



4 FORECASTS, 3 THEMES & 3 REACTIONS FOR

Empowering Investment



As we share this issue of The Zenith Investor, I would like to first thank Francisco “Paco Pepe” Rodríguez Castro, President & CEO of Birling Capital for his valuable contributions to the Puerto Rico Chamber of Commerce all these years, with his collaboration and leadership in various successful investor conferences. This time, we have the opportunity to collaborate in an area where our members need timely information regarding the international markets, in line with this year’s motto of taking you “Mas Allá del 100x35”, taking us well beyond the boundaries of the 100x35 miles of our beautiful island. The Chamber has some stimulating activities with regards to international efforts, and we are planning significant events for this year.

Notwithstanding the uncertainty brought about by the recent government scandals, we remain confident that Puerto Rico is a viable and attractive investment destination. We continue working with the state and municipal governments to create a framework for implementing various programs, such as Opportunity Zones, and direct investment as a result of the new Incentives Code approved on June 30.

*Jose E. Ledesma-Fuentes, CFA
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As we publish this issue of The Zenith Investor, very much in our mind is the fact that we need to change Puerto Rico and **“To change Puerto Rico, we need to Choose Change. Choosing Change means Chasing Our Dreams, and we all have dreams as to what Puerto Rico should be. To make it a reality, we must Empower Investment to a whole generation of children, academia, citizens, investors, entrepreneurs, and people from all walks of life.”**

One of those life-changing evolutions facing Puerto Rico is the **Financial Oversight and Management Board (FOMB) Adjustment Plan**. We address some of the highlights in this report.

FOMB Adjustment Plan

The Adjustment Plan proposed by the Financial Oversight & Management Board (FOMB) provides a framework to reduce Puerto Rico’s debt and sets a path to exit bankruptcy.

The plan restructures the following bonds:

- General Obligation (GOs) bonds;
- Public Building Authority (PBA);
- Employees Retirement System (ERS);
- General unsecured claims

With the adjustment plan presented, these are the highlights:

- Reduces \$35 billion of Puerto Rico’s total liabilities, or reduction of more than 60 percent.
- Overall debt-service reduction from \$4.2 billion to less than \$1.5 billion.
- Puerto Rico’s taxpayer funds spent on debt payments fall to less than 9 percent from 30 percent.
- Puerto Rico’s total debt service falls from \$82 billion to \$44 billion over 30 years, ensuring long-term sustainability.
- Pensions are strengthened for more than 30 years through an independently managed pension reserve fund.
- More than 74 percent of current and future retirees experience no reduction to their retirement funds, and no retiree has a decrease of more than 8.5 percent.

What are the next steps?

- The U.S. District Court now needs to confirm the proposed Adjustment Plan is viable and considers the best interests of all creditors.
- The Adjustment Plan must provide creditors, bondholders and retirees a balanced outcome, considering the

circumstances of Puerto Rico's bankruptcy.

- To dictate if the plan is sustainable, the court must consider the outcome of protracted litigation that may leave little or no recovery versus this plan.

These are the scenarios that Judge Laura Taylor Swain must now review to set Puerto Rico on the path to emerge from bankruptcy and with it ends a sad period for the island.

Forecast 1: Will lower Fed rates work this time?

As we look into past experiences, it may be helpful to understand how effective rate cuts were used to avert a recession.

- 1995: The Fed made rate cuts that extended the expansion.
- 1998: The Fed implemented rate cuts that continued development for several additional years.
- 2001: A recession soon followed rate cuts.
- 2007: A prolonged recession followed rate cuts.

As a matter of reference, the rate action during 2001 and 2007 was initially made at 50 basis points and is a crucial signal that the cuts were made after considerable economic downturns had shown their face. However, the 1995 and 1998 rate cuts were 25 basis points, which were similar to 2019, so only time will tell if the rate action was timely or not.

How is the economy, by the way?

The U.S. economies overall shape is performing well, and the expansion has continued, let's examine three parameters.

- Unemployment is at 3.7 percent, close to the lowest level in 50 years.
- Jobs growth has increased for 107 succeeding months, the longest streak on record.
- U.S. GDP growth has averaged 2.7 percent over the past two years.

While there is no certainty about what will happen with the current economic expansion, rate decreases will have an immediate impact on investments and business. However, the protracted U.S.-China trade war continues to impact the economy and the markets with volatility.

