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CAPITAL ADVISORS, LLC

Think Strategically

A Defining Investment Climate: Global Shifts and Puerto Rico's Four Transformational Pillars for Growth

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Investment Climate Update

As 2025 progresses, the global economy finds itself in a fragile balance: inflation is retreating, yet growth remains uneven. Tariff tensions and energy realignments are reshaping supply chains, while demographic headwinds and debt overhangs weigh on advanced economies.

The United States has managed to chart a path of resilience, with steady growth and inflation trending lower, suggesting a possible "soft landing". Europe, however, remains trapped in stagnation, while Asia's emerging economies — particularly India and China — continue to anchor global expansion.

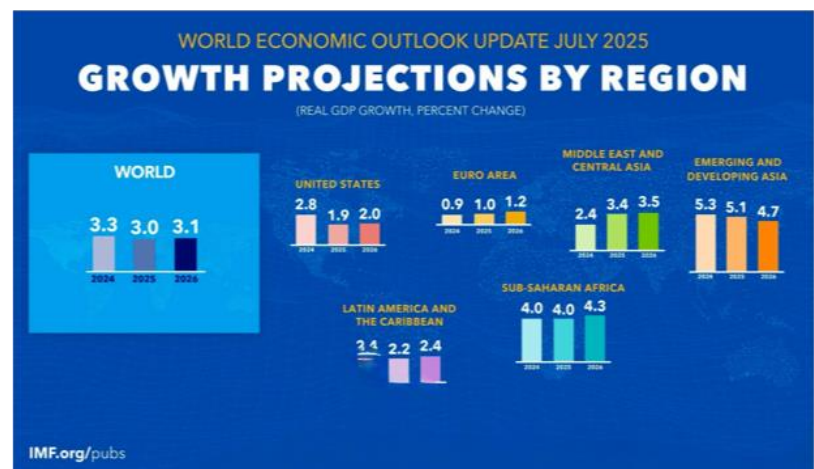
Puerto Rico sits at the crossroads of these trends, experiencing both progress and persistent challenges. Its banking sector and stock index outperform Wall Street, and tourism has reached record highs. Yet inequality, labor force disengagement, and demographic decline are holding the island back. The sudden dismissal of the Financial Oversight and Management Board has further clouded fiscal governance, underscoring the urgency of decisive leadership.

History teaches us that disruption creates inflection points. Operation Bootstrap reshaped Puerto Rico in the 20th century. Now, amid global uncertainty, the island faces another defining choice: to drift into stagnation or to build a foundation for renewal. Delay is no longer an option. At Birling Capital, we believe this renewal depends on a comprehensive strategy built on **Four Transformational Pillars**, each measurable, actionable, and capable of unlocking **\$37.45 billion in GDP growth**. **The Global Picture: Slowing Growth, Persistent Divergence**

- **Global Growth:** The IMF projects global GDP growth to moderate from **3.3% in 2024** to **2.8% in 2025**, stabilizing at around **3.0% in 2026**.
- **United States:** Growth slows to **1.8% in 2025** and to **1.70% in 2026** after **2.8% in 2024**.
- **Euro Area:** falls to 0.80% in 2025 and 1.10% in 2026, from 0.80% in 2024. Notably, Germany remains flat at **0.0%**, while Spain outpaces its peers at **2.5%**.



IMF World Economic Outlook Updated July 2025



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- **Emerging Asia:** India strong at **6.2%**, China steady at **4.0%**.
- **Puerto Rico:** Growth decelerates to **1.1% in 2025** and just **0.5% in 2026**.

The world economy is fragmenting into regions of resilience and stagnation — and Puerto Rico, though tied to U.S. strength, remains constrained by its structural weaknesses.

The U.S. Economy: Resilience Meets Moderation

The U.S. economy remains stronger than expected. The Atlanta Fed's **GDPNow** places Q3 2025 growth at **2.5%**, supported by steady consumption. Inflation is gradually converging toward the Federal Reserve's target, with **June CPI at 2.7%** and **Core PCE at 3.05%**.

The Fed's projections signal a gradual easing cycle:

- **Fed Funds Rate:** 3.9% in 2025, falling to 3.4% by 2027.
- **Inflation:** Headline and core decline toward 2.1% by 2027.
- **GDP Growth:** Moderate expansion of 1.4–1.8% through 2027.

This trajectory suggests a rare **"soft landing"**: inflation containment without recession.

