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# PUERTO RICO CONFERENCE

Entrepreneurship for Growth

# 2010

March 24, 2010 | Conrad San Juan Condado Plaza | 7:30 a.m. - 5:00 p.m.

P u e r t o   R i c o   C h a m b e r   o f   C o m m e r c e



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**2010**

# Puerto Rico's Economic Prospects: 2010-2012

**José J. Villamil**  
**Estudios Técnicos, Inc.**

March 23, 2010



**“First, get the cow out of the ditch. Second, find out how the cow got into the ditch. Third, make sure you do whatever it takes so the cow doesn’t go into the ditch again”**

**Anne Mulcahy  
Chairperson, XEROX**

## The Ditch

- The longest recession since the 40's.
- Negative average annual growth rates 2001-2010
- Very serious fiscal situation

## How we fell into it

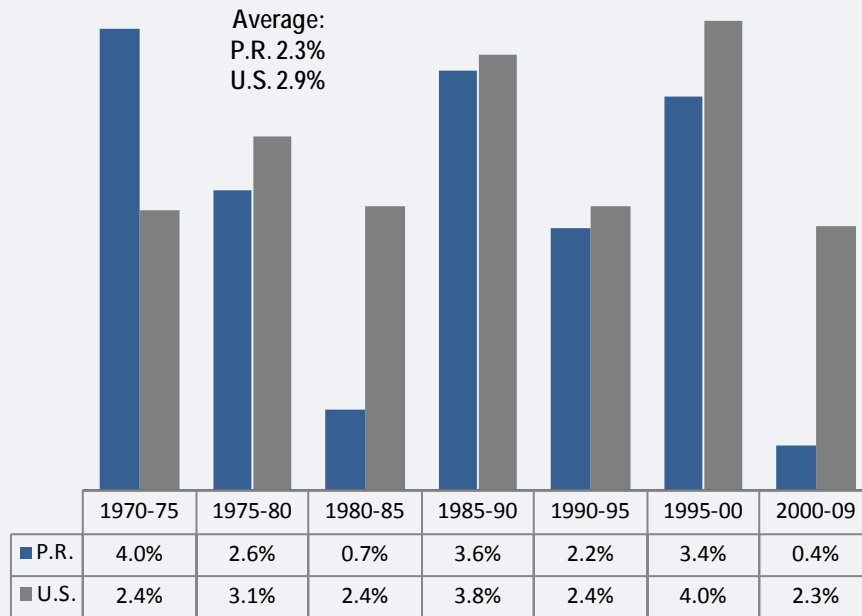
- Poor fiscal management over many decades
- Heavy weight of government on the economy
- A new and less friendly external environment

## Avoiding falling into it again

- Through improved fiscal management
- Reforming the institutional framework
- Aligning economic strategies with global conditions

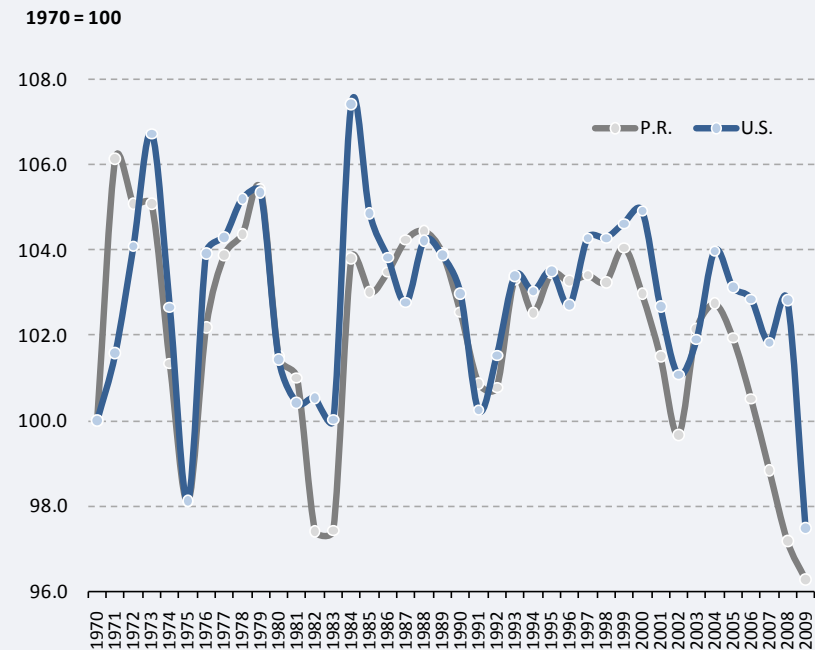
# Long Term Trends: Puerto Rico and the United States

**Average Annual Growth of Real GNP of Puerto Rico and the United States by Decade\***



\* U.S. on P.R.'s fiscal year basis.