In summary, we believe the overall economic fundamentals are quite robust enough to allow the expansion to last well into 2020, if not longer.

Forecast 2: The Men's Underwear Index (MUI):

The MUI is an economic indicator coined by former Federal Reserve Chairman Alan Greenspan in the 1970s that points out sales of men's underwear as measures of an economy's performance. Greenspan indicated that an economy on the upswing would show increases in men's underwear sales, whereas a poorly performing economy would show decreasing sales of the same garment.

The science behind Greenspan's selection of this index as a barometer of economic progress seems rather unorthodox. However, he argued that when people are confident about the economy, they will spend money on things they may not necessarily need. When disposable income increased, people would select to purchase new undergarments based on how confident

they were with their current level of wealth, wages, and employment.

The world men's underwear market reached \$10.14 billion in 2018 and was expected to increase by 5.3 percent from 2019 to 2025. One of these growth drivers is the increased health awareness combined with personal hygiene, and a better fit from millennials is driving the surge.

Does the MUI work? Greenspan seems to believe so. One thing is for sure: After reading this piece, some of you males may want to buy some new ones.

Forecast 3: The Brics: Is this investment or gimmick worth another look?

Jim O'Neill, chief economist of investment-bank giant Goldman Sachs, coined the term BRIC in 2001 to describe the four-largest developing countries, which at that time included Brazil, Russia, India and China, and later, in 2010, added South Africa, and changing the acronym to BRICS. At that point, Goldman Sachs predicted Brics would overtake, in terms of gross domestic product (GDP), the G7 nations of the U.S., Canada, Japan, United Kingdom, Germany, France, and Italy by 2050.

The Brics group could not be further apart or more asymmetrical; thus, after showing promise as a significant investment, some faltered to the point that its creator, Goldman Sachs, had to close its Brics fund at the end of 2015—after the vehicle's assets lost \$700 million and closed at \$100 million.

From 1990 to 2014, Brics has delivered on the part of its promise, growing

Group	G7	BRICS
Population	800mm	3.1B
% of the World	10	42
GDP	34.4T	16.6T
% of the World	46	22
Exports	7.2B	3.5B
% of the World	34	16
Imports	7.5B	3.1B
% of the World	37	19
Per Capita	45,453	5,401

from 11 percent of the world's GDP to nearly 30 percent, until the financial crisis that provided long-lasting economic damage.

As it stands, the G7's GDP has reached \$34.4 trillion, and Brics is at \$16.6 trillion, or less than 50 percent of the G7's GDP. While per capita income remains quite low for Brics, at \$5,401, compared to the G7's \$45,453, the growth has been consistent; however, the Brics are a far cry from the standards of most countries in the G7.

The one area in which the G7 cannot compete is in terms of population. G7 nations have a total population of 800 million people, while the Brics have 3.1 billion.

While Brics still have significant gaps in meeting their promises, we like selective investing in BRICS economies, with some forgotten trades in Brics as popular as ever, and the original Brics enjoying increased inflows during the year, and fund flows to the four countries reaching their highest level since July 2015.

Forecast 4: Puerto Rico to improve its investment climate:

A reliable, stable, and consistent investment climate fosters productive private investment from every sector, which is the engine for gross domestic product growth, jobs growth, and poverty destruction. An improved investment climate expands the depth and variety of corporations while

creating new, enhanced services; it enhances the goods available and ultimately reduces the cost of doing business. The summer of 2019 and its political turmoil have cost the private sector more than \$1 billion in direct expenses, decreased economic activity, and investments. This cost is a significant impact on our investment climate. An improved investment climate creates efficient financial markets, improves infrastructure investment and improves the lives of people who directly or indirectly work or benefit from the establishment of new entrepreneurial concerns. If you have any doubt, take a drive from Caguas to Humacao or from Cataño to Manatí, and you will note how every community has benefited from the growth of the pharmaceutical sector in each of these areas.

Firms that invest in Puerto Rico are here to make profits, and the capital activity they create allows the island to grow. Their investment decisions are impacted by their ideas, capabilities, strategies, and assessment of the opportunities and incentives in particular taxes and locations.

Puerto Rico was once the king at attracting foreign investment. Since the late 1990s, we have lost our way.

