

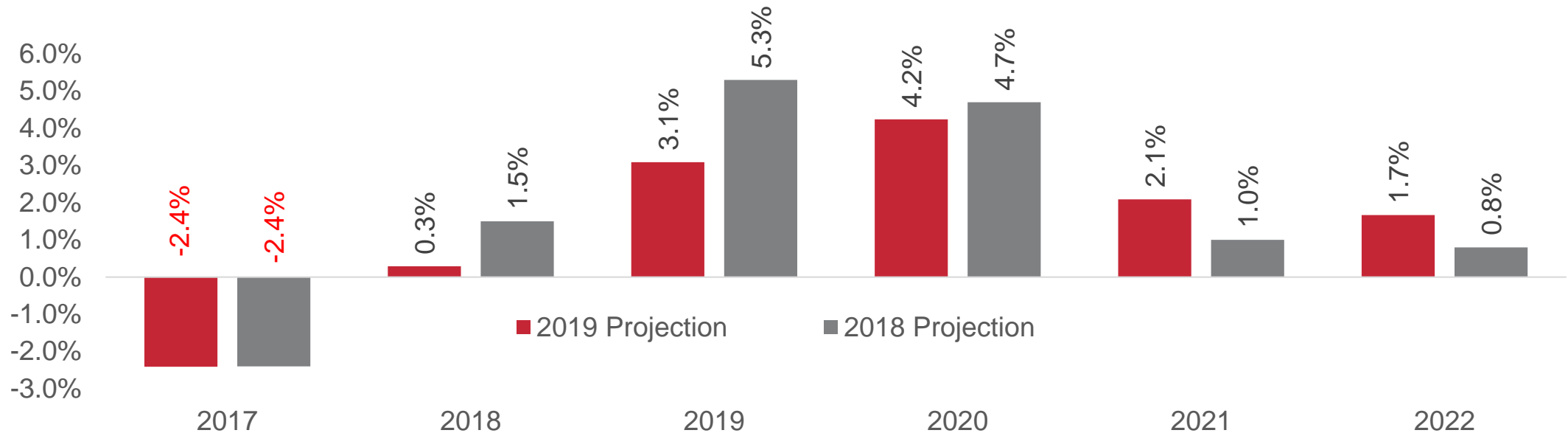
Puerto Rico's Prospects: Beyond Reconstruction



ECONOMIC CONTEXT

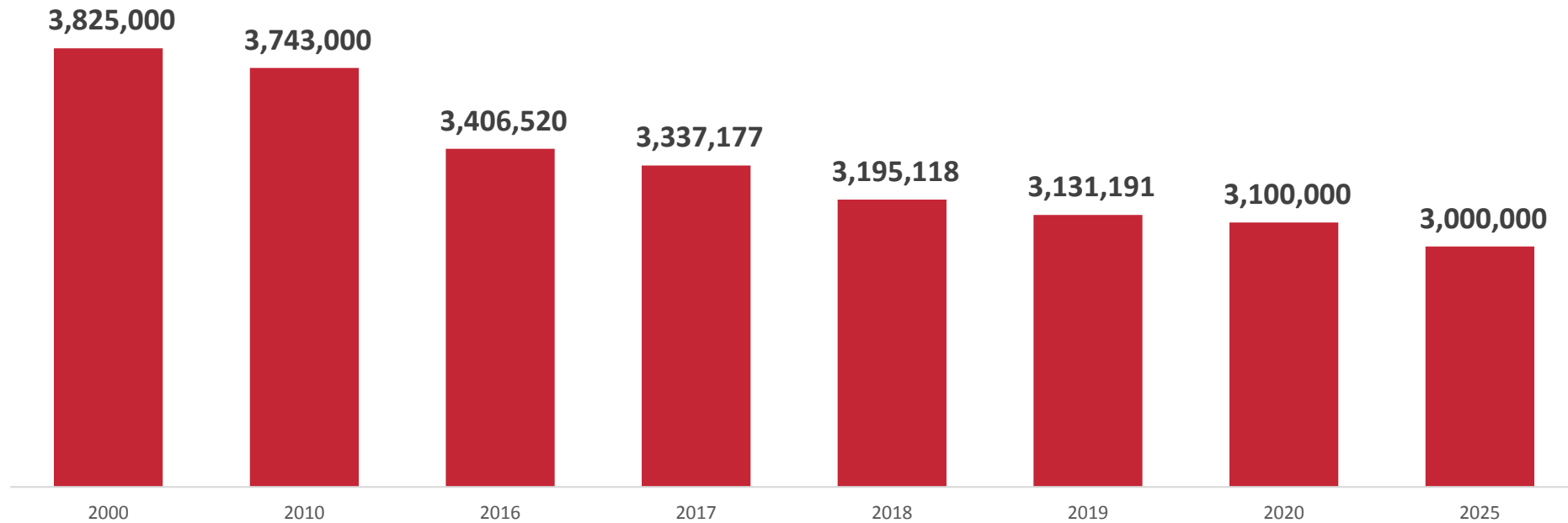
- Projections for the next five years are dependent on the amount of federal money allocated to and spent in Puerto Rico, thus there is a great deal of uncertainty present.