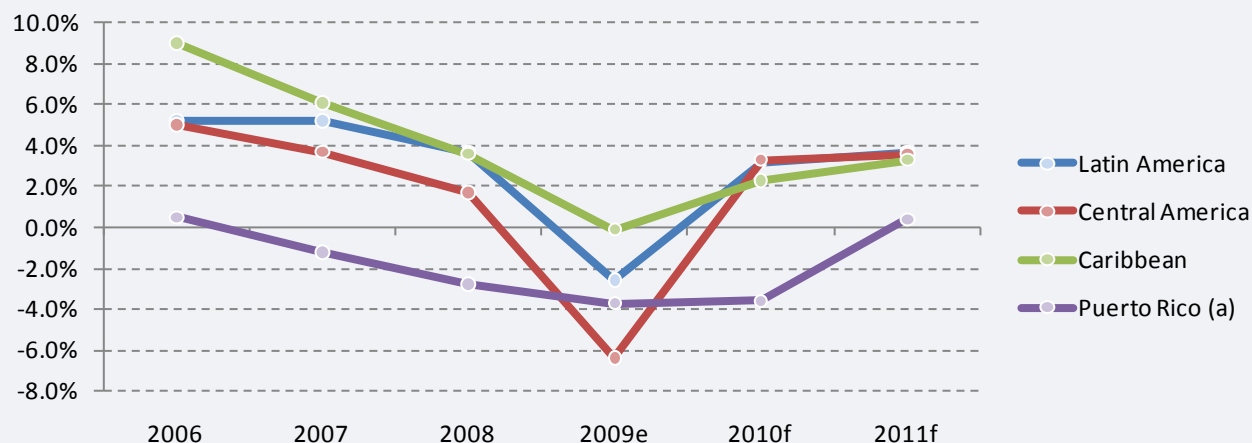
**Index of Real GNP Growth of P.R. and the U.S., 1970-2009 (U.S. on P.R.'s fiscal year basis)**



Sources: Puerto Rico Planning Board; U.S. Bureau of Economic Analysis.

# Puerto Rico and its Neighbors

## Economic Growth 2006-2011



## Economic Growth Perspectives: Puerto Rico, the Caribbean and Latin America, 2006 - 2011

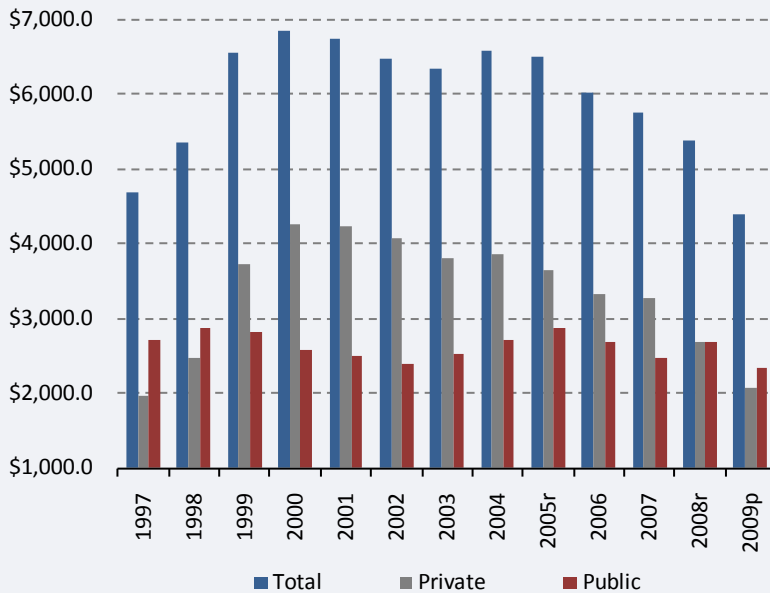
	2006	2007	2008	2009e	2010f	2011f
<b>Latin America</b>	5.2%	5.2%	3.7%	-2.6%	3.2%	3.7%
Brazil	4.0%	5.7%	5.1%	0.1%	3.6%	3.9%
Chile	4.6%	4.7%	3.2%	-1.8%	4.7%	4.5%
México	4.8%	3.3%	1.4%	-7.1%	3.5%	3.6%
<b>Central America</b>	5.0%	3.7%	1.7%	-6.4%	3.3%	3.6%
Costa Rica	8.8%	7.8%	2.6%	-1.8%	2.1%	2.9%
<b>Caribbean</b>	9.0%	6.1%	3.6%	-0.1%	2.3%	3.3%
Jamaica	2.7%	1.5%	-1.0%	-3.7%	0.3%	2.2%
Dominican Republic	10.7%	8.5%	5.0%	-0.1%	2.4%	2.6%
<b>Puerto Rico (a)</b>	0.5%	-1.2%	-2.8%	-3.7%	-3.6%	0.4%

