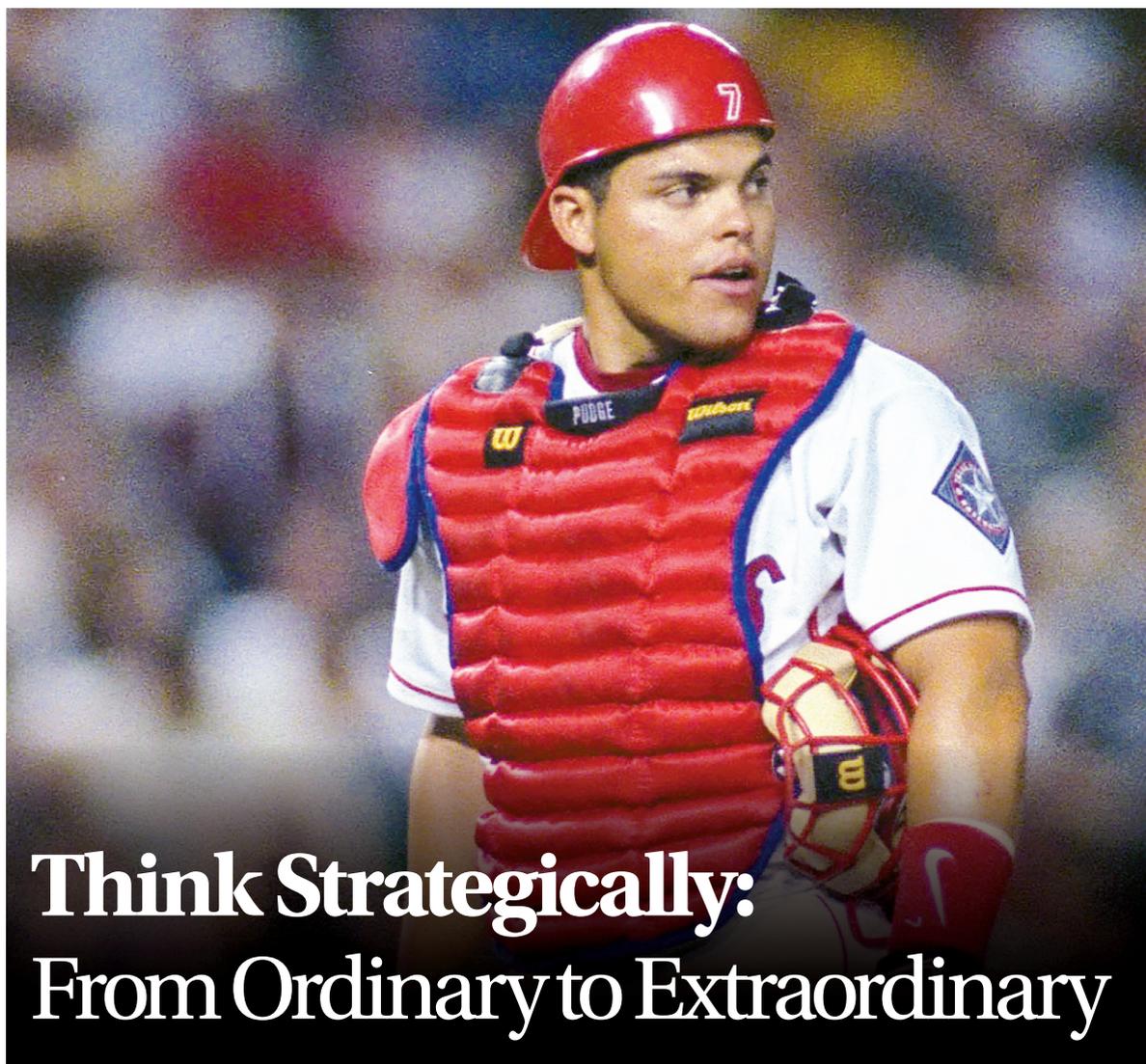


# ECONOMY

Democracy at work  
post-hurricanes?



## Think Strategically: From Ordinary to Extraordinary

### Prudent Government Planning Would Allow Legislature Time to Perform Role in Evaluating All Legislation

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#### Week in the Markets: European Central Bank

The European Central Bank (ECB) held its most recent meeting in Riga, Latvia, and the ECB Governing Council undertook a complete progress review toward sustained adjustment of the inflation path, while considering the Eurozone's macroeconomic

projections, measures of price and wage pressures, and uncertainties surrounding the inflation outlook.