Seeking to improve government policies and behaviors that shape the investment climate matters not only for the firm but should also matter to every citizen. As a way to highlight all the keys to improve the Puerto Rico investment climate, one must consider all areas where the government has a strong influence, and they include:

- Costs
- Corruption;
- Taxes;
- Regulatory burdens, red tape;
- Infrastructure and finance costs;

- Labor market regulation.
- Risks
- Political risk;
- Policy predictability and credibility;
- Macroeconomic stability;
- Rights to property;
- Contract enforcement;
- Expropriation.
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Barriers to competition:

- Regulatory barriers to entry and exit;
- Competition law and policy;
- Functioning finance markets;
- Infrastructure.
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Our investment climate has been allowed to suffer in the same way our country has in the past few years. We have been quite fortunate to have had two reliable and effective secretaries of Economic Development & Commerce in the past few years, but neither could make the changes by themselves.

The improving Puerto Rico investment climate has to be the highest priority of the government of Puerto Rico.

It also must be remembered that the term, "creative destruction," coined by Austrian economist Joseph Schumpeter, has become an essential part of capitalism, which in turn is the description of the free market's way to deliver progress. Puerto Rico must be open to increased entrepreneurship, innovation, and exports while breaking into new markets. Our focus must now be on destroying our old economy and creating a new one.

We must work hard to recuperate our credibility, brilliance, and strengths in attracting new activities to Puerto Rico that, in turn, create thousands of jobs and new investment.

The best way to eliminate inequality and poverty is by creating and

distributing wealth all around Puerto Rico, and that is an aspiration we should all join to achieve. The critical question is how to convince the government that our image has suffered.

Theme 1: Now-Casting the U.S. GDP

As always, there are significant argument points regarding economic forecasts, predictions, and modeling because they are still subject to revisions, personal preferences, and sentiments. It is because of these issues that we began to use Now-Casting to better present economies' gross domestic product (GDP). Now-Casting is best explained as the discipline of determining the trends or trends-reversal objectively in real-time. Now-Casting is fact-based, focuses on the known and knowable, and therefore avoids forecasting. Now-Casting, in Birling Capital's view, will become the basis of a more robust decision-making process, helping both the private sector and government to make more accurate economic planning and adjustments. These now-casts are state-of-the-art econometric models, which automatically update all forecasts whenever any significant economic data release is published. Birling Capital has been using Now-casting to revise the GDP numbers of most of the world's economies. Even though some would not agree with its findings.

Now-Cast's U.S. GDP

The GDP stands at 1.5 percent for third-quarter 2019 (3Q2019); Birling's forecast for 4Q2019 is a downward revision at 1.1 percent; and The current GDP forecast is 2.1 percent, which is 0.6 percent more than the Now-Cast numbers.

Monthly Market Close Comparison	9/30/2019	8/30/2019	Change	YTD
Dow Jones Industrial Average	26,916.83	26,403.28	1.95%	15.00%
Standard & Poor's 500	2,976.74	2,926.46	1.72%	18.10%
Nasdaq	7,999.34	7,962.88	0.46%	19.70%
U.S. Treasury 10-Year Note	1.67%	1.49%	11.95%	-1.000%
U.S. Treasury 2-Year Note	1.61%	1.50%	7.33%	-1.060%

Theme 2: The Month in markets: Trade War Détente and Impeachment Risks.

The Dow Jones Industrial Average closed the month of September at 26,916.83 for a gain of 513.03 or 1.95 % and a year to date return of 15.00%. The S&P 500 closed the month at 2,976.74 for a gain of 50.28 or 1.72%, and a year to date return of 18.10%; The Nasdaq closed the month at 7999.34, for a gain of 36.46, or 0.46%, and a year to date return of 19.70%; meanwhile, the U.S. Treasury's 10-year note rose during the month reaching 1.67% and gaining 11.95% and the U.S. Treasury's 2-year note gain during the month reaching 1.61% and gaining 7.33%.

The stock markets were able to erase losses from the prior month as a sort of 'Détente' between the U.S., and China has allowed investors to breathe easier, this combined with the recent rate cut and the increasing corporate earnings has made it possible for the market to recover. However the impact of U.S. political headlines reporting the start of an impeachment inquiry against the President by the U.S. House. Impeachment of President Trump would require the Republican-controlled Senate to seek a supermajority vote, and this fact may derail the chances of conviction. The Senate vote is not confidential and is public, so most Republican senators would be less tempted to vote out the President unless the evidence found is treasonous. While this is another list to add to the headline risks that the

markets suffer, it just one among many to include in our investment analysis.