Sources: World Bank (2010),  
Perspectivas para la Economía Global  
2010 (Enero 21); Puerto Rico Planning  
Board (March). (a) Real GNP. f.  
Forecast. e. Estimate. Preliminar for  
Puerto Rico. Note: Data as of January  
21, 2010.



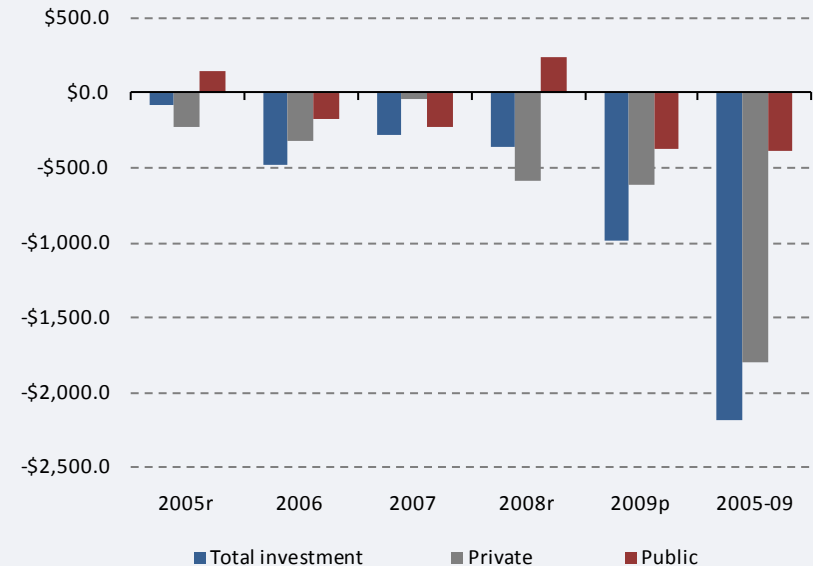
# Investment in Construction

## Construction Investment, 1997 - 2009



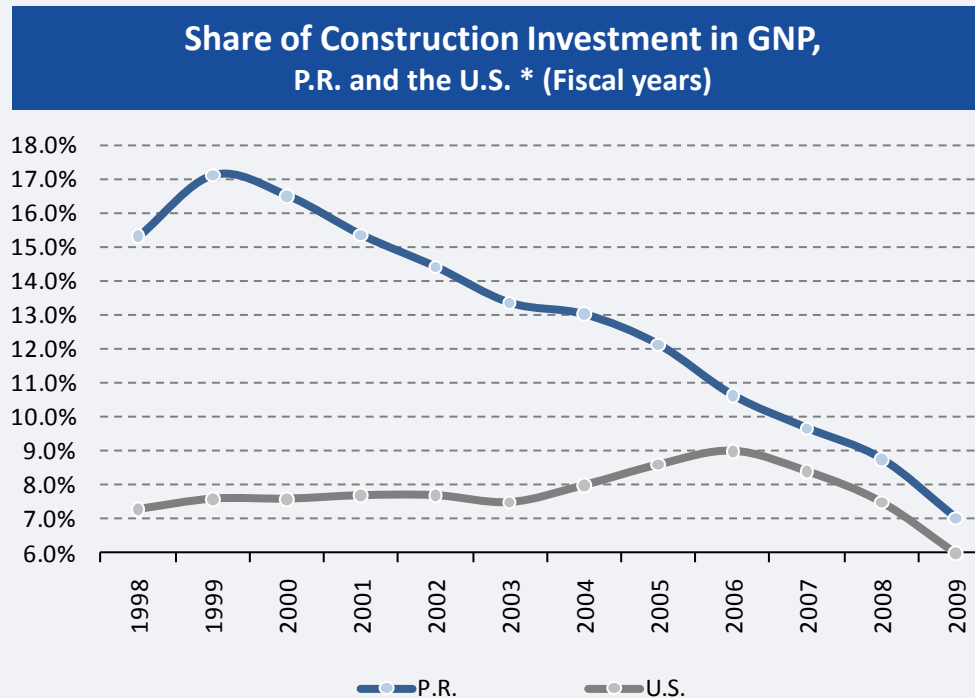
Source: P.R. Planning Board (2010). *Estadísticas Seleccionadas de la Construcción 2009*. Table 1.