Real GNP Growth



Fuente: PR Planning Board (2019). 2017 Statistical Appendix [Table 1]. Estimates by Estudios Técnicos, Inc. (January 16, 2019).

Population projection

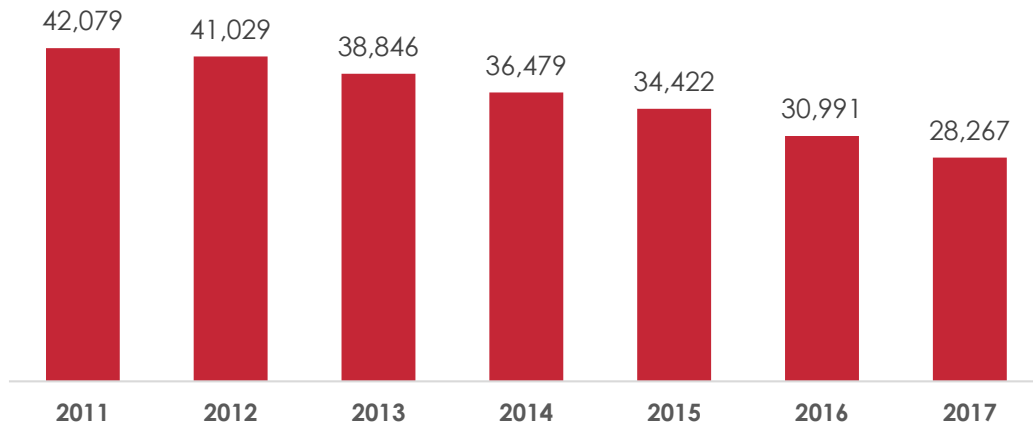


Fuente: Estudios Técnicos, Inc. U.S. Census Bureau.

Population Growth: Births and Deaths

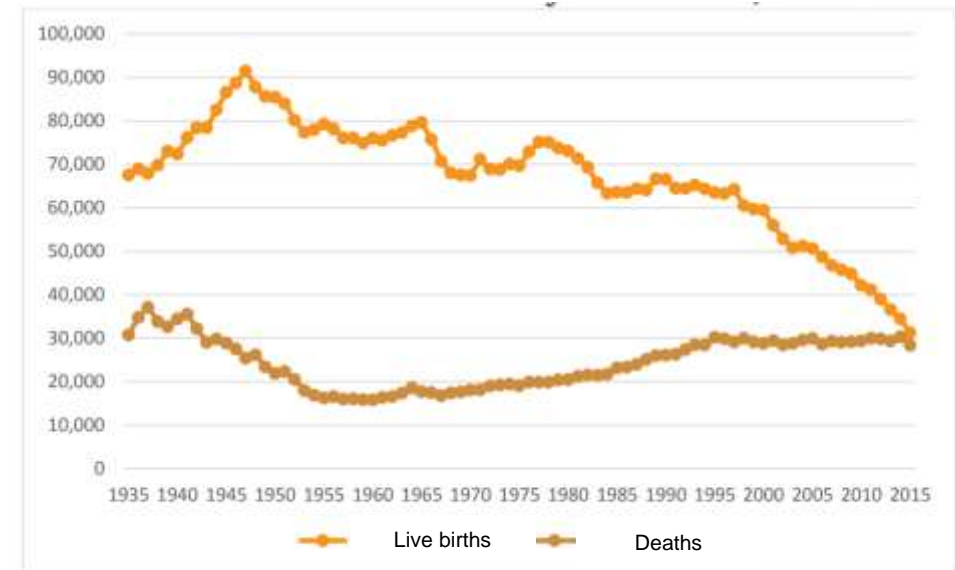
- Puerto Rico's birth rate has been falling for the last three decades and the rate decrease accelerated after 2010.
- In 2015 and since that year deaths have surpassed births.

