



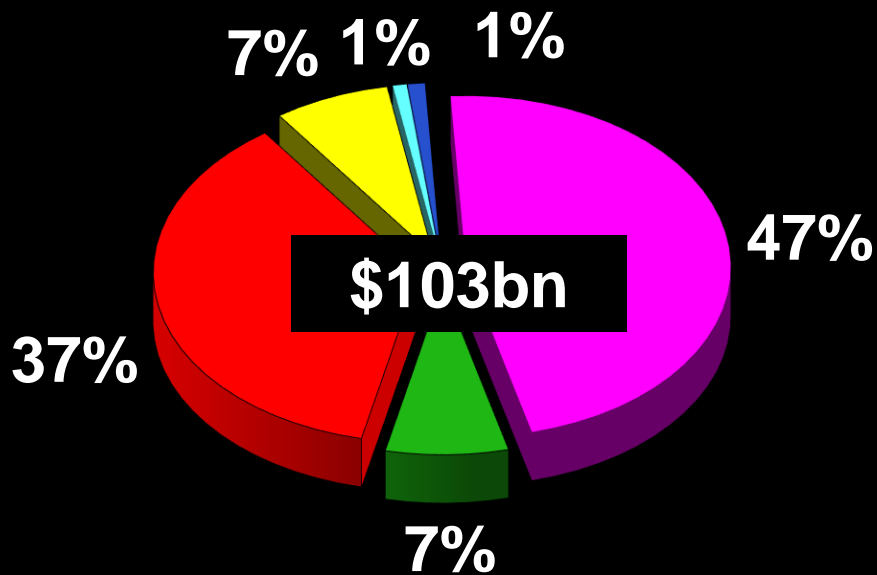
H. Calero
Consulting Group, Inc.