## Annual Reductions in Construction Investment



Source: P.R. Planning Board (2010).

# Investment in Construction

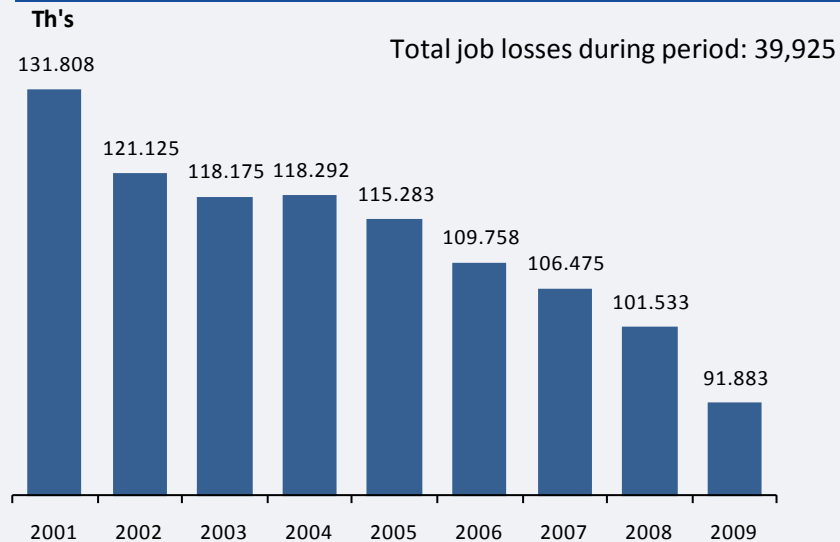


Sources: P.R. Planning Board (2010). *Statistical Appendix 2009*; BEA (2010), NIPATables.  
\* U.S. on P.R.'s fiscal year basis.



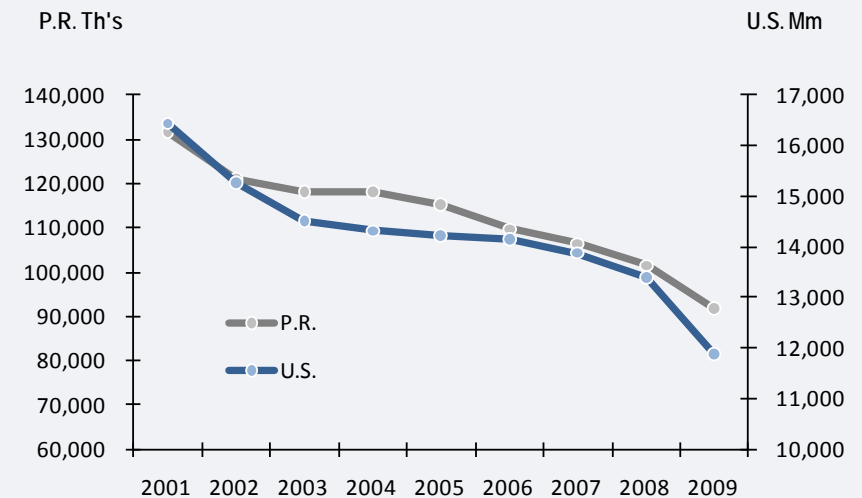
# Manufacturing: Some Recent Trends

## Manufacturing Employment, 2001-2009



Source: U.S. BLS (Establishment Survey).