An array of political headlines have had an impact on 2019:

- The U.S.-China trade war;
- Brexit;
- The attack to Oil Reserves in Saudi Arabia
- and finally, there's the risk of the President's impeachment.

Political risks have not had an impact on the economy and have only added volatility to the market.

Let us examine how resilient the U.S. economy is:

- Gross Domestic Product is at 2.0 percent;
- U.S. Core Inflation 2.39%
- U.S. Existing Home Sales 5.49mm
- U.S. Initial Jobless Claims 213,000
- U.S. Durable Good New Orders 250.687 Billion
- U.S. Retail Sales \$461.99 Billion
- The unemployment rate is at 3.7 percent;
- Per capita income is \$50,266;
- Owners household equity stands at \$18.69 trillion;
- Total consumer debt stands at \$4.12 trillion;
- Total consumer debt to household equity rate of 22.0 percent.
- Corporate growth for the fourth quarter of 2019 was 6.7 percent.

The U.S. economy is well-positioned to end 2019 strong and begin 2020 on a high positive note. Now, the phrase

being used was coined by James Carville, “It’s the economy, stupid.”

Puerto Rico Economic Snapshot:

- GNP 2019 3.1%
- GNP 2020 4.2%
- Inflation Rate 2019 2.4%
- Unemployment Rate 11%

Theme 3: “How has the Puerto Rico Stock Index Performed Since Hurricane Maria 9/20/17-9/26/19”

The Puerto Rico Stock Index (PRSI) is a market value-weighted index, composed of five (5) companies headquartered and/or with their principal place of business in Puerto Rico. All companies are traded on national stock markets NYSE, AMEX or NASDAQ.

Birling Capital has committed to present an analysis of the Puerto Rico Stock Index, how the index is performing as compared with the Dow Jones Industrial Average, and how each of the companies has delivered every week. This report compares how each of the companies stock performance has fared since 9/20/17 to 9/26/19 compared with the Dow Jones Industrial Average and How Each of them has managed against the Puerto Rico Stock Index. When we compare the Puerto Rico Stock Index to the Dow Jones Industrial Average, you will note that the return on the PRSI was 50.45% since 9/20/17 until 9/26/19 and the Dow Jones Industrial Average return was 19.98% or 152.50% less than the PRSI. The Puerto Rico Stock Index includes the following institutions, and we are ranking them according to the performance against the Dow Jones Industrial Average and the Puerto Rico Stock Index with the best performers listed by return:

- **OFG Bancorp. (OFG) operating locally as Oriental Bank,** Achieved a total return of 132.1% that beats both the Dow Jones Industrial Average and the PRSI.
- **Evertec Inc. (EVTC) Operating locally as Evertec, Inc.,** Achieved a total return of 82.59% that beats both the Dow Jones Industrial Average and the PRSI.
- **First BanCorp. (FBP) Operating locally as FirstBank,** Achieved a total return of 81.13% that beats both the Dow Jones Industrial Average and the PRSI.
- **Popular, Inc. (BPOP) Operating locally as Banco Popular,** Achieved a return of 35.66% beating the Dow Jones and slightly shy of the PRSI.
- **Triple S (GTS) operating locally as Triple-S,** Achieved a return of -37.29% lagging both the Dow Jones and the PRSI.

Companies Snapshot:

- **OFG Bancorp:** does business as Oriental Bank, in Puerto Rico and upon acquiring Scotiabank operations it will have branches in the U.S.Virgin Islands & the British Virgin Islands is a financial services conglomerate that has operated in Puerto Rico for 55 years.
 - Ticker Symbol: OFG
 - Stock Price 9.26.19: \$22.05
 - Stock Price on 9.20.17: \$9.50
 - Stock Price Increase or Loss: \$12.55
 - 2018 Revenue: \$395.99mm
 - 2018 Net Income: \$84.41 mm
 - 2018 Annual Growth: 3.79%
 - 2018 Net Income Growth: 60.34%
 - Q1 2019 Revenue: \$99.44mm
 - Q2 2019 Revenue: \$104.04mm