Puerto Rico at a Crossroads

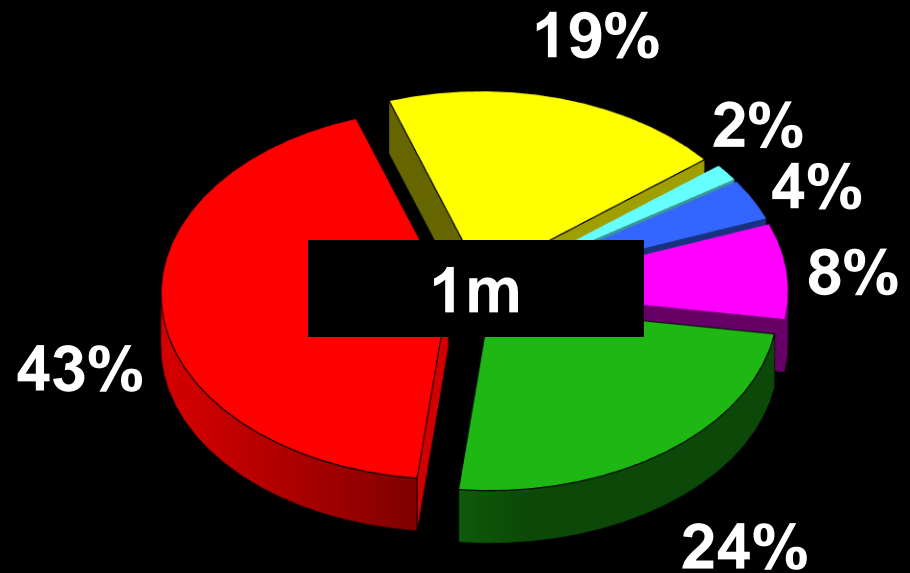
Facts & Proposals

Size of the PR Economy 2015

GDP



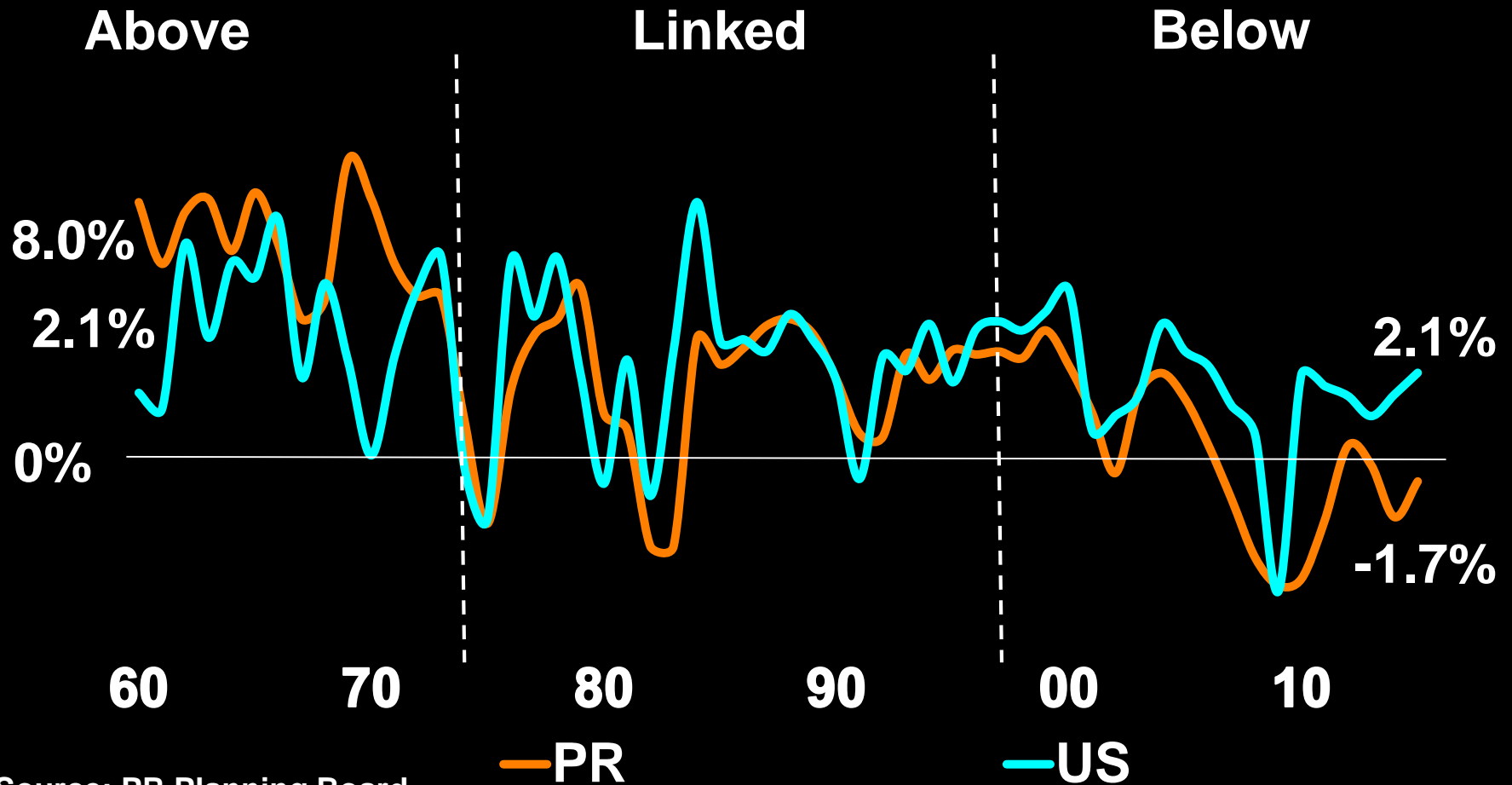
Jobs



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

PR is a regional economy of US

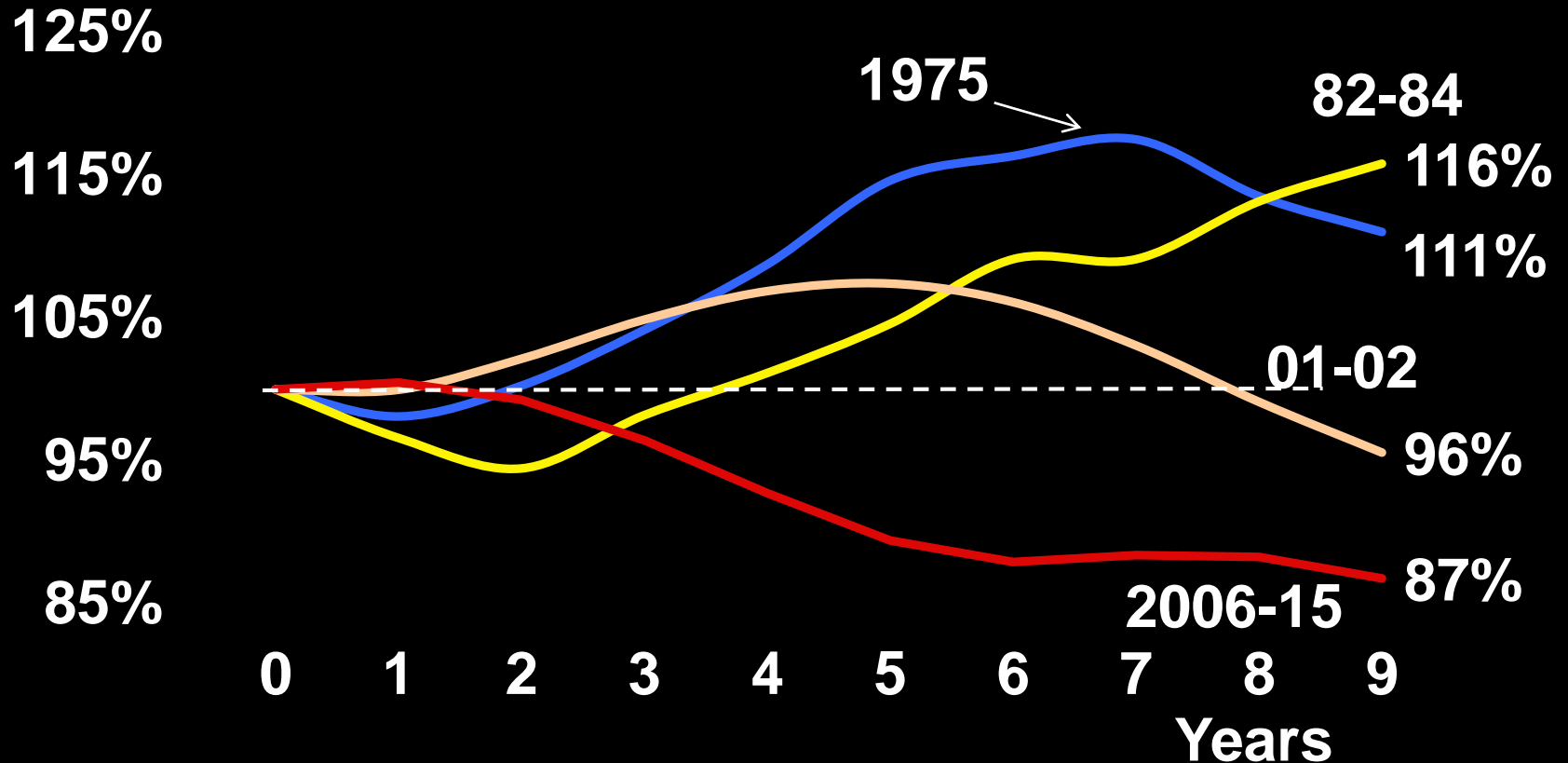
Real GNP growth, %



Source: PR Planning Board

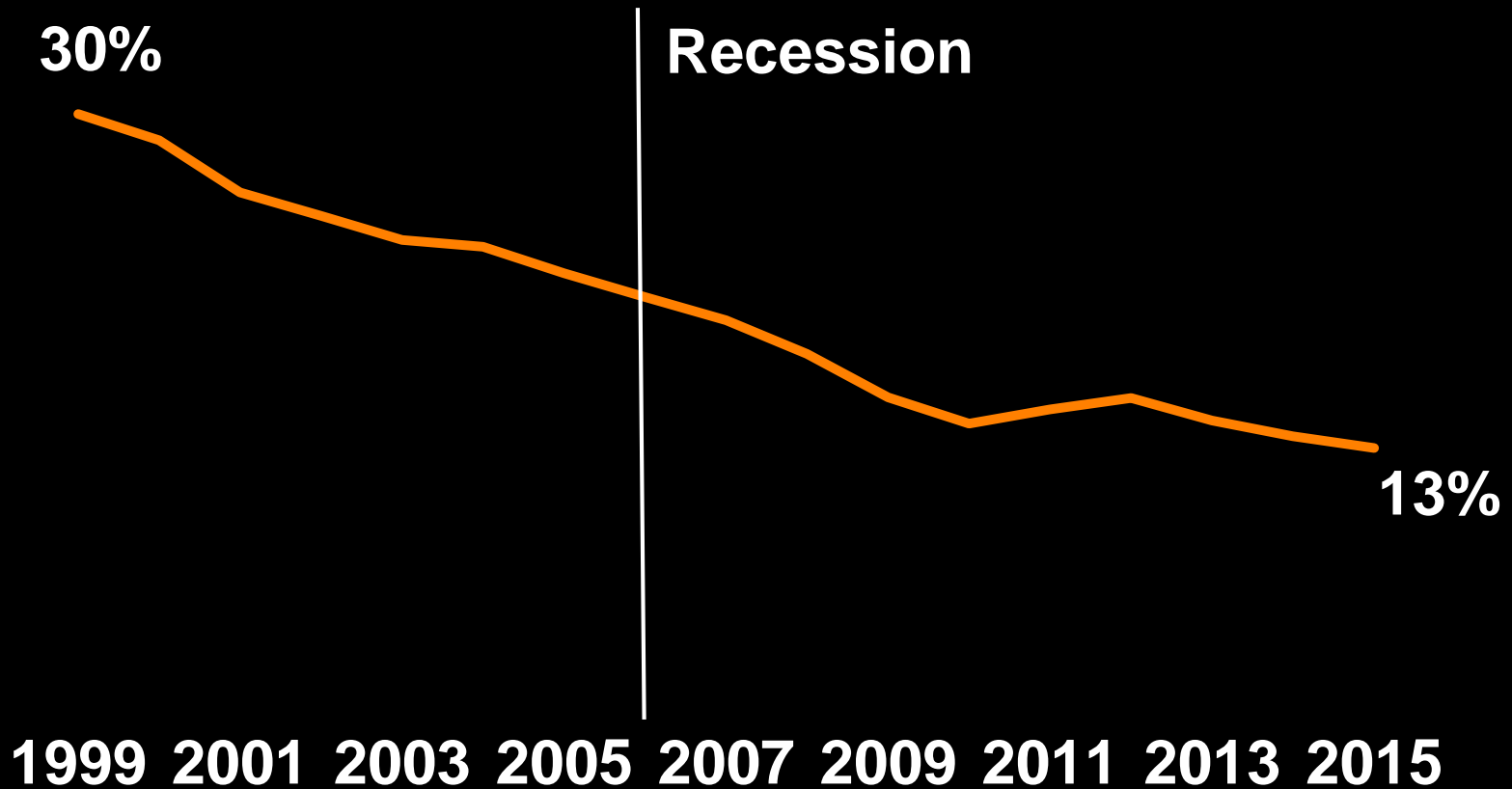
It is the worst recession