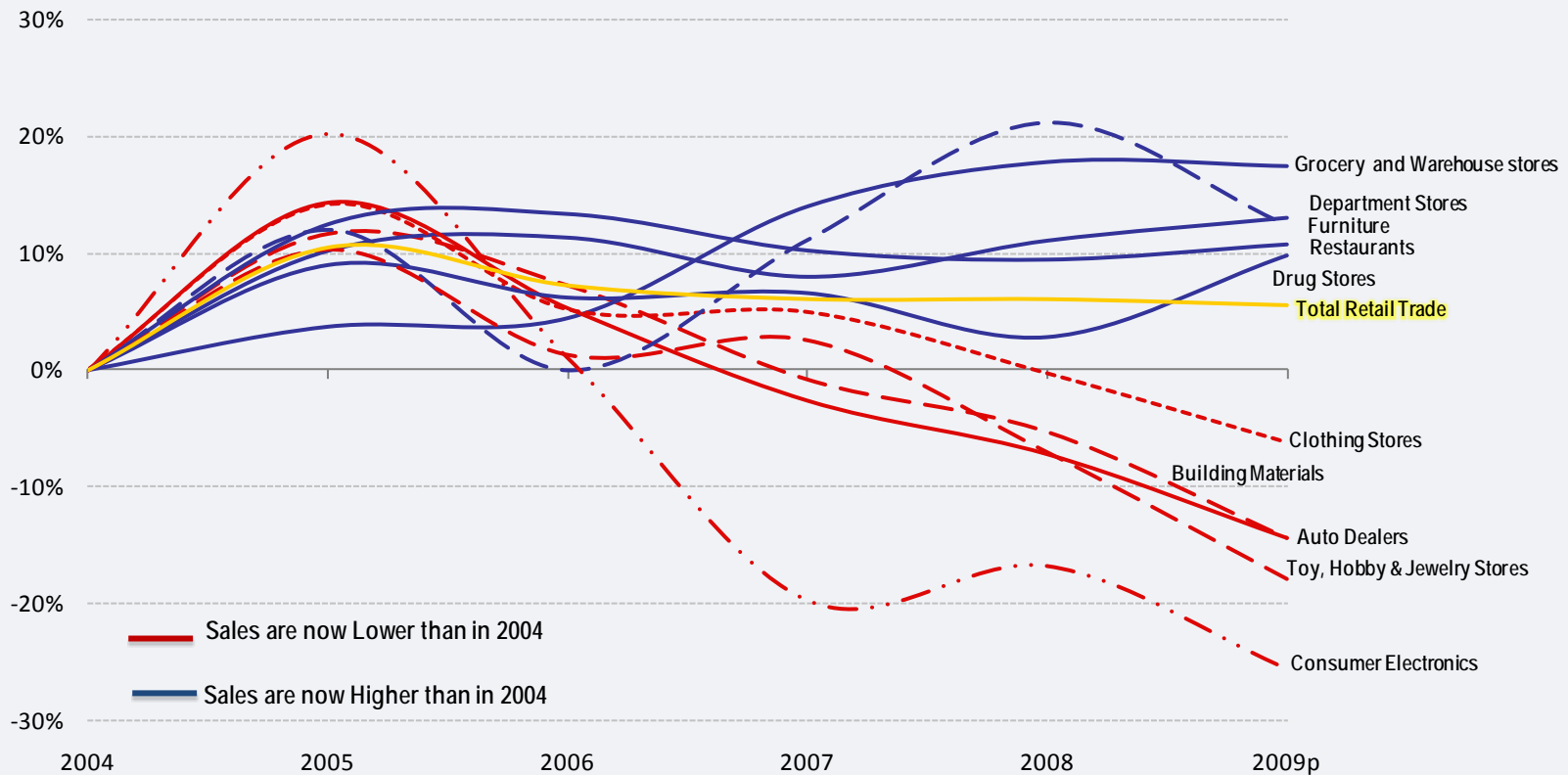
## Manufacturing Employment: Puerto Rico and the U.S.



