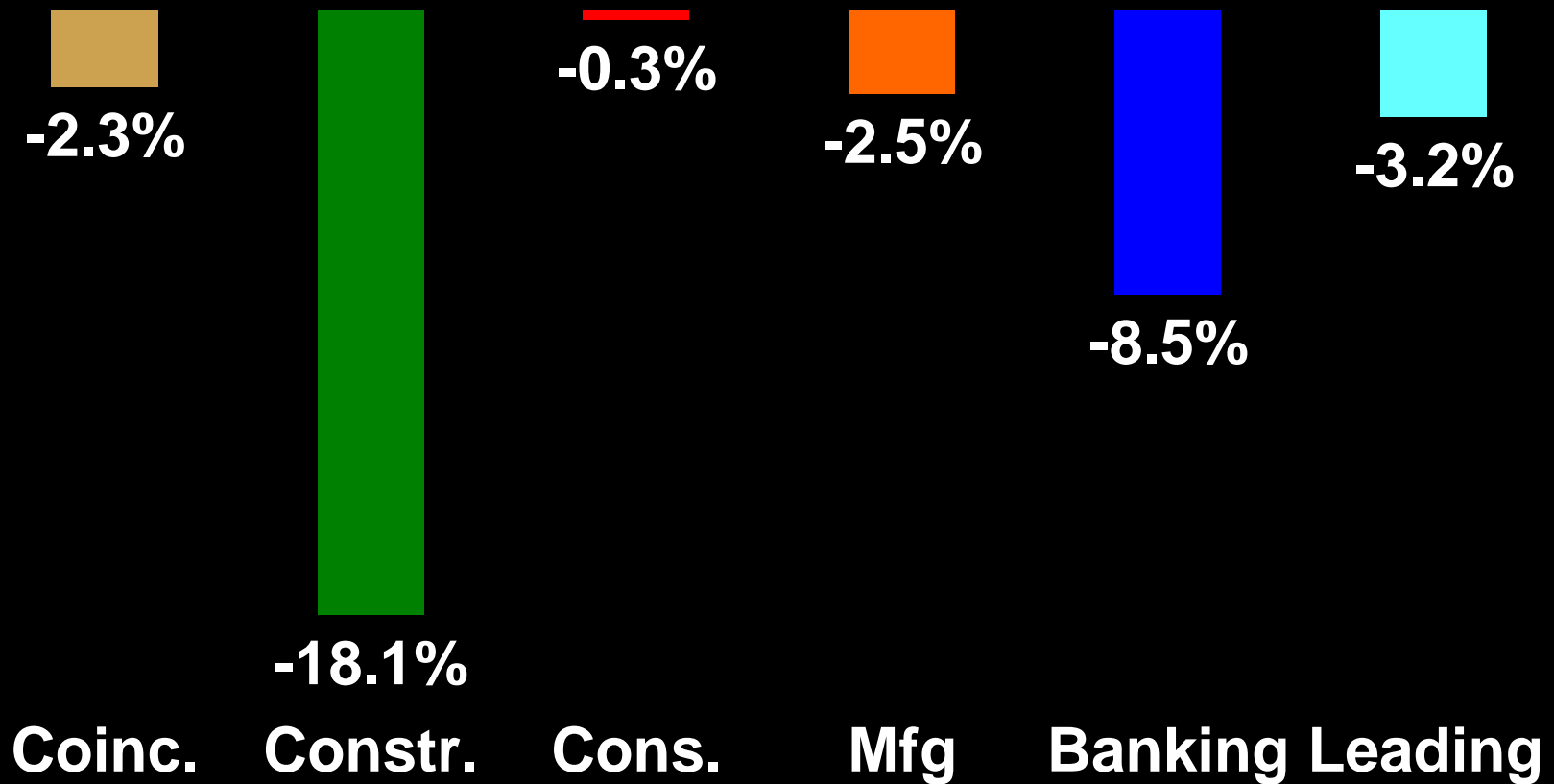


<b>Gross Domestic Product 15</b>	<b>\$103b</b>
<b>Gross National Product 15</b>	<b>\$68.5b</b>
<b>Population 15</b>	<b>3.5m</b>
<b>Share of Manufacturing in GDP</b>	<b>47%</b>
<b>Income Per Capita 15</b>	<b>\$17,629</b>
<b>Total Employment 05/16</b>	<b>1.0m</b>
<b>Inflation 05/16</b>	<b>-0.4%</b>
<b>Unemployment rate 05/16</b>	<b>11.3%</b>
<b>Participation rate 05/16</b>	<b>40.6%</b>