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



Investment went down

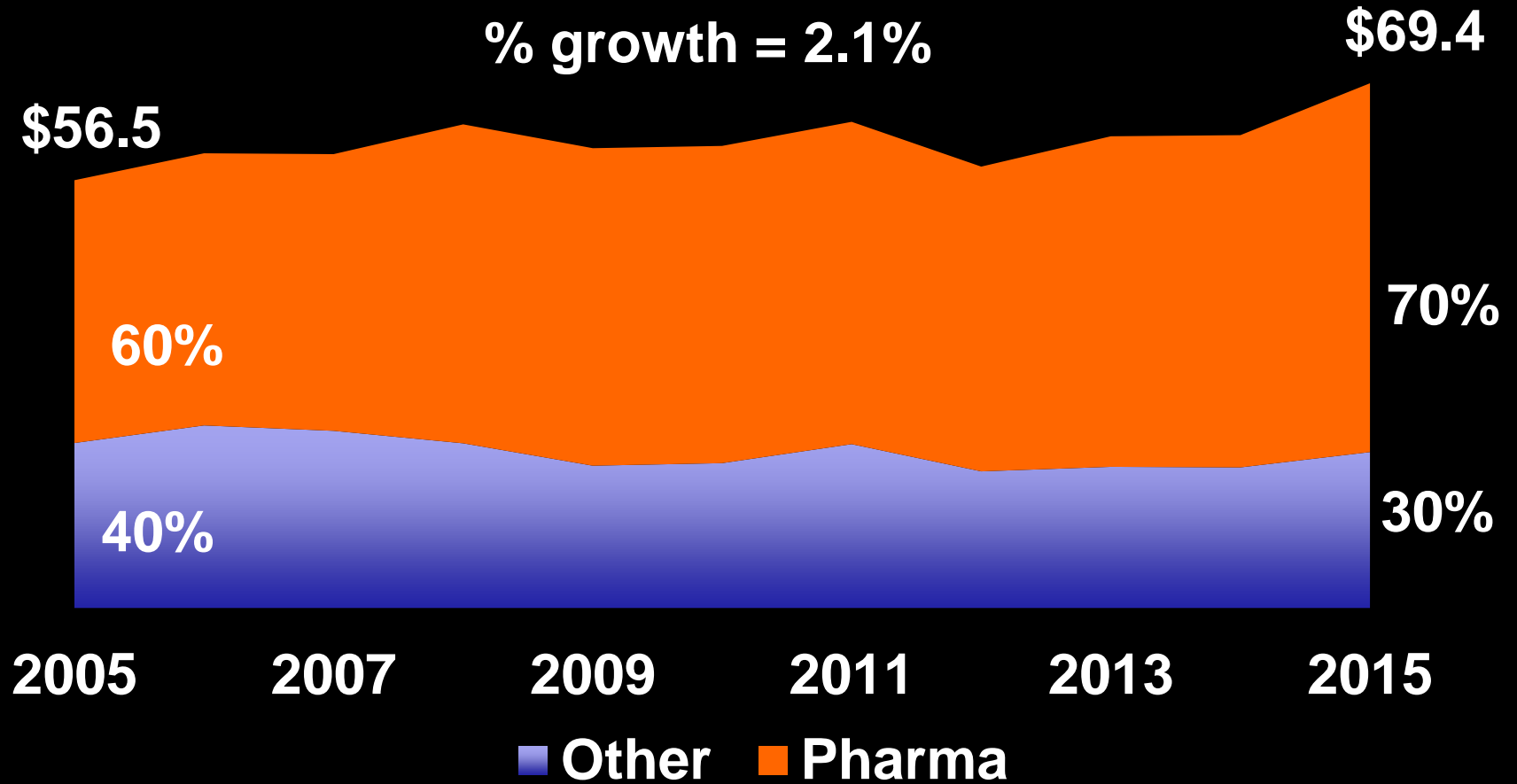
Investment as % of GNP



Source: PR Planning Board

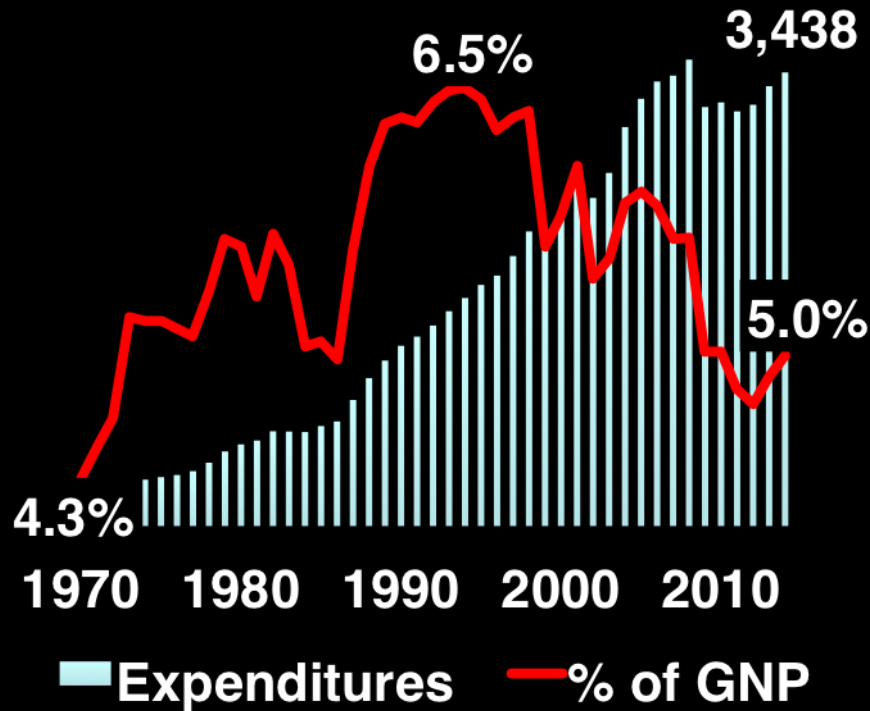
PR's total exports

\$ Billion

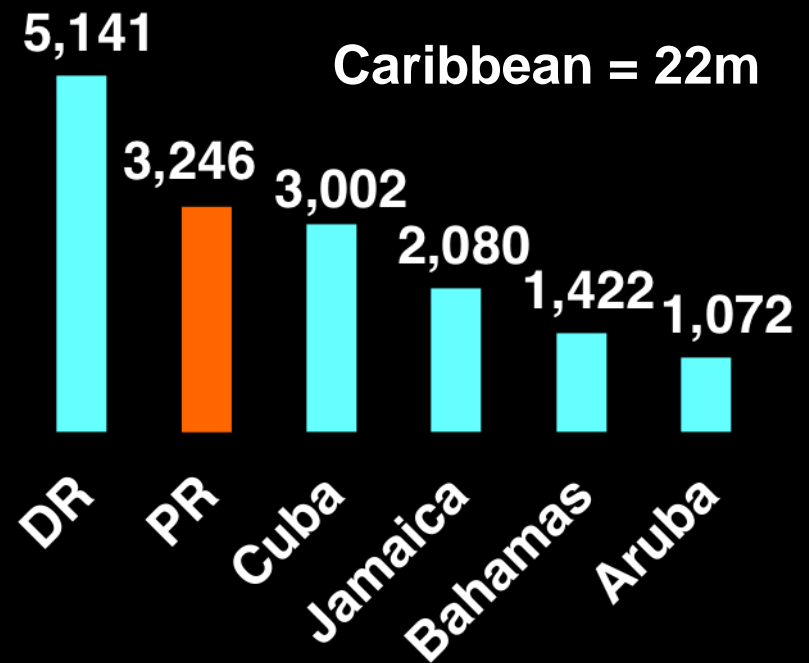


Tourism is not a major driver

Visitors' expenditures, \$m

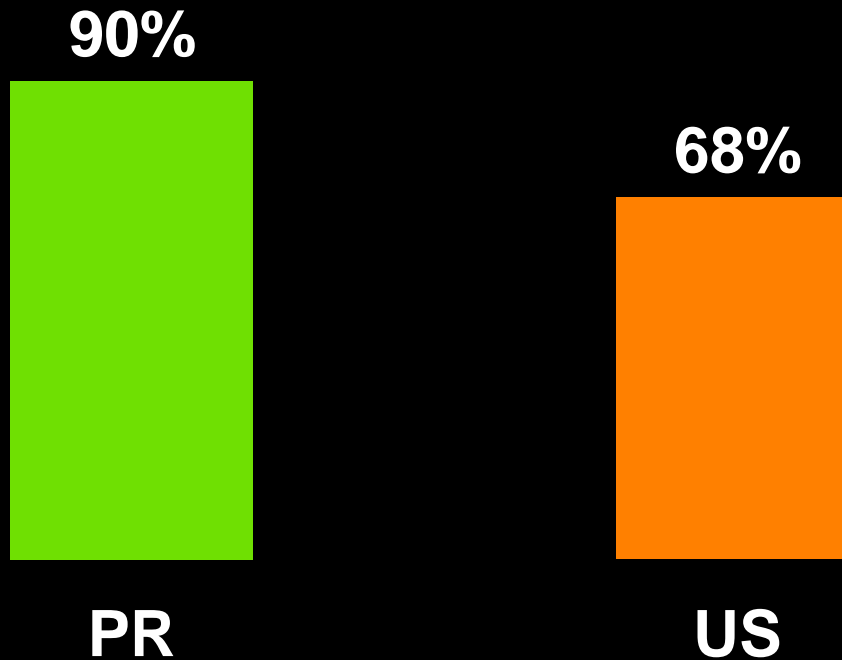


tourists 2014, 000s



How big is consumption?