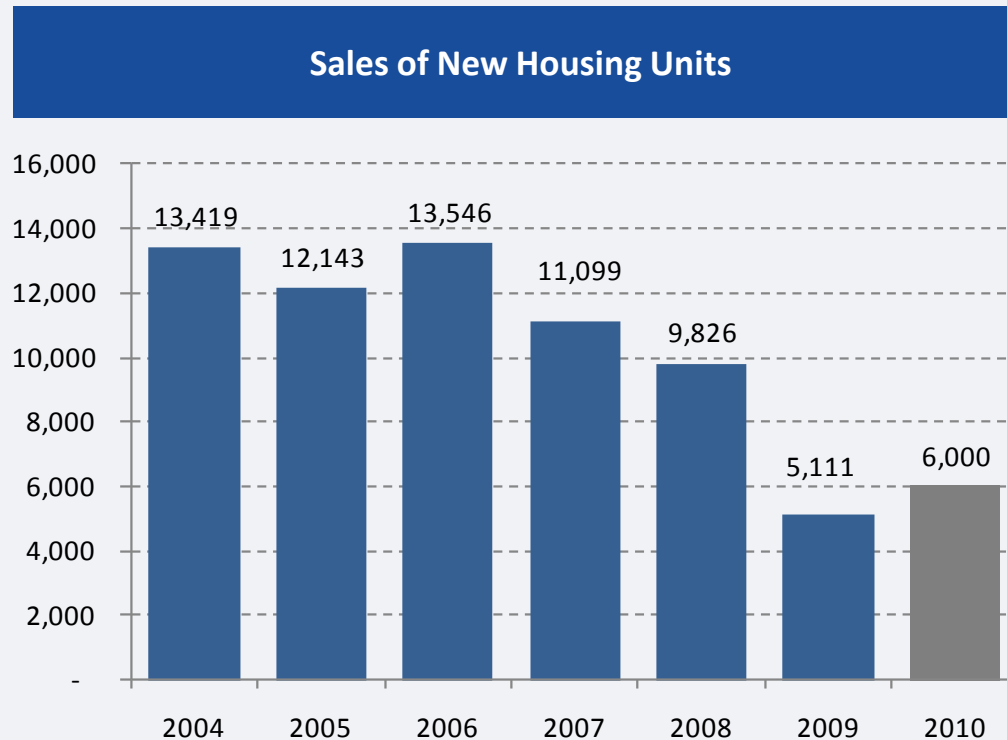
Source: U.S. BLS (Establishment Survey).

# Retail Markets in the Recession

## Consumer Shifting Priorities in Puerto Rico, Years 2004 to 2009



# Sales of New Housing Units: 2004-2010



Source: Construction & Sales Activity Report. Estudios Técnicos, Inc. estimates.

# The Fiscal Situation

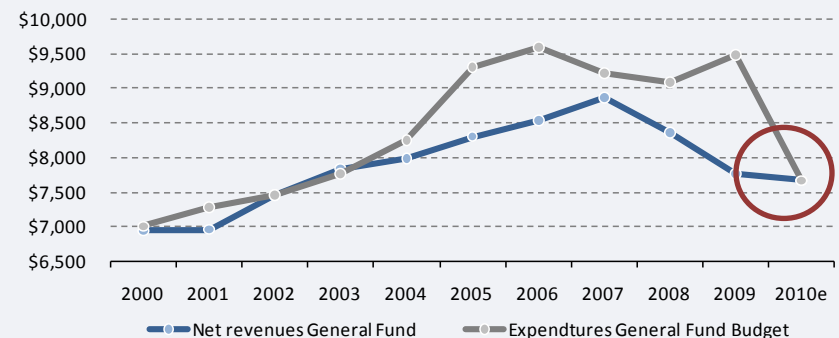
- Proposed spending charged to the General Fund will be \$1,814 million less than the budget for last fiscal year 2009.
- The government budget for current fiscal year 2010 is \$7,670 million, with expenditures not exceeding estimated revenues to the General Fund. So far (up to January), net revenues are \$311.9 million lower than in fiscal 2009, although unlike with projections.

## Annual Budget (Obligations) General Fund Fiscal Years 2000 - 2010 (\$Mm)



Source: OMB (2010). Annual Budget Requests. [www.presupuesto.gobierno.pr](http://www.presupuesto.gobierno.pr). e = Estimated and preliminar.