Births in Puerto Rico
Fiscal Years-- 2011 - 2017



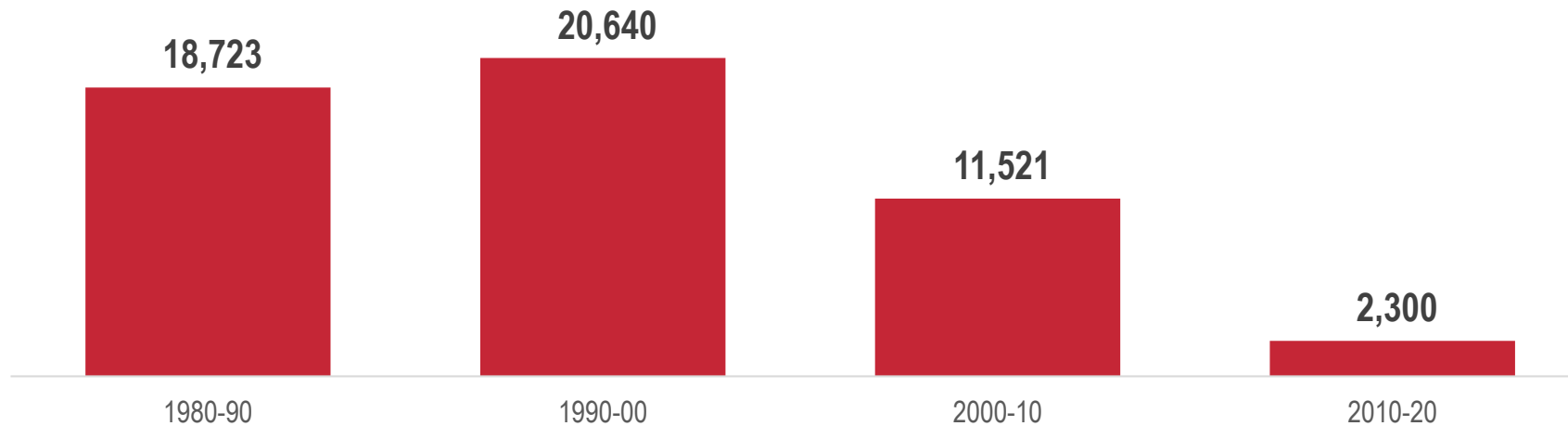
Source: US Census Bureau (2018). *Annual Estimates of the Components of Resident Population Change* [Tabla PEPTCOMP].

Births and Deaths: 1935-2015



Source: Departamento de Salud. Secretaría Auxiliar de Planificación y Desarrollo. División de Estadísticas

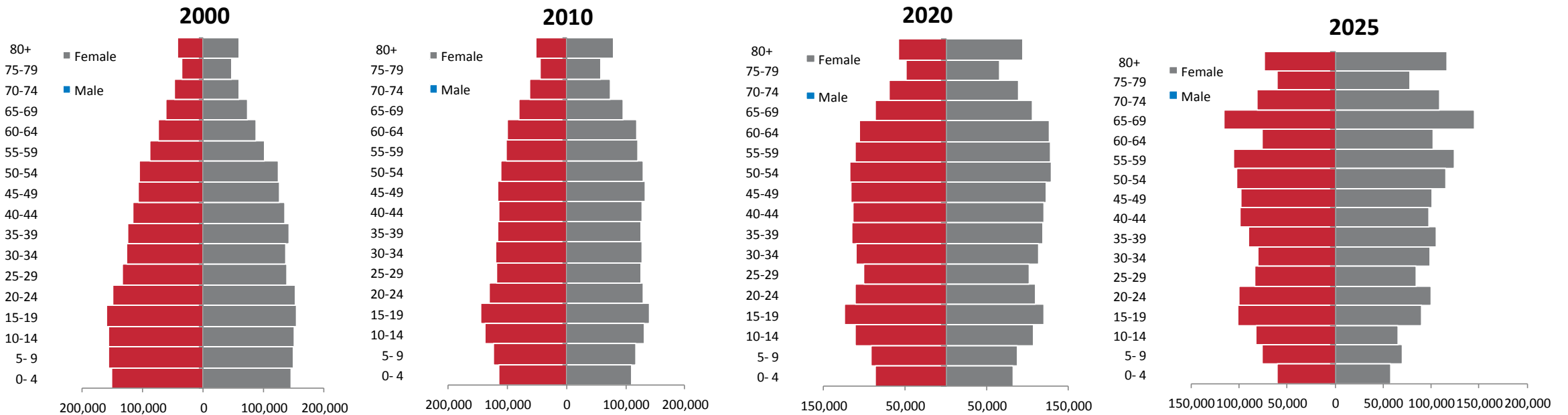
Annual Household Formation



Fuente: US Census Bureau, American Community Survey.

Household formation is a key variable in estimating housing needs. This graph helps in understanding the major reduction in new housing sales.


Population Pyramids



- An aging, mostly low and moderate income population will impact all markets: housing, financial, labor, health services and education.
- Contraction in the labor markets and changing demographics impact pension systems negatively. These systems were planned for younger populations as are many of the social programs.

The New Fiscal Plan *

* A revised Fiscal Plan was certified by the Fiscal Oversight and Management Board on October 23, 2018.



Submitted
by the
FOMB in
October
2018.