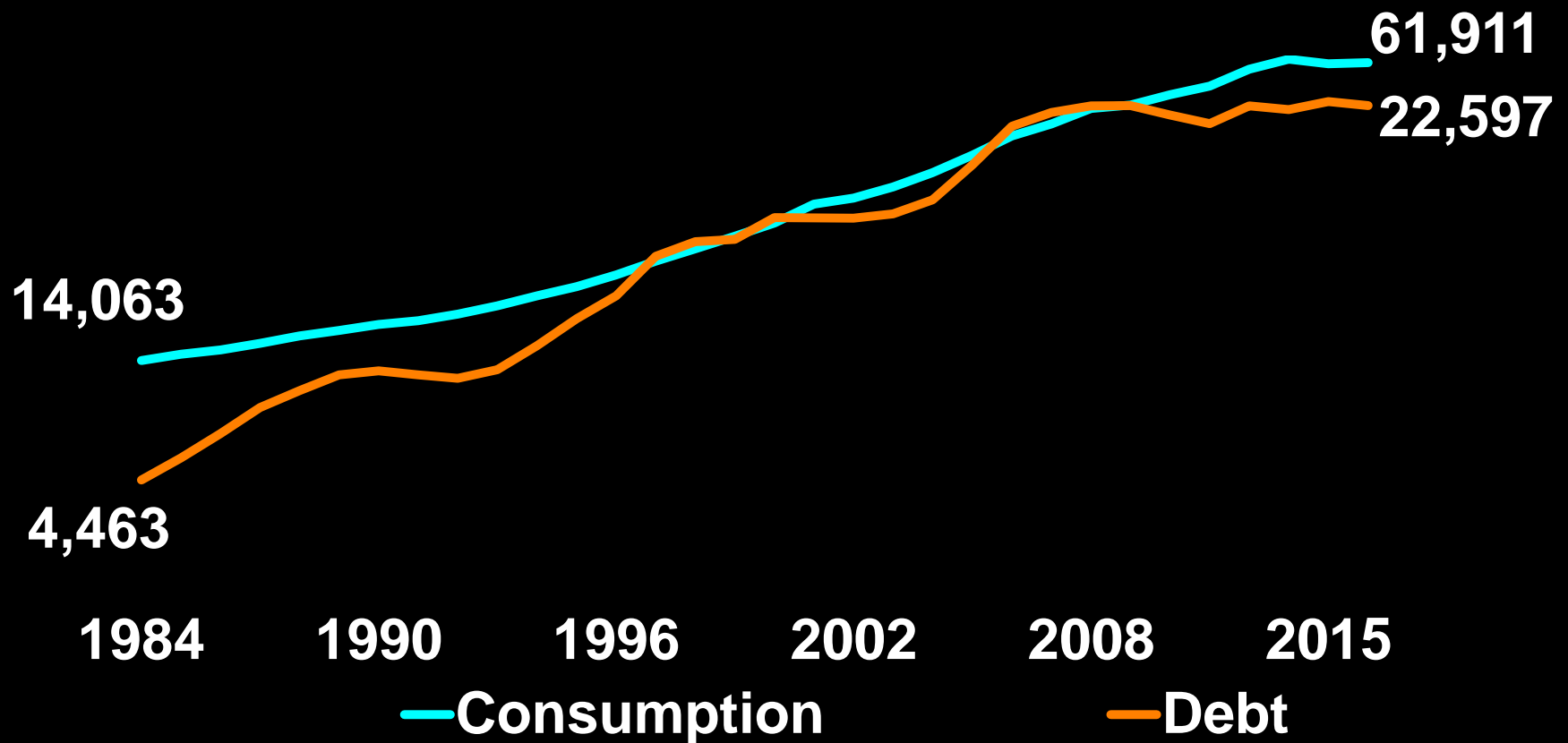
Consumption as % of GNP, 2015



Source: PR Planning Board & BEA

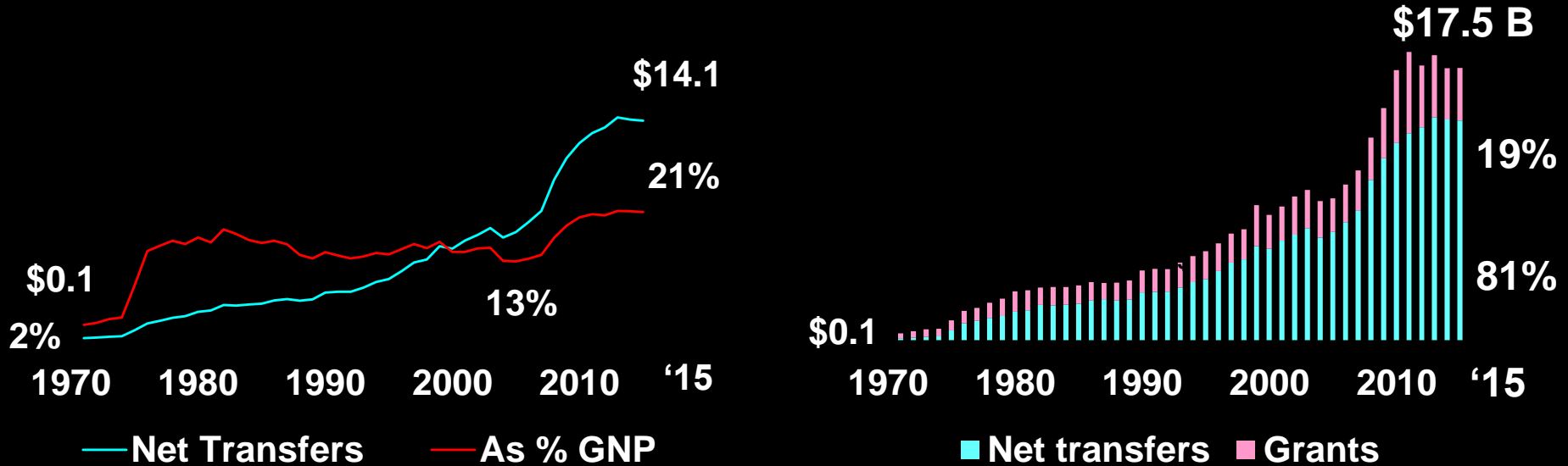
Twins: consumption & debt

\$ 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

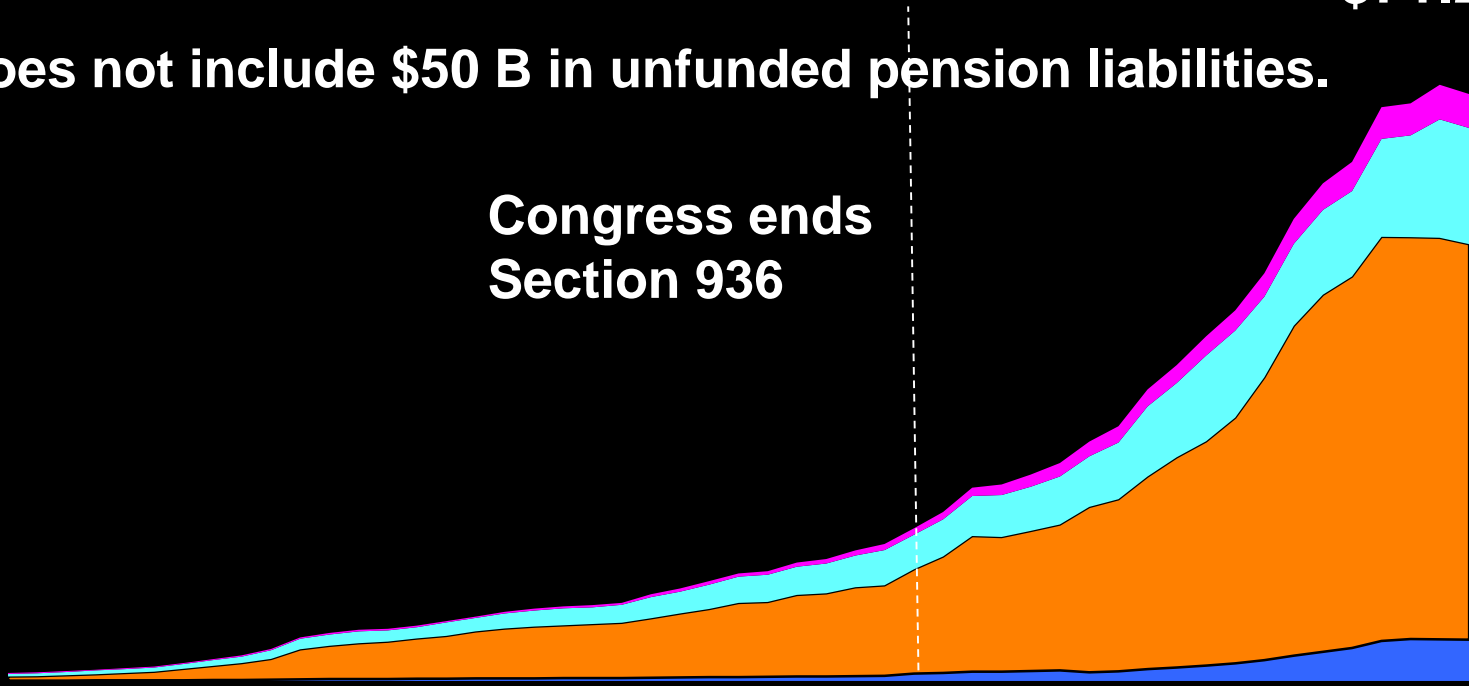
1965 1970 1975 1980 1985 1990 1995 2000 2005 2010 2015