- Q1 2019 Net Income: \$23.47mm
- Q2 2019 Net Income: \$23.98mm
- Market Cap: \$1.140 Billion
- Total Employees: 1,447
- **Evertec, Inc.:** is a leading technology and electronic transaction company, based in San Juan, Puerto Rico. The company has a presence in 26 countries in Latin America and the Caribbean, with services in merchant acquiring, payment processing and business solutions. They own and operate the largest Debit Network in the Caribbean. With more than 28 years of experience and more than 2,100 employees
 - Ticker Symbol: EVTC
 - Stock Price 9.26.19: \$31.80
 - Stock Price on 9.20.17: \$17.40
 - Stock Price Increase or Loss: \$14.40
 - 2018 Revenue: \$453.87mm
 - 2018 Net Income: \$86.27 mm
 - 2018 Annual Growth: 11.48%
 - 2018 Net Income Growth: 56.70%
 - Q1 2019 Revenue: \$118.84mm
 - Q2 2019 Revenue: \$122.55mm
 - Q1 2019 Net Income: \$26.64mm
 - Q2 2019 Net Income: \$27.06mm
 - Market Cap: \$2.221Billion
 - Total Employees: 2,100

First BanCorp.: does business as FirstBank, in Puerto Rico, the U.S.Virgin Islands, British Virgin Islands, and Florida is a financial services conglomerate that has operated in Puerto Rico for 71 years.

- Ticker Symbol: FBP

- Stock Price 9.26.19: \$9.98
- Stock Price on 9.20.17: \$5.52
- Stock Price Increase or Loss: \$4.46
- 2018 Revenue: \$583.4mm
- 2018 Net Income: \$201.61 mm
- 2018 Annual Growth: 9.11%
- 2018 Net Income Growth: 201.1%
- Q1 2019 Revenue: \$158.5mm
- Q2 2019 Revenue: \$160.9
- Q1 2019 Net Income: \$43.3mm
- Q2 2019 Net Income: \$41.29mm
- Market Cap: \$2.17 Billion
- Total Employees: 2,643

has operated in Puerto Rico for almost 126 years.

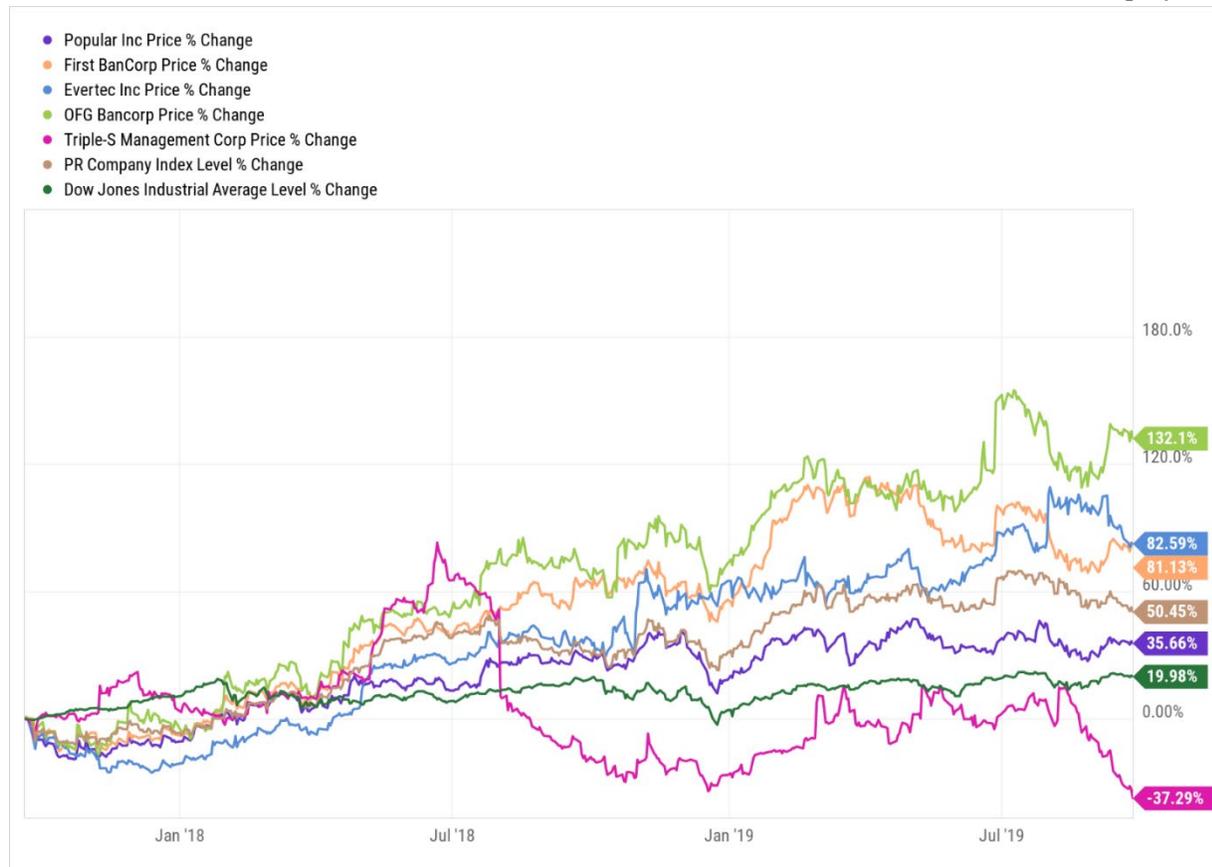
- Ticker Symbol: BPOP
- Stock Price 9.26.19: \$54.10
- Stock Price on 9.20.17: \$39.88
- Stock Price Increase or Loss: \$14.22
- 2018 Revenue: \$2.359 Billion
- 2018 Net Income: \$618.26 mm
- 2018 Annual Growth: 24.51%
- 2018 Net Income Growth: 474.1%
- Q1 2019 Revenue: \$599.17
- Q2 2019 Revenue: \$604.74
- Q1 2019 Net Income: \$470.96
- Q2 2019 Net Income: \$476.32
- Market Cap: \$5.26 Billion
- Total Employees: 8,474