Real GNP projected to
contract by **8% in fiscal 2018**.
Estudios Técnicos projects
growth of 1.5%.

The new Fiscal Plan
incorporates some **\$55
billion in Federal funds**
over a five year period,
\$74 billion (plus \$8 b. in
insurance funds) over 10
years. This supports
optimistic growth forecasts
for the period between
fiscal 2019 and 2023.

The Plan projects a **fall in population** in 2018 of
close to **170,000**, the **actual number is 140,000**.

There is still a **great deal of uncertainty**
concerning quantity of funds, their use, the
period over which they will be spent and how
much of the funding will be allocated to FEMA
operations and administrative uses.

The Administration has
indicated it's unwillingness
to abide by FOMB
recommendations on
Labor and Pension Reform
and budget allocations.

Structural Reforms

Puerto Rico's serious structural problems require major reforms of various systems that impact development, including those related to the size, efficiency and functions of government.

A major such reform relates to the tax system. In the World Bank's *Paying Taxes 2017* report, Puerto Rico is ranked 161 in terms of the Total Tax Rate, that includes compliance costs. Ireland is 4, Singapore is 5 and some of our neighbors such as the Dominican Republic (149) and Costa Rica (60) are better ranked

Taking into account global trends in tax system reforms and Puerto Rico's present needs, Puerto Rico's tax system should:

- Significantly reduce compliance costs
- Move from an income to a consumption base
- Eliminate capital gains taxes in certain activities
- Expense investments in productive activities
- Integrate the Incentives Code with the tax system reform
- Establish the grounds for eventually moving to a VAT system
- Be comprehensive, i.e., incorporate all taxes, including municipal ones

A recently approved tax reform for Puerto Rico does not meet the above criteria.

Post Reconstruction Development

- An open economy such as Puerto Rico's needs to incorporate risk management as part of its economic policy making process due to the extensive risk profile that characterizes a small and very open economic system.
- The high risk profile integrates external factors such as technological, geopolitical, market changes and, of course, changes in U.S. social, economic and fiscal policies. Strengthening foresight capacity is essential in understanding and minimizing risks.
- A long term vision is essential for guiding strategic decisions and structural reforms.
- Sustained development incorporates a number of objectives and integrated approaches to what we call development infrastructures:

Objectives

- Flexibility
- Productivity
- Sustainability
- Pluralism
- Constancy
- Innovation

Infrastructures

- Physical
- Social
- Environmental
- Institutional
- Cultural
- Knowledge

NEEDS & OPPORTUNITIES

INFRASTRUCTURES

Physical	Distributed generating systems	Industrial Microgrids	Regional airport management and maintenance	Logistics facilities	Roosevelt Roads and Port of the Americas	Road system Improvements and extensions
Social	Integrating IT & Health Services	New approaches to delivery of educational services	New social programs for a changed demography	Housing for the Elderly	Improved delivery channels for health services	Strengthen the non profit sector
Environmental	Solid waste disposal systems	Waste to energy systems	Environmentally sound agro-industrial initiatives	Management and Maintenance of Public Beaches and Nature Reserves	Eco-tourism and Eco-lodge development	Increased use of non fossil fuel sources
Institutional	Improvements in government management systems	Brownfield P3's and privatization of government services	Decentralization and a regional structure	Centralized Handling of Federal Programs and Funds	Medical tourism	Introducing AI and Data Analytics in Government Operations
Cultural	Stimulating the creative economy	Incentivized the film Industry	Integrate cultural programs and tourism	Renovation of Town Centers	Incorporating the diaspora	Cultural Corridor in Santurce
Knowledge	Improve connectivity	New R&D and clinical testing facilities	Value chain completion	Integrating IT with Health services	Implement STEM Curriculum in the Public School System	Internal and External Network Creation

Going Forward

In the short term Puerto Rico's prospects depend more than anything else on the amount of federal funding. Mid and long term prospects depend on local initiatives and particularly on a carefully crafted vision and the accompanying strategies. Underestimating the complexity of returning Puerto Rico to a sustained development path would be a serious mistake.

Prospects for sustained growth face both downside and upside risks, some of which are:

Downside

- The impact of the federal tax reform 2017
- Delays in receiving and allocating, as well as mismanagement, of federal funds
- Continuing risks from atmospheric events
- Continued out migration
- Delay in assuring a stable and resilient energy grid
- Increased interest rates and petroleum prices

Upside

- Federal funds flow to Puerto Rico as scheduled
- The new CRRO becomes an efficient manager of federal funds
- The Government of Puerto Rico succeeds in securing amendments to the TCJA
- Successfully implementing an energy system that is both stable and resilient
- Right-sizing of Government occurs and fiscal stability is achieved
- Both the DMO and Invest Puerto Rico become effective promoters

Thank you!

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