# HCCG economic indices

% change over previous year, 1Q-2016



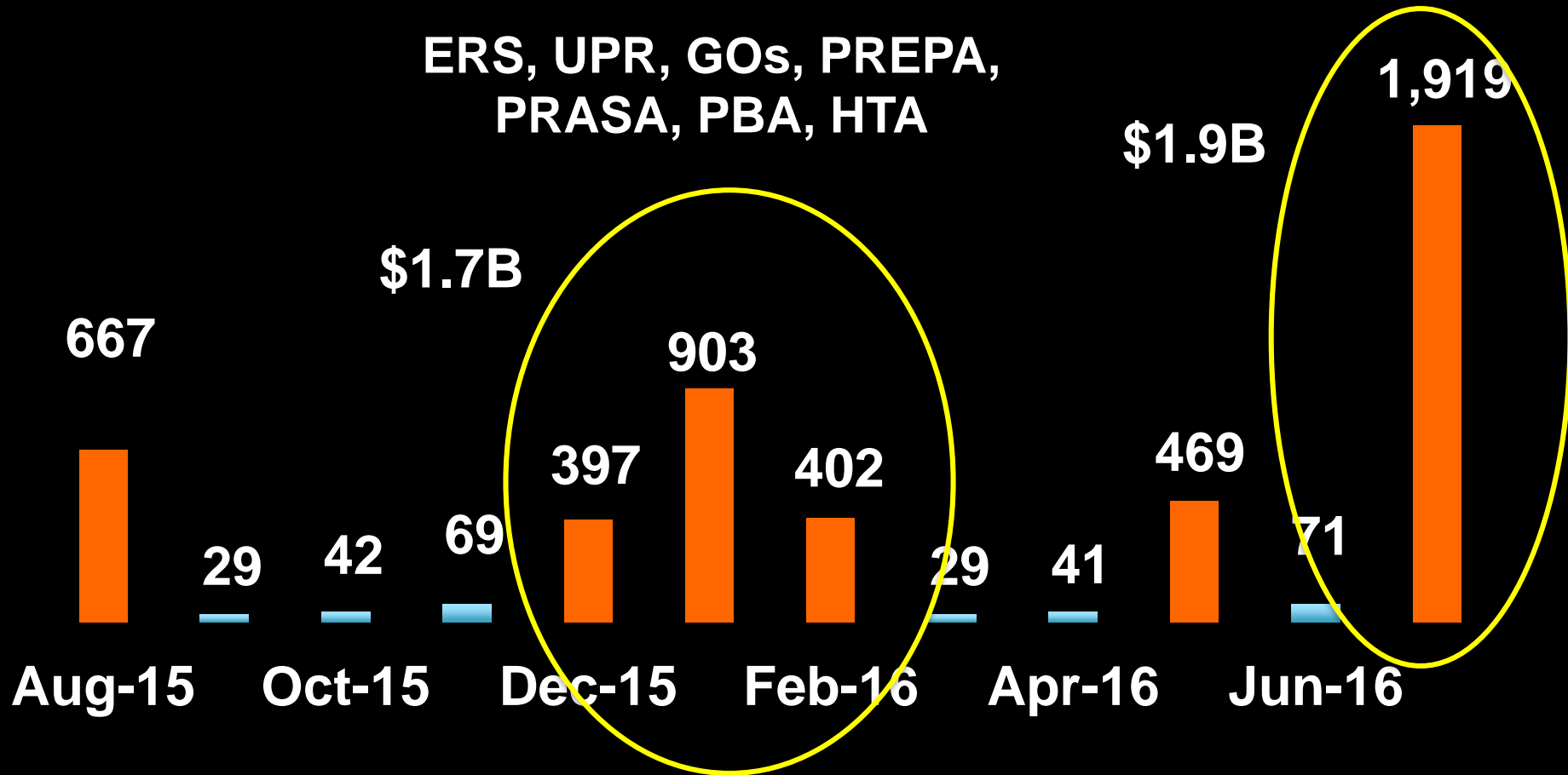


# Short term liquidity challenge

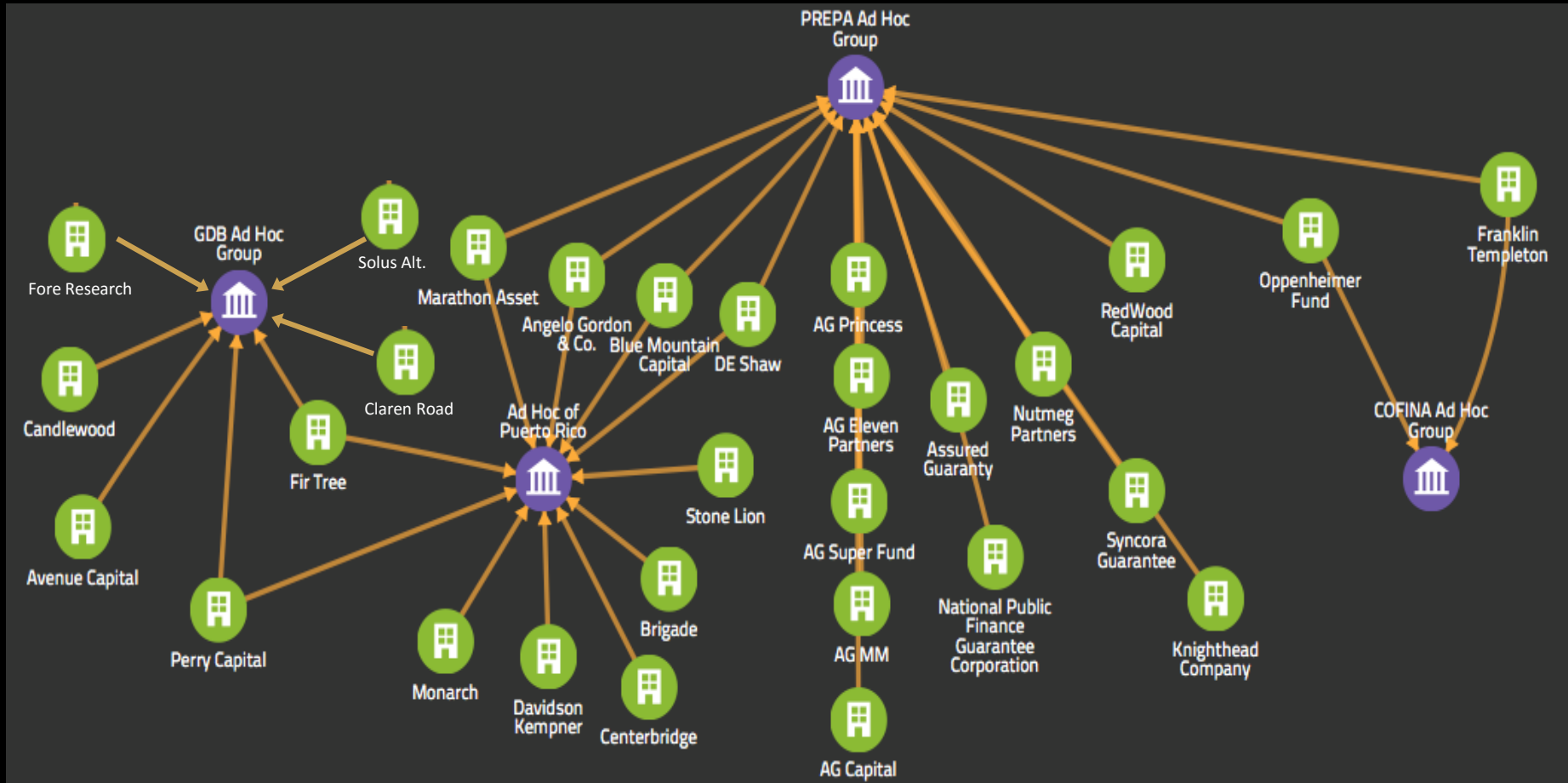
\$ million – debt service

GOs, PREPA,  
PRASA, PBA, HTA

ERS, UPR, GOs, PREPA,  
PRASA, PBA, HTA



# PR debt – The end game



# Background for US action

1. PR has begun defaulting on its debt
2. It no longer has access to credit markets