■ Other

■ Public Corporations

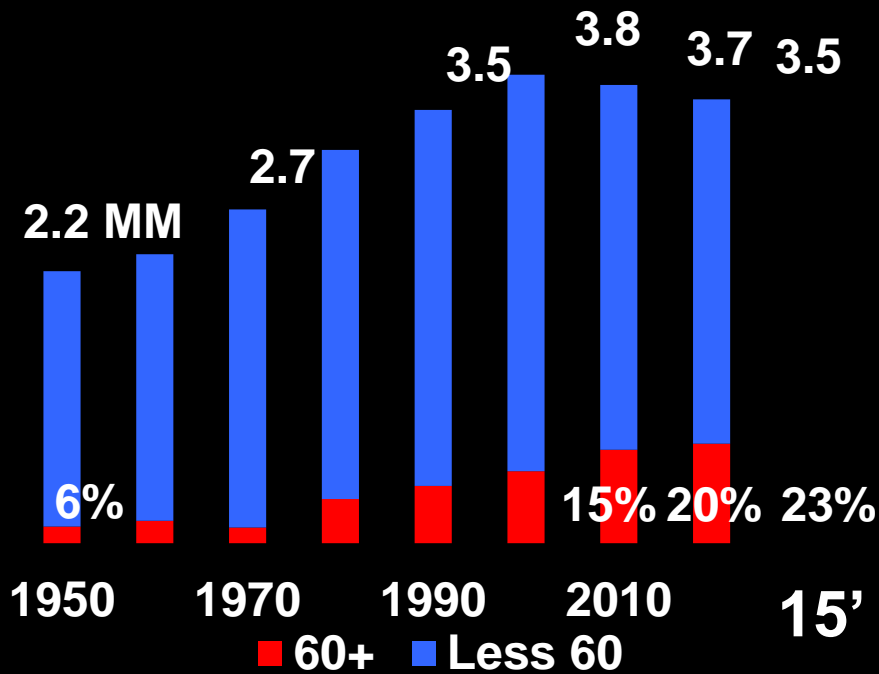
■ Central Government

■ Municipalities

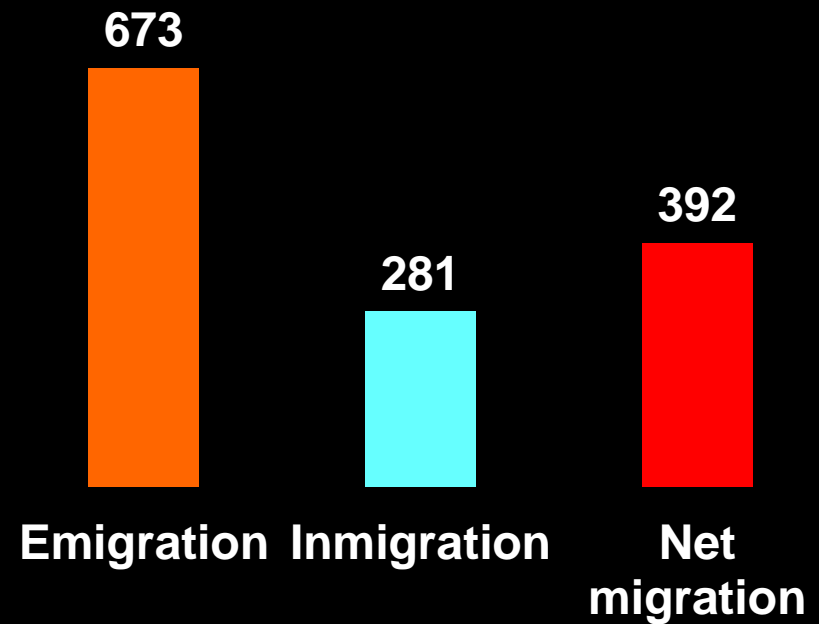


Demographic time bomb in PR

PR population, million

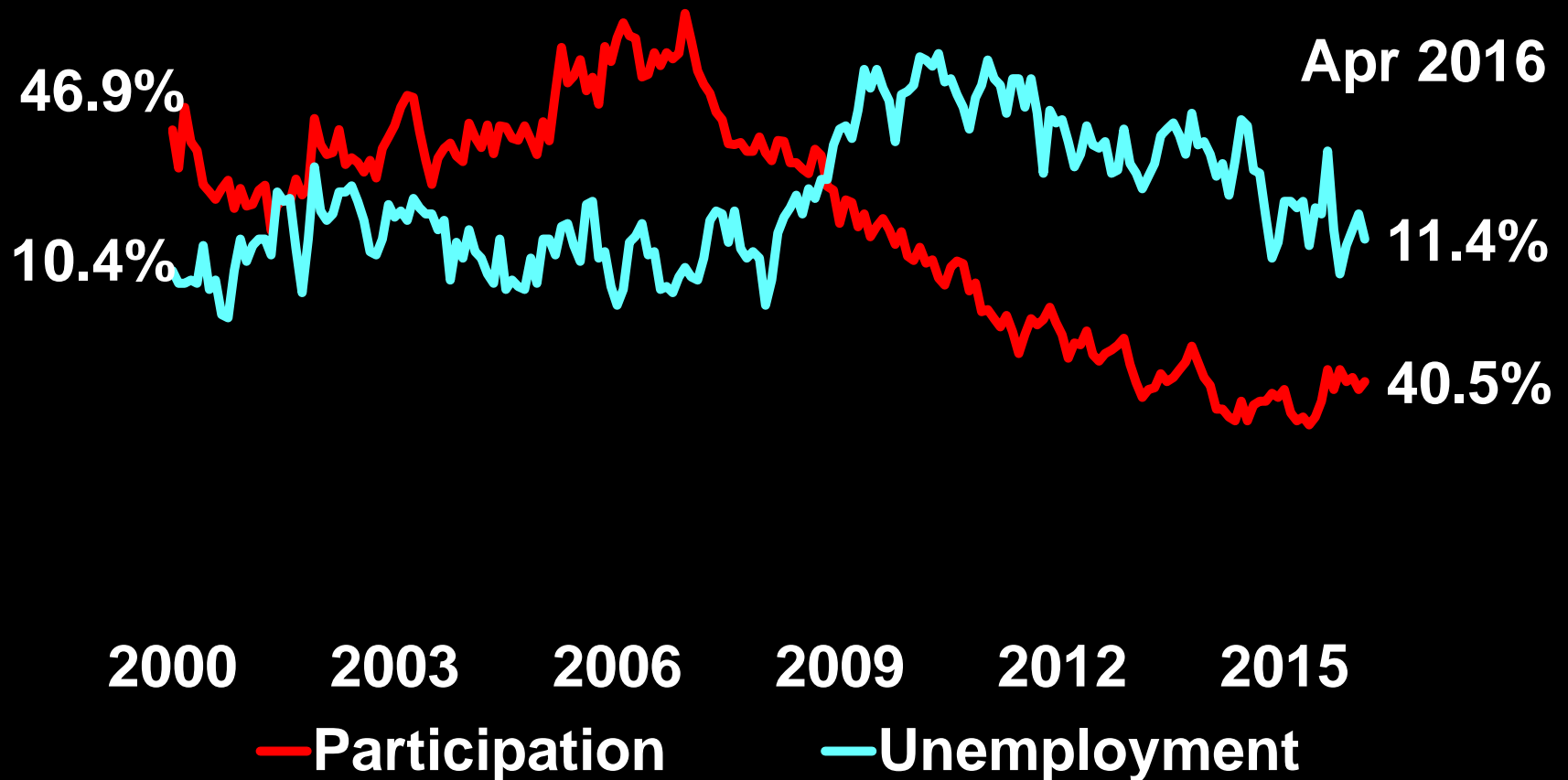


2005-2014, 000s

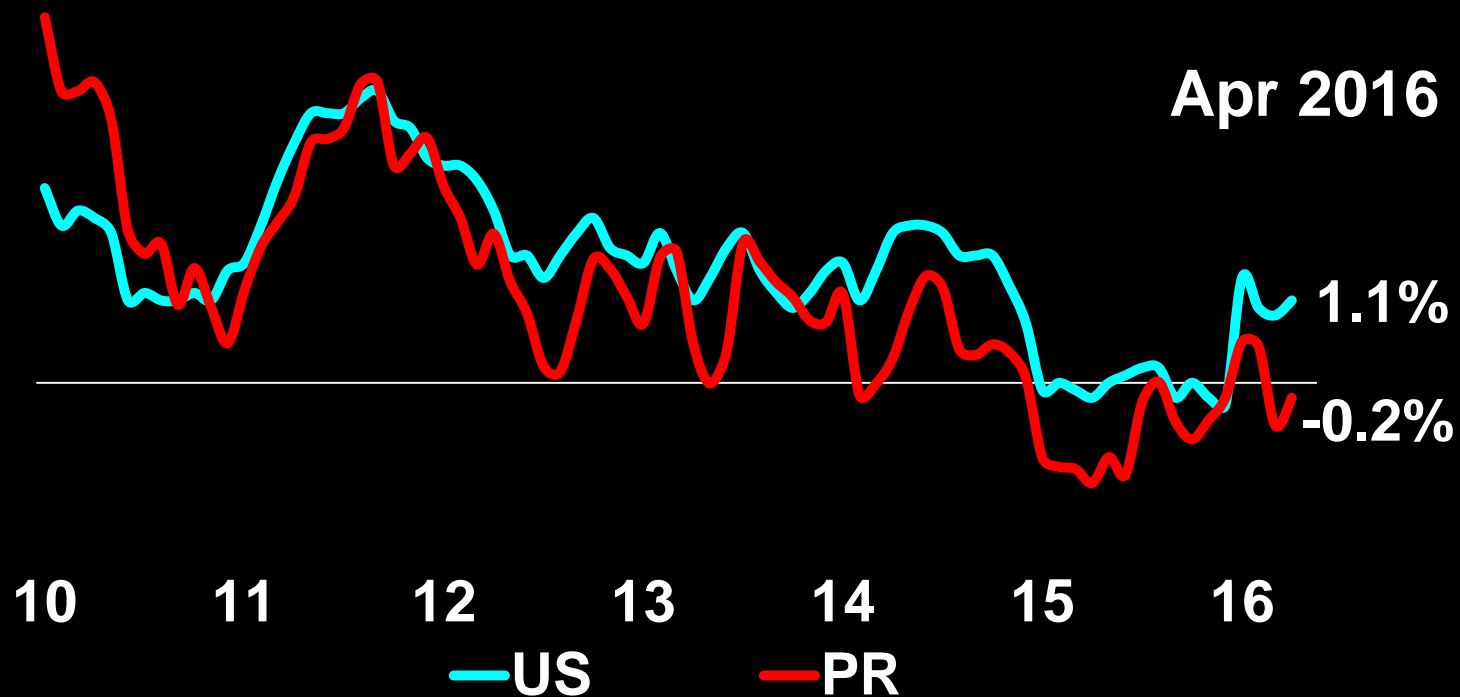


The job challenge

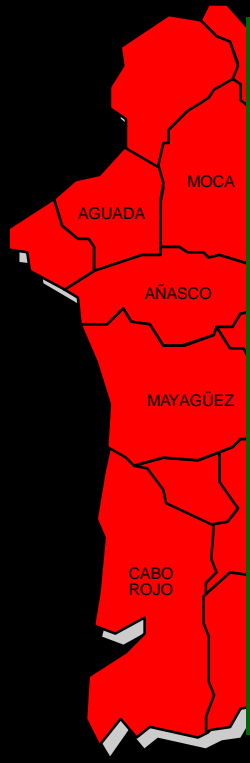
Low participation still a major problem