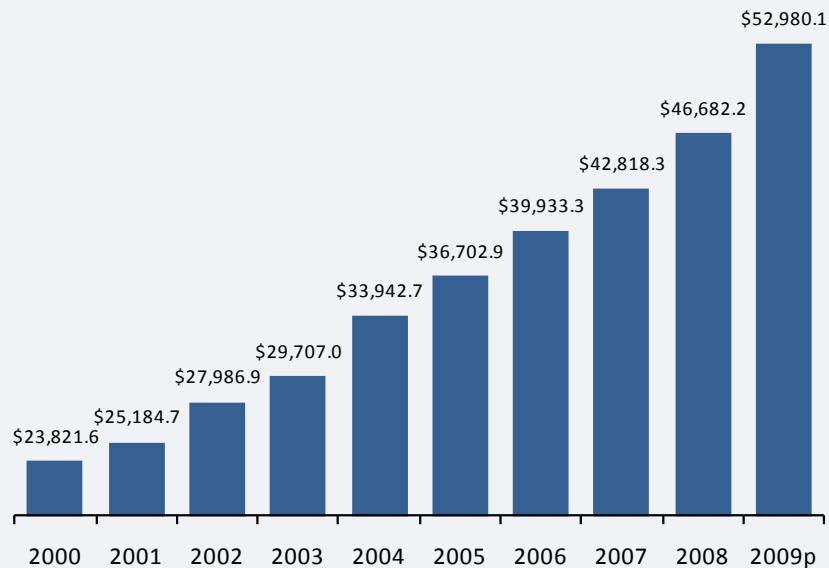
## Fiscal Imbalance General Fund Revenues and Spending (\$Mm)



Sources: OMB, Annual Budget Request 2010; Treasury, P.R. Planning Board.  
E = Estimated and preliminar.

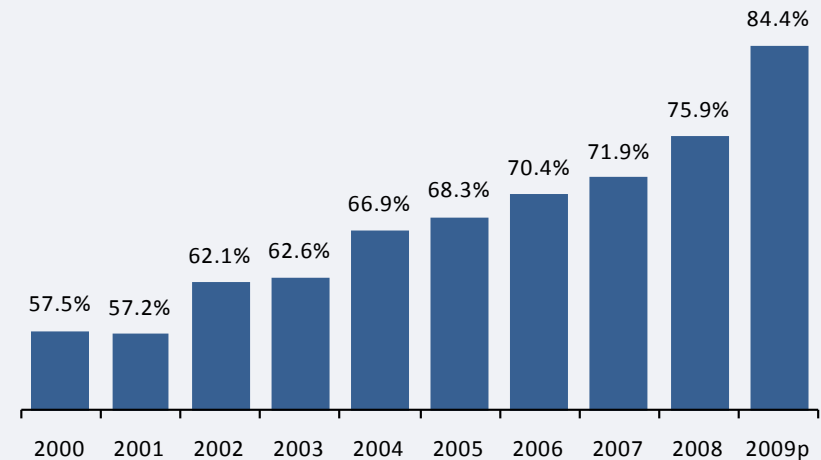
# The Debt Issue

Gross Public Debt (Mm)