3. Essential services have been cut since govt. cannot pay its bills
4. Hospitals are closing floors
5. Business are leaving the Island
6. Tax refunds withheld from citizens
7. Pension assets depleted
8. Lawsuits have begun
9. GDB is undercapitalized
10. Central govt. could be force to shutdown
11. PR lacks tools to solve this crisis

# Powers of Control Board

<b>Restructure debt with Court</b>	✓
<b>Approve fiscal plan &amp; budgets</b>	✓
<b>Issue stay on all proceedings</b>	✓
<b>Obtain financial audited statements</b>	✓
<b>Freeze or reduce pension benefits</b>	✓
<b>Issue bonds</b>	✓
<b>Review Acts of Legislature</b>	✓
<b>Exclude 25yr old from min. wage</b>	✓
<b>Subpoena powers</b>	✓
<b>Prohibit public strikes</b>	✓
<b>Establish new personnel system</b>	✓
<b>Not subject to Judicial review</b>	✓

# Impact of Financial Control Boards

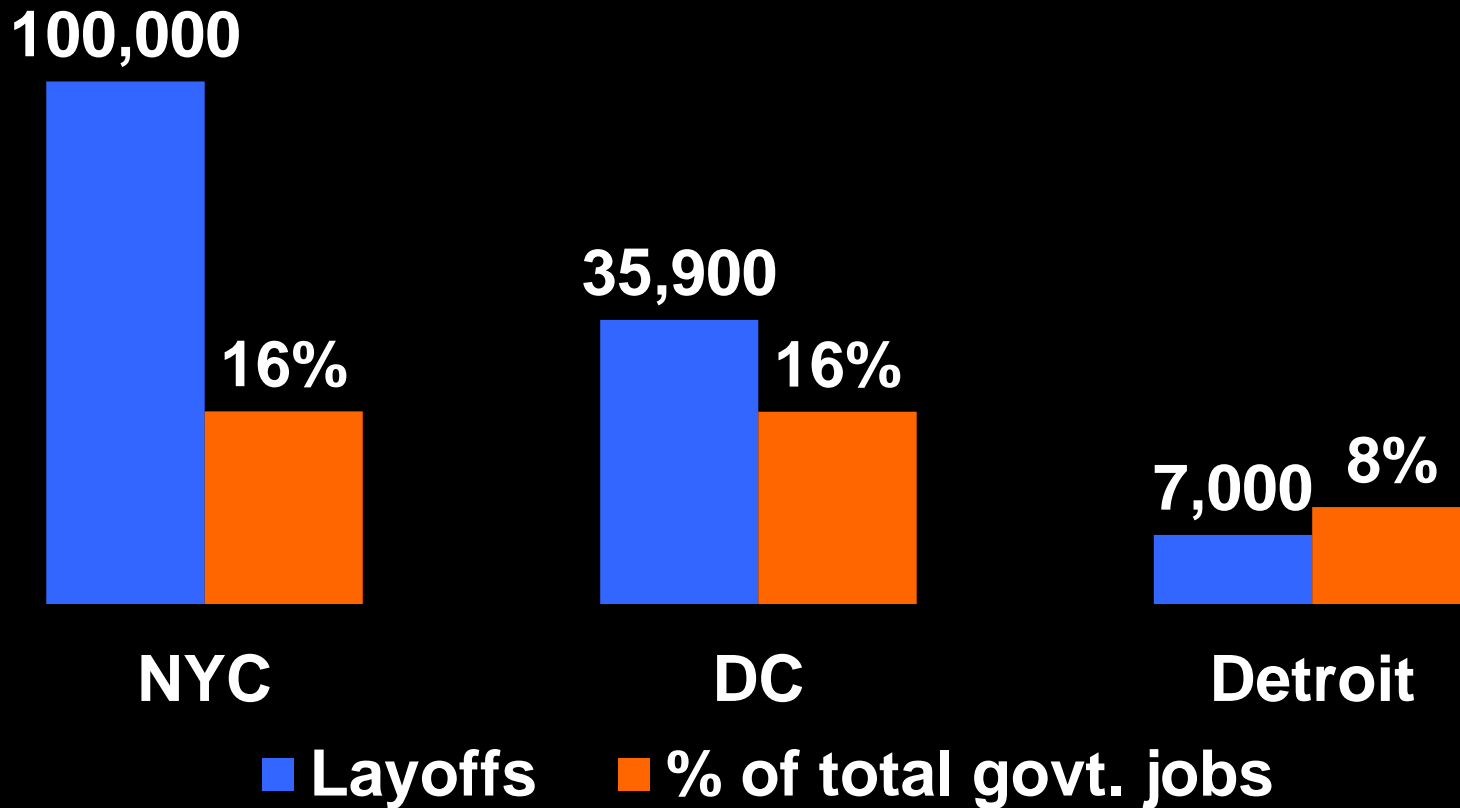
Indicator	NYC	DC	Detroit	PR
Start Date	1-Sep-75	17-Apr-95	1-Mar-13	TBD
End Date	30-Jun-86	30-Sep-01	Active	TBD
Duration (years)	11	7	3	TBD
# of members	7	5	9	5
Deficit prior FCB (\$M)	\$2,200	\$722	\$300	\$740
Population loss	-10%	-29%	-62%	-9%
Population 2014 (M)	8.5	0.7	0.7	3.5
Credit rating				
Start FCB	Caa1	Ba1	Caa2	TBD
End	Baa	Baa1	B2	TBD
Upgrade notches	9	3	3	TBD