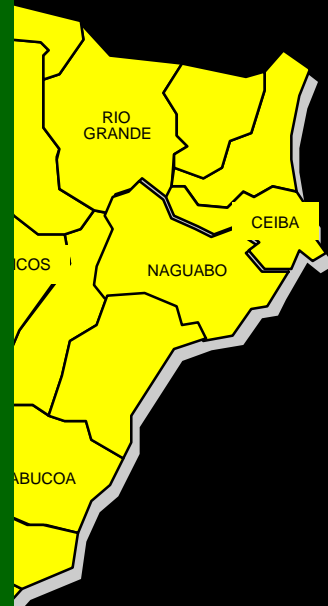
Inflation is incredibly low



Where is Puerto Rico today?

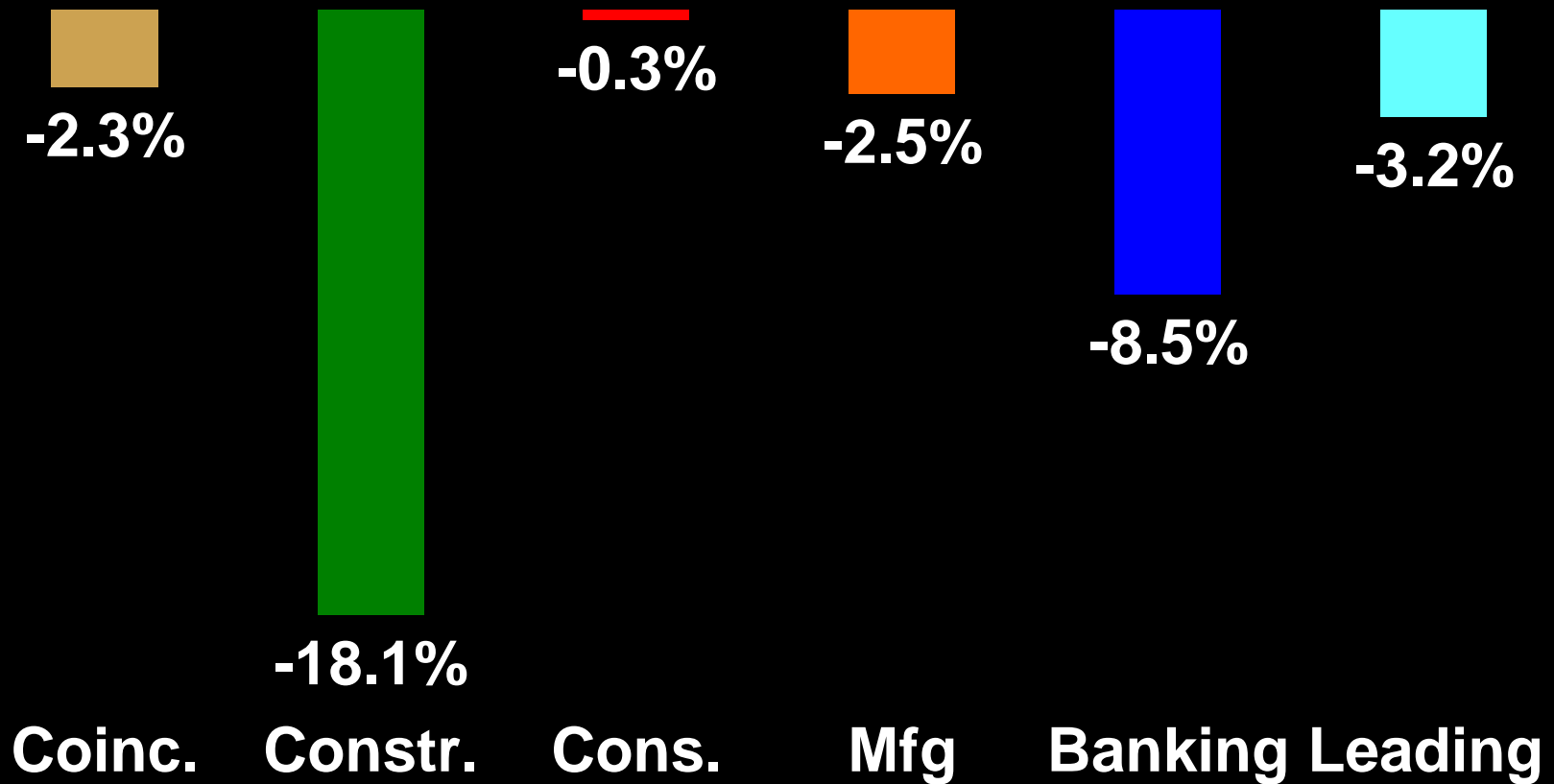


Gross Domestic Product 15	\$103b
Gross National Product 15	\$68.5b
Population 15	3.5m
Share of Manufacturing in GDP	47%
Income Per Capita 15	\$17,629
Total Employment 05/16	1.0m
Inflation 05/16	-0.4%
Unemployment rate 05/16	11.3%
Participation rate 05/16	40.6%