Costa Rica and has operated in Puerto Rico for 60 years.

- Ticker Symbol: GTS
- Stock Price 9.26.19: \$14.11
- Stock Price on 9.20.17: \$22.50
- Stock Price Increase or Loss: (\$8.39)
- 2018 Revenue: \$2,996 Billion
- 2018 Net Income: (\$63.30) mm
- 2018 Annual Growth: 2.74%
- 2018 Net Income Growth: Negative
- Q1 2019 Revenue: \$809.74mm
- Q2 2019 Revenue: \$885.99mm
- Q1 2019 Net Income: \$34.79mm
- Q2 2019 Net Income: \$30.93mm
- Market Cap: \$341.65 mm
- Total Employees: 3,854

Popular, Inc.: does business as Banco Popular in Puerto Rico, the Virgin Islands and in the United States, is a financial services conglomerate that

Triple-S Management: Triple-S is a licensee of the Blue Cross Blue Shield Association and with operations in Puerto Rico, U.S. Virgin Islands, and





Puerto Rico Tax Expenditure Report

by CPA Cesar Hernández-Monagas, Principal Birling Capital

In recent days the Department of Treasury published their first Puerto Rico Tax Expenditure Report (PRTER). As stated in the report introduction: “This report provides a definition for “tax expenditures,” describes the method used to identify tax expenditures, and provides a list of tax expenditures with estimates of their cost. Estimates are provided for tax expenditures for the tax year 2017 for the significant tax regimes in Puerto Rico; including personal income tax, business income tax, sales and use tax and excise taxes. As discussed in more detail, tax expenditures are an alternative to regular expenditures for pursuing policy objectives. However, unlike regular expenditures, tax expenditures are not presented in the annual budget of Puerto Rico. The PRTER complements the budget in that it completes the list of policies pursued and amounts expended...”

The PRTER report is composed of the following sections:

1. Section I - The Definition of Tax Expenditures section;
2. Section II - The Tax Expenditures as Part of the Budget section;
3. Section III - The Measurement of the Cost of Tax Expenditures section;
4. Section IV - The Identification of Tax Expenditures and Benchmarking and;
5. Section V - the Tax Expenditures Budget

According to the report “Tax expenditures as measured in Puerto Rico are revenue losses attributable to provisions of Act No. 1 of January 31, 2011, as amended, the Internal Revenue Code for a New Puerto Rico (the “PRIRC”) that deviate from the tax structure’s benchmark law. The revenue loss could be due to a special exclusion, deduction, exemption, credit, a preferential rate of tax, or a deferral of tax liability. For purposes of the PRTER, the benchmark law is characterized only by the most fundamental aspects of a tax; the application of a general tax rate to a broadly defined tax base. Any departure from this benchmark that reduces tax revenues is considered a tax expenditure. This broad approach provides greater transparency by ensuring that information is disclosed on a wide range of tax measures.”