After a review of all data, the ECB Governing Council made the following decisions: The ECB will continue to make net purchases under the asset purchase program (APP), at the current monthly pace of \$35 billion, until the end of September 2018. The Governing Council anticipates, after September 2018, that subject to incoming data confirming the Governing Council's medium-term inflation outlook, the monthly pace of net asset purchases will be reduced to \$17.4 billion until the end of December 2018, when they will end.

The ECB Governing Council intends to maintain its policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period after the end of the net asset purchases, and in any case for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation.

The ECB Governing Council decided the interest rate on the principal refinancing operations and interest rates on the marginal lending facility and deposit facility will remain unchanged at zero percent, 0.25 percent and minus-0.4 percent, respectively. The Governing Council expects the key ECB interest rates to stay at their present levels at least through the summer of 2019.

The ECB monetary policy decisions are designed to ensure the monetary accommodation that will provide continued sustained convergence of inflation toward levels that are below, but close to 2 percent over the medium term.

The Eurozone's revised growth projections for its June meeting included a reduced 2018 GDP forecast from 2.4 percent to 2.1 percent. The ECB forecasts for 2019 and 2020 were 1.9 percent and 1.7 percent, respectively. ECB President Mario Draghi stated "that risks to the Eurozone's outlook remain broadly balanced; however, the downside risk projections for inflation

were also revised up due to increasing energy prices. The ECB now projects a rise to an average of 1.7 percent in 2018, 2019 and 2020.

#### Crunch time for the leveraged

Highly leveraged companies' prospects could soon come to an end. Since the days of the 2008 financial crisis, most of this past decade has seen a "credit binge," which has allowed companies to grow faster, perform mergers, acquisitions and stock buybacks, and ultimately reward stockholders with higher stock dividends.

The current elevated levels of corporate debt may make their life difficult during the current increased interest-rate cycle, or if a recession should strike, with a trillion dollars of debt coming due in 2022, the path becomes thorny to those too reliant on leverage to grow. According to Goldman Sachs strategists, shares of companies with weak balance sheets performed much better than their stronger peers. However, that trend has recently started to change. More often than not, strong balance-sheet stocks are primed for outperformance whether economic growth remains strong or falters. Shares of well-capitalized companies have fared better than their leveraged peers since early 2017. In our view, growth stocks with a low leverage ratio may represent an attractive investment opportunity.

#### The Final Word: Ordinary to extraordinary

One of the most memorable discussions I witnessed was by motivational speaker & author John Maxwell, and his analysis of the distance between ordinary and extraordinary. Typically, when you look up the word "ordinary," what comes to mind? Common, normal, average, sameness or even dull. What about "extraordinary?" We think of great, fantastic, incredible, uncommon, unusual, special.

In English, only five little letters separate "ordinary" from "extraordinary"—the word "extra" or "just a little bit more." The word we use is not as important as the idea: the distance between ordinary and extraordinary is shorter than you think.

Who does not love Iván "Pudge" Rodríguez, our hall of fame baseball catcher. Well, you see throughout Iván's career, he had many backup catchers and we probably don't remember any of them. Most were 10 percent less productive in slugging, batting, throwing and defense than Pudge; however, that "extra" that "Pudge" had translated into stardom,

wealth, recognition and a 20-year career that ended with his entry into the Hall of Fame.

We use this analogy to discuss Puerto Rico's current fiscal situation, which Hurricane Maria only worsened along with the island's fragile infrastructure.

After months of discussion, the following initiatives were proposed to the Puerto Rico Legislature:

- Tax Reform;
- Rescinding Law 80;
- Government Annual Balanced Budget;
- Incentives Reform; and
- Privatization of P.R. Electric Power Authority.

These discussions continue to linger in Puerto Rico, with most people having an opinion about how to best address each issue. In our view, given Puerto Rico's dire circumstances, it is prudent government planning to allow enough time for the Legislature to perform its role, to evaluate each piece of legislation without time limitations or tight deadlines. It has been the norm in Puerto Rico to leave everything, from confirmation hearings to economic bills, for approval just before the June 25 deadline to pass legislation.

We have heard Senate President Thomas Rivera Schatz state: "Our Senate will not be hurried or steamrolled into passing any measure without its proper process."

We must recognize that in a democracy, the three branches of government must be considered when encompassing any change to our form of government, legislation, taxation, budgets or any other measure that requires approval from another branch of government.

Once we understand this fact, we should all strive to work harder to solve Puerto Rico's financial problems. Most of our people are tired and broken from the 2017 hurricanes, whether looking for opportunities or trying to make ends meet.

We need a government and Legislature that work together and, of course, there have to be differences, there must be dialogue, there will be disagreements leading to better solutions, because this is how democracy works—every elected official is the voice of each sector of our Puerto Rico, and each view has to be heard and understood.

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