HCCG economic indices

% change over previous year, 1Q-2016

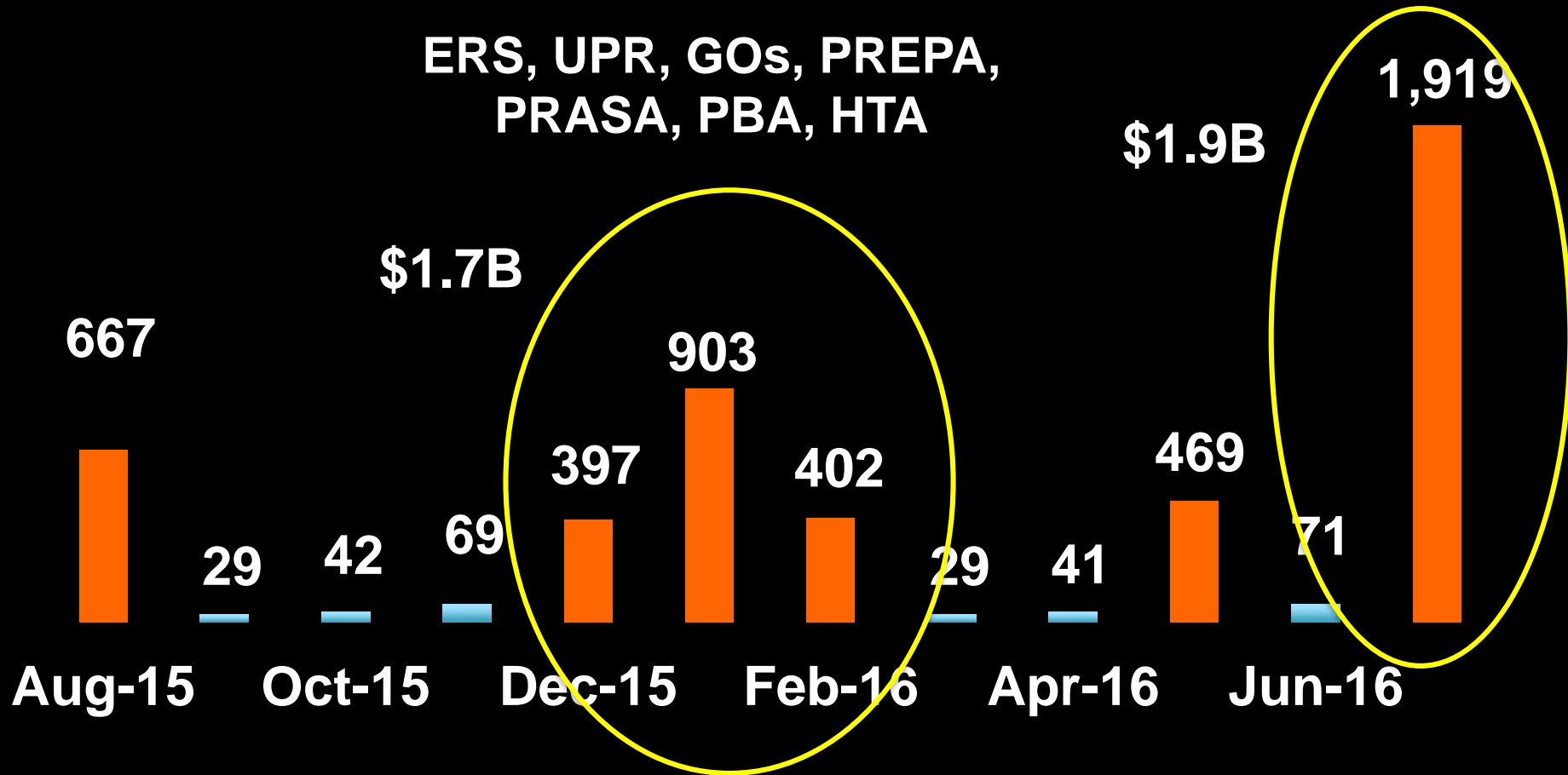


Short term liquidity challenge

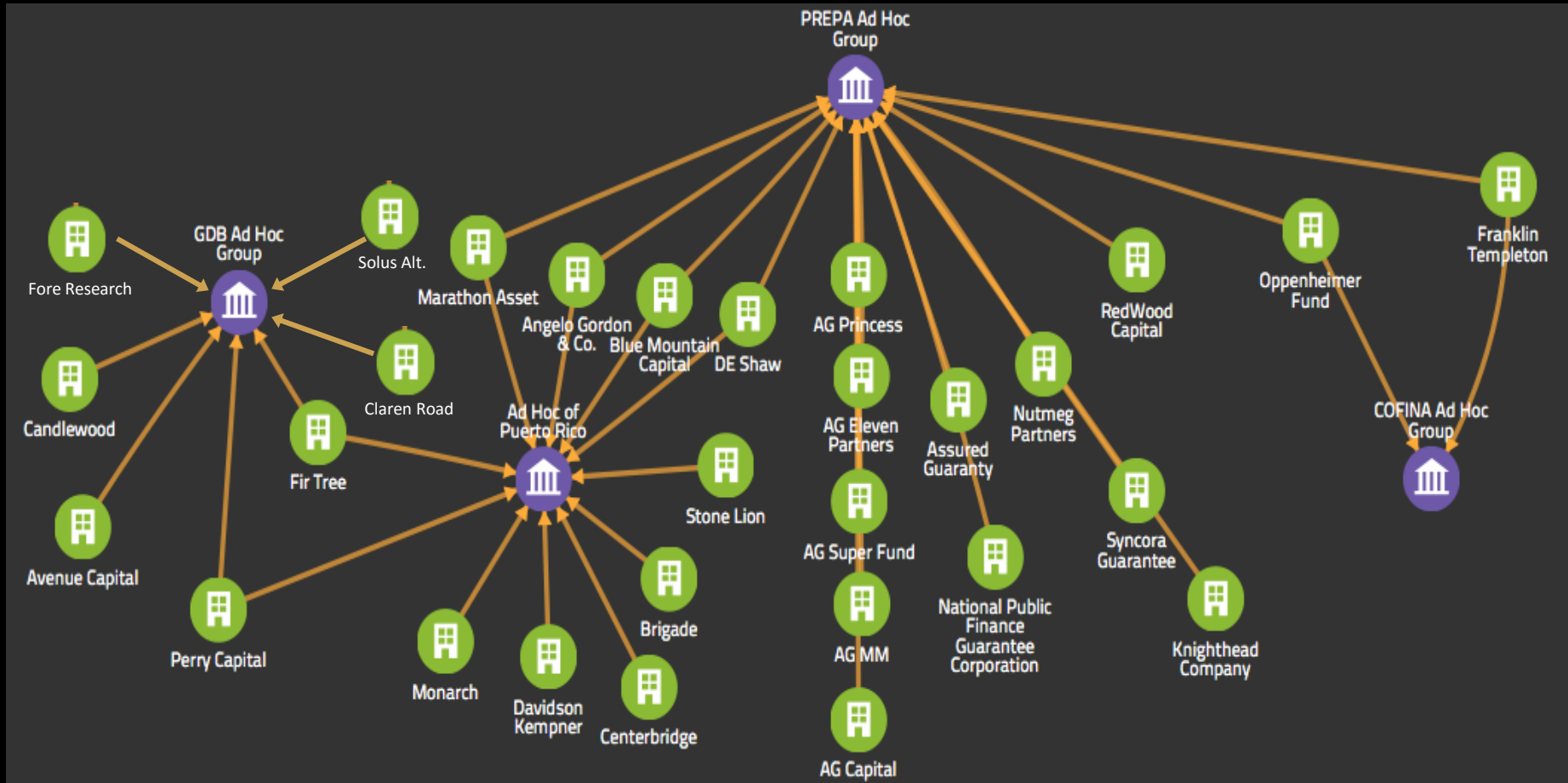
\$ million – debt service

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

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

Impact of Financial Control Boards

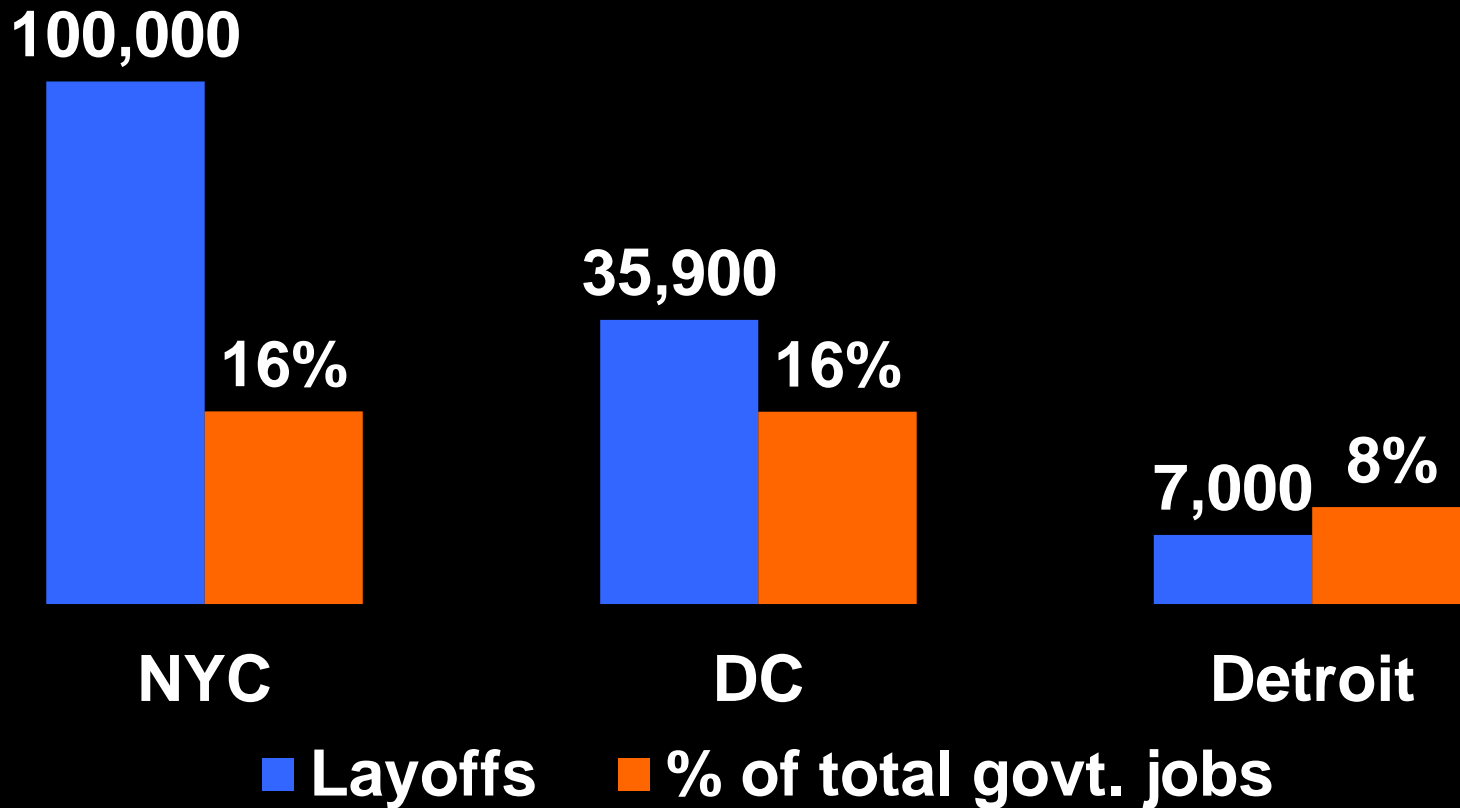
Indicator	NYC	DC	Detroit	PR
Start Date	1-Sep-75	17-Apr-95	1-Mar-13	TBD
End Date	30-Jun-86	30-Sep-01	Active	TBD
Duration (years)	11	7	3	TBD
# of members	7	5	9	5
Deficit prior FCB (\$M)	\$2,200	\$722	\$300	\$740
Population loss	-10%	-29%	-62%	-9%
Population 2014 (M)	8.5	0.7	0.7	3.5
Credit rating				
Start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