In plain and simple words, the PRTER reflects the revenues not collected by Treasury as a result of all the deductions, incentives, decrees, and exonerations provided by our legislators. The PRTER also represents the first effort to educate the legislature and agency chiefs about the impact of disorganized public policies of benefits offered to corporations. By accounting and publishing this information for years in a row, it will allow us to compare it with reports from later years, and it will assist legislators and agency chiefs in creating laws and incentives based on coherent plans. The public policy decisions that are currently made by favoritism and are so made by a method that lacks fundamentals.

Despite the issue of the impact of these incentives on the revenues of the Treasury, this report does not arise on the initiative of the Treasury. For a report like this to finally be completed, the Fiscal Control Board had to come and force the government to prepare it. The need for the Fiscal Control Board is to identify additional funds for debt repayment, but for the rest of the people, a report like this would have been useful to determine where the incentives granted by the government were concentrated and try to understand the logic, if any, in the granting of such incentives.

As mentioned earlier, this report is an excellent start to educate politicians to make decisions based on real data, not what some lobbyist told them, that it'd been the modus operandi for years. Now, what the report does not take into account and for us, as analysts, is more important, is the real benefit of those incentives in the economy as a whole.

Let's start with some necessary information to clarify our position on this subject. We will focus our analysis on the contributory incentives that represent a significant amount within the PRTER.

What are the contributory incentives?

Contributory incentives are law provisions created to give a select group of taxpayers preferential or different treatment from other taxpayers. The primary justification for offering these incentives, as we see it every day in the country's newspapers, is to reduce the negative impact on the economy of an industry or economic sector. The legislator identifies that X industry or region of the country is fundamental to the development of the national economy and decides to grant it contributory incentives as a mechanism to further its development.

As we all know, the primary purpose of the contributory system is to raise funds so that the government can maintain its operations and services to the people. Moreover, while providing these incentives has a negative impact on the tax system, the only logical justification that the incentives can have is the growth in the country's GDP, so which in turn becomes more money for the Treasury. Therefore, one must realize that regardless of the type of incentive to be offered, it must bring a benefit to the economy as a whole to be approved. "Loss of income" (it's not a revenue loss, as it's an income that was never realized) and, the costs of managing incentives must be compared to the estimated and realized long-term economic benefits to justify its approval. These costs include the pre-approval stage, with the use of appraisals and in the implementation stage with continuous evaluation metrics. Consequently, legislators should only approve contributory incentives that create positive economic impact and in turn, increase the contributory base.

All the above, takes us to the primordial message of our writing, to accurately estimate the impact of any incentive is necessary to conduct cost-benefit analysis starting from real data of costs and benefits.

Books on these types of analyses have been written, but in summary, there are two best-used methods or models. The most basic accounts for the direct costs of the incentive – the loss of revenue, the implementation costs – and the direct benefits, which are typically measured by the investment made by the business that received the benefit. This model is straightforward and can be analyzed using basic accounting. The model known as Computable General Equilibrium (CGE) is at the opposite end of the previous model. This model takes into account statistics on the global economy of the country and the region in particular where the business is located. Also, this model considers the multiplier effect of the business, that received the benefit, in the overall economy. To use this type of model, the government must maintain its economic statistics up to date, which we know is not happening.

It is not our intention to belittle the great work done by Edwin Rios, the Assistant Secretary of Treasury for The Office of Economic and Financial Affairs, and his team, which as astronaut Neil Armstrong said: "That's one small step for a man, one giant leap for mankind." Also, it should be noted that moving in the right direction the government approved Law Num. 60-2019, known as The New Puerto Rico Incentives Code, which will states that “an incentive assessment model will also be created, according to the needs of Puerto Rico's economy, to measure the effectiveness of the program based on the annual reports submitted by the beneficiaries. Analysis of the reports will allow stimulus programs to be improved and will ensure that incentives are allocated and used to maximize the economic impact on the island. The evaluation will also facilitate compliance with the terms and conditions of incentives granted, including the measurement of risk and return on investment of such stimulus, related to public development policy Economic. Another of the changes envisaged in the Incentive Code is the incorporation of rigorous safeguards to impose defined penalties for non-compliance with any of the terms and conditions of the incentive contract, including subject to annual reports.” Another positive aspect of Law 60 is that it creates a single office, Incentives Office, within the Department of Economic Development and Commerce. This office will ensure strictness in the application of the standards and will add much-needed transparency to the processes.