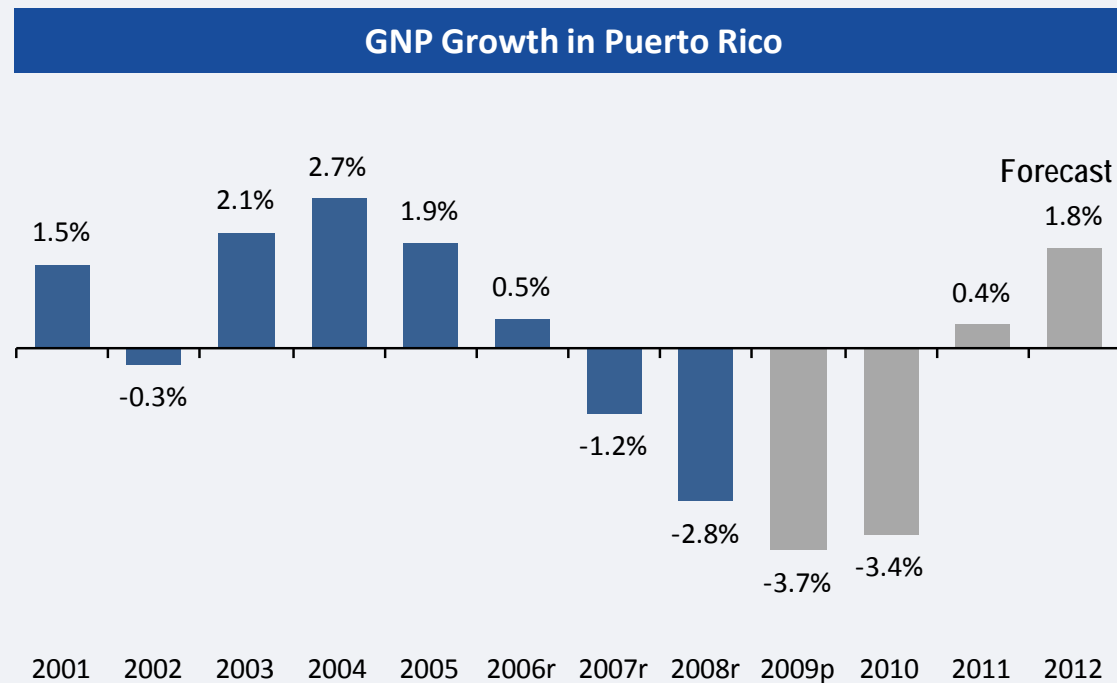
Source: P.R. Planning Board (2010). *Statistical Appendix 2009*. Table 29.

Gross Public Debt to GNP



Source: P.R. Planning Board (2010). *Statistical Appendix 2009*. Tables 1 and 29.

# Short and Medium Term Prospects: 2010 - 2012



Sources: Puerto Rico Planning Board (2009) *Apéndice Estadístico 2008*, Table 3; PB data January 2010; Estudios Técnicos, Inc.

# Downside Risks

- ➔ Continued deterioration in the banking sector's capital
- ➔ Deleveraging in the banking sector and thus reduced lending capacity
- ➔ Continued uncertainty with respect to the recovery in the U.S. economy due to the debt issue
- ➔ Increased long term interest rates
- ➔ An increase in the price of petroleum beyond the \$90 per barrel benchmark would have a negative impact on Puerto Rico
- ➔ Continued fiscal problems in Puerto Rico force the government to take additional cost cutting measures



# Upside Risks

- ➔ ARRA funds have a positive impact on growth in 2011
- ➔ Federal health reform significantly increases funding for the Island
- ➔ Interest rates remain at present levels
- ➔ Government efforts to reduce tax evasion and collect taxes are successful
- ➔ The strong U.S. recovery in Q4-2009 is sustained
- ➔ Construction sector problems are resolved in a reasonable time frame thus improving the banking sector's prospects

# Short term policies



Beginning in January 2009, significant cost reductions in government, particularly in payroll



Temporary property and income tax increases



A local stimulus package that includes small public works, incentives for the purchase of housing and support for small and medium size businesses



Creation of a very agile structure to obtain discretionary ARRA funds and make use of them in an effective manner



Increase efforts to improve tax collection and reduce evasion



Simplify permitting procedures immediately to accelerate the process

# Mid and long term policies



Approve new legislation that will improve the permitting process



Implement the new PPP legislation approved in 2009



Legislate reforms in the labor and energy markets and a major tax reform



Commence work in four major projects:

- Re-Use of the former Roosevelt Roads Naval Base
- Continue development of the Port of the Americas
- Develop the Golden Triangle in San Juan Bay
- Implement science district initiative



Implement the four major strategies in the Strategic Model for the New Economy:

- Moving towards the knowledge economy
- Focus on advanced services as a leading sector
- Use “clusters” as a principal promotional tool
- Strengthen Puerto Rico’s insertion in the global economy

# Summing Up



Puerto Rico has gone through a very difficult decade but steps are being taken that will position it for a sustained recovery.



The external environment should improve in the coming months and years and this should improve the Island's prospects.



The steps being taken by the government should help to straighten out a fiscal situation that is the result of decades of poor fiscal management.



The Puerto Rican economy retains significant competitive advantages that will support sustained recovery.



There are risks, of course, and economic policy must be based on an understanding of such risks and adopt measures to minimize their potential impact.



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