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Nobel winner would slash Puerto Rico debt

By Robert Slavin

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Nobel prize-winning economist Joseph Stiglitz is calling for cuts in Puerto Rico's outstanding debt of 50% to 80% or more.

Economists Stiglitz, Martin Guzman, and Pablo Guzman released the report on the need for the cuts to help restore the island's economy.



Municipal Market Analytics partner Matt Fabian said that a recent report was unhelpful to the debt restructuring process.

"We claim that the debt restructuring will not be a sufficient but just a necessary condition for economic recovery," the economists wrote in their executive summary.

Puerto Rico based group Espacios Abiertos, which sponsored the report, likened Puerto Rico to a taxi driver in debt. The driver could sell his taxi to pay off his debts, but then he would have no means to make money and pay debt over the long term. Instead, the group said the taxi driver should keep his taxi and reduce debt payments over the near term.

The study comes with the Puerto Rico government and Oversight Board in the midst of a post-hurricane revision of the island's fiscal plan, which would provide a framework for economic recovery and restructuring of its debts.

"Studies like these aren't helpful to the restructuring process, in that they bolster reflexive anti-debt, anti-U.S. sentiments and further polarize negotiations," Municipal Market Analytics Partner Matt Fabian, said of the report. "Puerto Rico will not achieve a voluntary settlement with its bondholders until it can present feasible and transparent financial projections that assume at least some benefit from a governmental restructuring and an end to corruption.

"Holders might well settle on very low dollar recoveries," Fabian said, "but they can't do so until there is real data in support. If instead the courts force involuntary haircuts on the island's lenders, it will starve the island of future investment and slow the recovery process."

The economists argue for cancellation of all interest payments not included in the Puerto Rico Oversight Board's adopted fiscal plan for the Commonwealth of Puerto Rico.

The economists also say that central government's debt should be given face value reductions of 50% to 80%.

While the board's own fiscal plan called for paying only 24% of Puerto Rico's debt over nine fiscal years, it didn't address the bonds' face value. Much of the debt matures well beyond nine years from now, and board executive director Natalie Jaresko said shortly before the landfall of Hurricane Maria in September she expected more money would be available for debt payment in that latter period.

The study's projections were created before Maria's landfall. "The devastating effects of the hurricane have significant effects on the necessary debt relief for restoring sustainability," the economists wrote, adding that they would update their projections once better data became available.

If one considers all \$72 billion of Puerto Rico's public sector debt rather than just the \$52 billion treated in the commonwealth fiscal plan, then there should be an even greater reduction in the debt, they said.

"Puerto Rico needs more than just the restoration of debt sustainability: it needs a new economic growth strategy that replaces the old ones that has clearly failed," the economists write. The economists recommend the work of Puerto Rico's Center for a New Economy Growth Commission, which is developing a Puerto Rico growth strategy.

A Puerto Rico Oversight Board spokesman said the board didn't have a comment on the report.

In the report, the economists said that the board-approved fiscal plan is overly optimistic about what the effects of their plan would be on the island's economy over the next nine

years. They complain that even the board's fiscal plan assumes that the island's economy would be smaller in fiscal 2026-2027 than it is today.



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