It's up to us to make sure that these reports continue to be prepared and issued, despite changes of government and that they are extended to include the benefits to the economy. We also need to monitor that the newly created Incentives Office is adequately staffed and that it performs its assigned duties. This report will be the backbone for us to determine with certainty what incentives are working, and to correctly measure the work performed by our elected politicians.

To Download the PRTER as well as for additional information go to http://www.hacienda.pr.gov/sites/default/files/comunicaciones/puerto_rico_tax_expenditure_report_2017_version_final_s_eptiembre_2019.pdf or <http://hdl.handle.net/10986/15621>

The Final Word: Empowering Investment: The Discipline that Puerto Rico Needs to Learn and Fast

Now more than any time in history, Puerto Rico needs to be creative with the tools it has. The hurricanes brought us within view of the abyss, and the political turmoil affected our credibility as a whole. We must, nonetheless, march on toward our next moves. Local opportunities may include:

- Starting to pay our bondholders some of the money we owe them.
- Creative use of the public-private partnership model to create hundreds of new possibilities.
- Decentralize and reduce the government to align it with current realities.
- Focus on economic growth and development.
- Seek Municipal Reforms to allow for centralization of services, programs, events, activities, purchasing, and other critical services.
- Take advantage of the inflow of federal Community Development Block Grant funding.
- Create a government divestiture program to sell unneeded assets.
- Eliminate obsolete government rules, regulations, programs, and agencies.
- Transform the government monopolies and define essential services.

Why do we need to Create Supra-National Goals?

Puerto Rico is in dire need of a series of goals that are placed above and beyond any consideration and any party. Goals that the whole nation can understand, support, protect, and promote, We call them “Supra-National Goals” and they are as follows:

- Transform Puerto Rico into a country with robust economic development and sustained growth of 4% over the next two years.
- Create 150,000 new jobs in the private sector in the next six years.
- Increase our labor participation rate to 55%.
- Reduce the unemployment rate to 5% in six years.
- Reduce the governmental apparatus by transferring to the private sector any corporation, operation, or service to the private sector can perform with greater efficiency.
- Transform the education system from the elementary to the university level to one focused on entrepreneurship, trades, and transformation.
- Measure ourselves with all international metrics to maintain competitiveness.

One phrase defines it all for Puerto Rico: “Empowering Investment.”



PUERTO RICO CONFERENCE 2020
Empowering Investment

On that note, the Puerto Rico Chamber of Commerce, Birling Capital, and El Nuevo Día Newspaper have teamed up to present **“Puerto Rico Conference 2020: Empowering Investment.”** **This event is being organized to occur on January 29, 2020, at the Sheraton Convention Center and Casino San Juan, Puerto Rico.** For decades, Puerto Rico has been a strategic destination for investors and multinational companies and the home of many 500 Fortune Companies. This has been possible because of our stable and attractive economic, political, and social conditions. Today, our country’s context and the global competitive environment leads us to reinvent ourselves but also to rediscover new strengths and advantages, focusing more on our human capital; along with the financial and social capital.

We are preparing a robust agenda that will be delivered by a panel of experts with international standing, and we hope to count you in as part of the organizing committee.

Therefore we hope that this edition of PR Conference not only will educate our audience and provide valuable information about our investment climate, public policy, taxes, labor and many other topics of great interest but will stimulate and energize our entrepreneurial spirit, optimism and confidence.

“To change Puerto Rico, we need to Choose Change. Choosing Change means Chasing Our Dreams, and we all have dreams as to what Puerto Rico should be. To make it a reality, we must Empower Investment to a whole generation of children, academia, citizens, investors, entrepreneurs, and people from all walks of life.”

We hope that you have enjoyed this issue of The Zenith Investor © and we very much welcome your comments, thoughts, and ideas; you may reach us at frc@birlingcapital.com or 787-247-2500



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