# Terms - Financial Control Boards

Terms	NYC	DC
<b>Assistance</b>	Govt. assumed cost of university, courts	Financial control of courts & prisons
	Covered city's finances Postponed pmts. on short-term debt	Raised Medicaid \$1.4b infrastructure \$300million grants & incentives
<b>Finance</b>	\$2.5b to buy MAC bonds	Allowed borrowing from Treasury
	\$2.3b short-term Fed loans	
<b>Pensions</b>	Untouched	Assumed \$5b unfunded liabilities
	Pension Funds bought MAC	
<b>Taxes plus</b>	\$200million new taxes Raised tuition at CUNY Raised transit fares	IRS collected taxes  Saved \$117million to DC

# Public layoffs after FCB

Number of layoffs 5yrs after FCB & % of total



# What needs to be done?

- Develop & implement Economic Growth Plan with:
- **Poles of Growth** and Investments for infrastructure thru PPP

**Aguadilla** • Expansion PR-22 connecting Lufthansa

**Ceiba** • Bridge Ceiba – Vieques

• Start redevelopment of Roosevelt Roads

• Train connecting Aguadilla to Ceiba

**Ponce** • Port of the Americas Ponce – Redistribution

• Gas fired power plants – Aguirre in Ponce

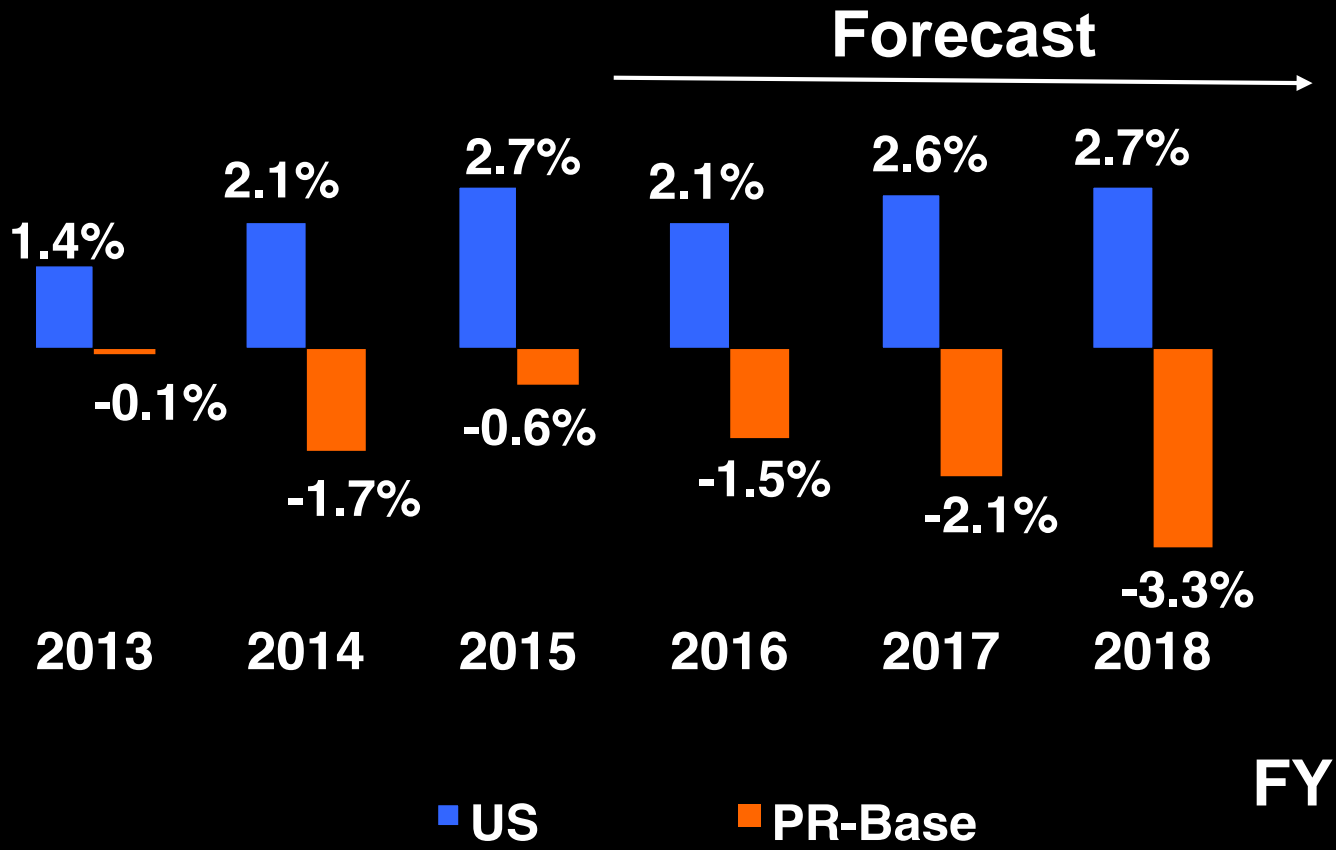


# **What needs to be done? cont.**

- **Ensure payment of GOs' debt service**
- **Restructure other public debt**
- **Cut some government expenses**
- **Restructure some public corporations**
- **Privatize some public corporations**
- **Restore PR's investment grade to resume lending**