Terms - Financial Control Boards

Terms	NYC	DC
Assistance	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
Finance	\$2.5b to buy MAC bonds	Allowed borrowing from Treasury
	\$2.3b short-term Fed loans	
Pensions	Untouched	Assumed \$5b unfunded liabilities
	Pension Funds bought MAC	
Taxes plus	\$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

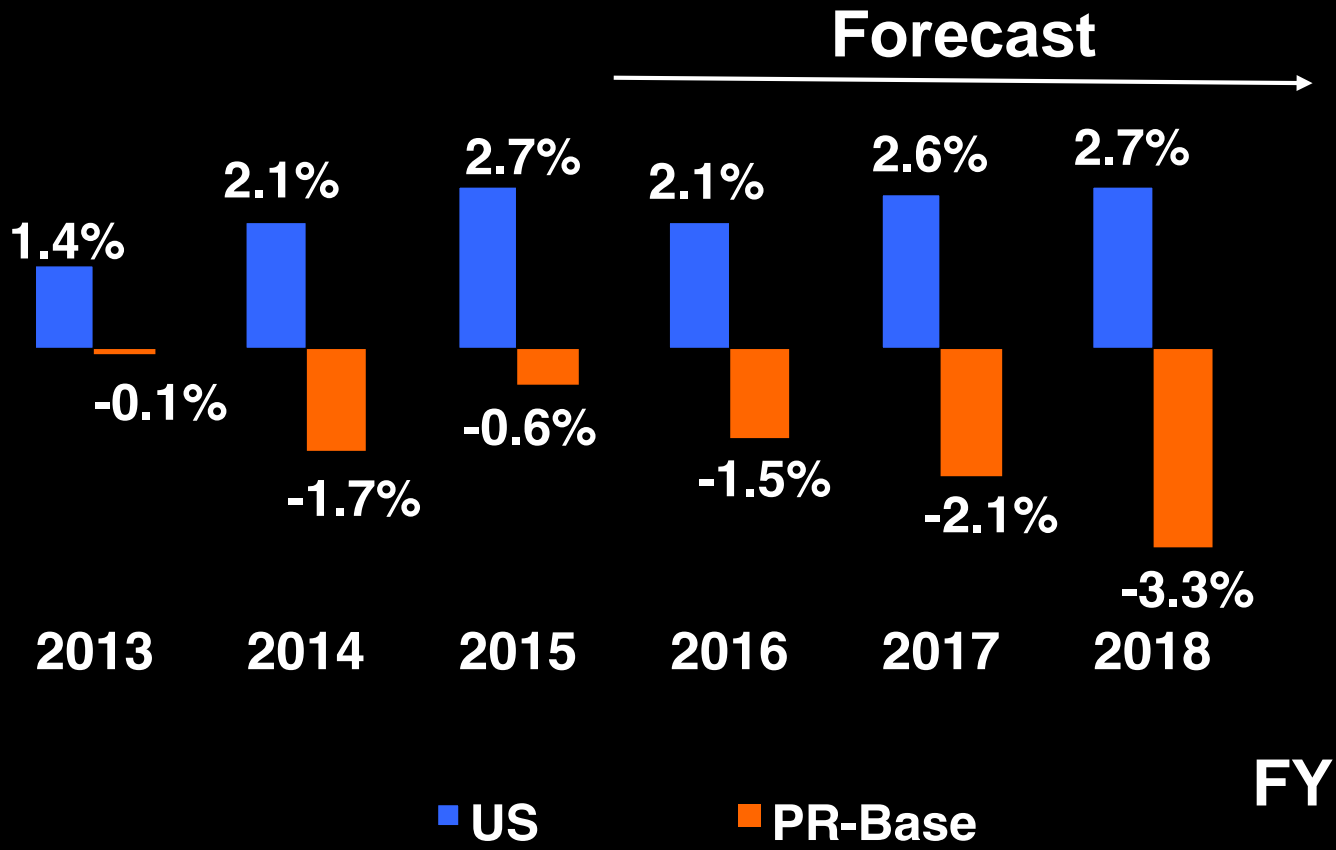
• Gas fired power plants – Aguirre in Ponce

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

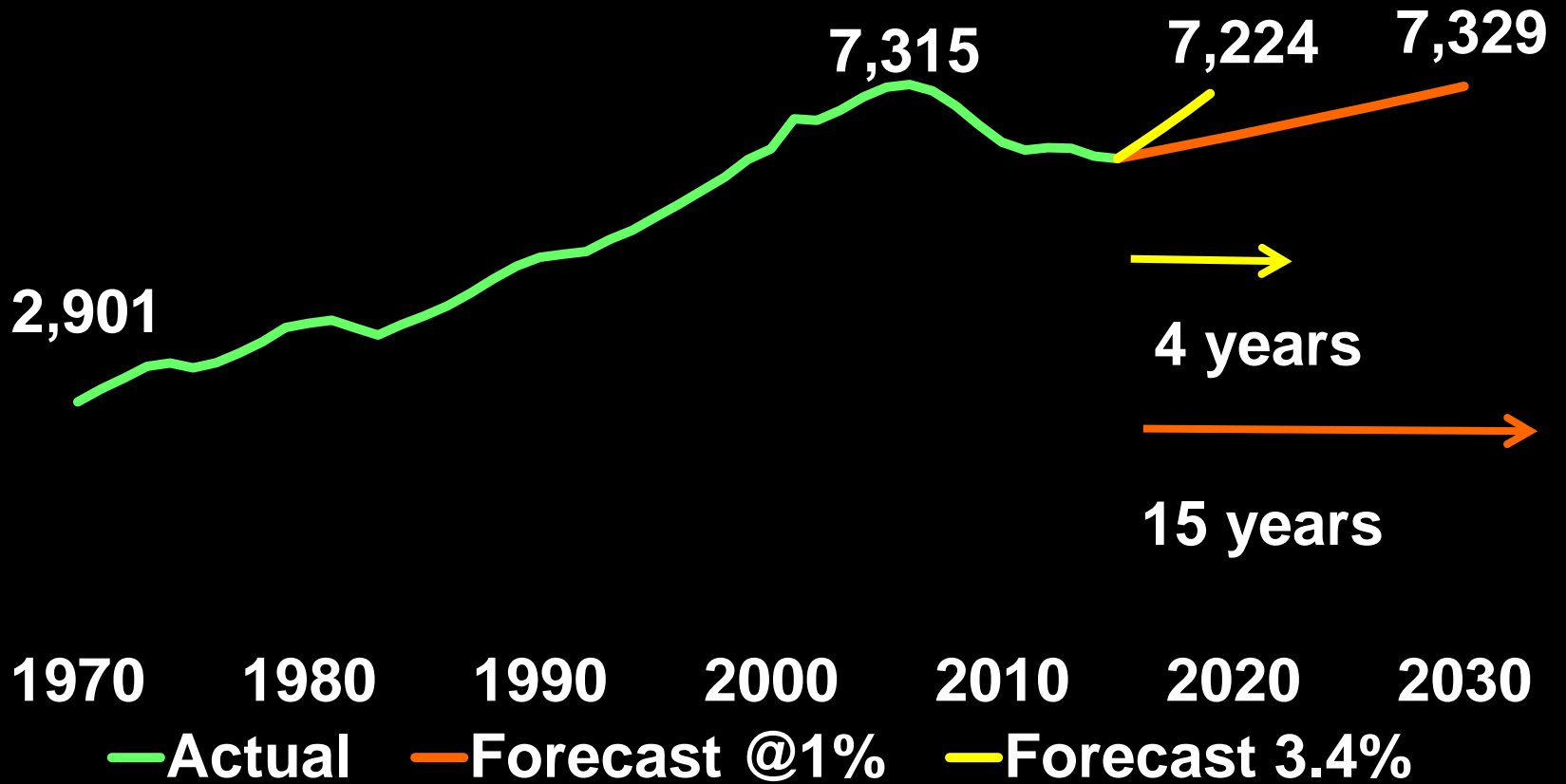


Forecast as of November 2015

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