# Full recovery will take time...

## Forecast of US and PR real GNP growth

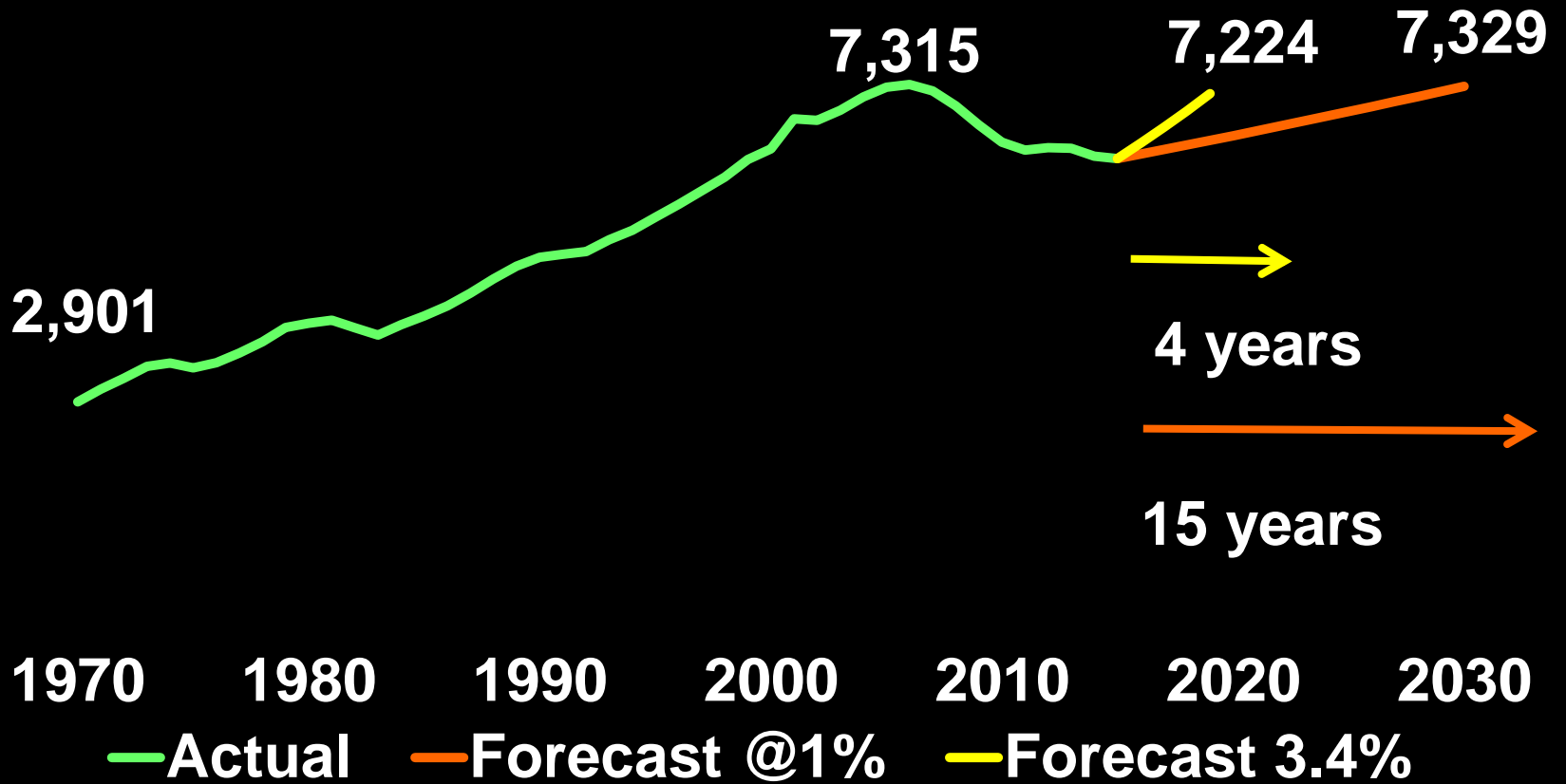


Forecast as of November 2015

Source: PR Planning Board & HCCG PR Macroeconomic Model

# Years to return to 2005 GNP

Real GNP, \$ million



# Unemployment remains high

## Baseline

	History			Projected		
% change, real	2013	2014	2015	2016	2017	2018
Unemployment	14.0%	14.3%	13.0%	11.9%	12.0%	12.8%

# Inflation will rise

## Baseline

	History			Projected		
% change, real	2013	2014	2015	2016	2017	2018
Inflation	0.9%	0.9%	-0.3%	-0.2%	1.0%	2.3%

# PR at a Crossroads

**Fiscal Control Board  
PREPA's restructure  
Loss of population  
VAT & more taxes  
Political decision**

**Stagnation**

**Growth**