Markets: Puerto Rico's Index Outpaces Wall Street

Equity markets continue to advance. As of **August 15, 2025**, the **Nasdaq** leads with **11.97%**, the **S&P 500** has **9.66% YTD**, and the **Dow Jones** has **5.65%**. Meanwhile, our local Puerto Rico indexes show the **Birlinging Capital PR Stock Index** has a **13.05% YTD**, and the **Birlinging U.S. Bank Index** beats them all with **20.77% YTD**.

The four Puerto Rico public companies, all constituents of the Birling PR Stock Index, demonstrate strong fundamentals:

- **Popular, Inc. (BPOP): 25.45% YTD**
- **First Bancorp (FBP): 13.77% YTD**
- **Evertec (EVTC): 6.43% YTD**
- **OFG Bancorp (OFG): 0.71% YTD**

Puerto Rico's financial institutions not only remain stable; **they are outperforming their U.S. peers**, a testament to both resilience and discipline.

The Four Transformational Pillars for Puerto Rico

Each pillar addresses a fundamental structural weakness. Together, they provide a blueprint to transform Puerto Rico into a competitive, resilient, and inclusive economy.

Puerto Rico is at a defining moment. The global economy is slowing, the United States is striking a balance between resilience and moderation, and local markets are exhibiting both promise and fragility. Yet Puerto Rico's long-term challenges — demographic decline, low labor force participation, weak infrastructure, and persistent poverty — remain unresolved.



Dow Jones, S&P 500, Nasdaq Composite, Birling Puerto Rico Stock Index & Birling US Bank Index YTD Returns 8.15.25



Birling Capital PR Stock Index: Popular, Firstbank Evertec & Oriental YTD Returns 8.15.25



History shows that moments of disruption create opportunities for reinvention. Just as Operation Bootstrap transformed Puerto Rico in the mid-20th century, the island today must embrace bold, measurable reforms to secure its future.

At Birling Capital, we believe Puerto Rico's path forward is anchored in **Four Transformational Pillars**. These pillars are not abstract policy recommendations; they are **strategic imperatives** — each directly measurable in GDP growth and capable of unleashing a combined **\$37.45 billion in economic expansion**.

For reference, the **Institute of Economic Freedom** has led efforts to amend, eliminate, or transform over 50 laws that restrict Puerto Rico's economic freedom. Notably, it secured two victories: **the Universal Recognition of Occupational Licenses**, which allows professionals licensed in U.S. states to work in Puerto Rico, and **a Senate Licensing Reform Package** eliminating over 50 outdated rules. Together, these cut red tape, open opportunities for entrepreneurs, and strengthen Puerto Rico's competitiveness.

Without them, Puerto Rico risks drift and decline. With them, the island can transform fragility into competitiveness, dependency into productivity, and inequality into inclusion.

Pillar 1: Reliable & Resilient Infrastructure

Infrastructure is not just concrete and steel — it is the skeleton of Puerto Rico's competitiveness. Years of underinvestment and the fragility of the energy grid have weakened the island's growth potential.

- **Infrastructure Investment:** Modernizing roads, ports, airports, broadband, and water systems can add **\$5.35 billion in GDP** by improving logistics efficiency, reducing transport costs, and enabling new trade flows.
- **Energy & Climate Resilience:** A reliable power supply and resilient infrastructure reduce costly business downtime, attract investment, and enable consistent industrial output. Modernizing the grid with natural gas, renewables, and storage — while integrating flood control and water security systems — transforms vulnerability into long-term competitiveness.

Infrastructure is the platform upon which every other pillar depends. Without it, no economic transformation is sustainable.

Pillar 2: Economic Freedom & Competitiveness

Puerto Rico's economy remains hindered by excessive regulation, a complex tax code, and structural inefficiencies. These barriers discourage entrepreneurship and keep capital on the sidelines.

- **Regulatory Reforms:** Streamlining permits, eliminating at least 50 outdated laws, and reducing barriers to market entry could generate **\$7.49 billion in GDP**.
- **Tax Simplification:** A pro-growth tax code, aligned with competitiveness, will encourage business formation, investment, and reinvestment — contributing **\$4.28 billion in GDP**.
- **Trade Liberalization:** Reducing barriers to import/export, leveraging U.S. free trade agreements, and optimizing port operations could deliver an additional **\$6.42 billion in GDP**.

Together, these reforms represent **\$18.19 billion in new GDP**, nearly half of the total potential from the Four Pillars. With decisive execution, Puerto Rico can become the manufacturing backbone of U.S. nearshoring — particularly in **pharmaceuticals, medical devices, and advanced manufacturing** — while also diversifying tourism beyond San Juan into cultural, eco, and sports tourism markets.

Pillar 3: Workforce & Human Capital Development

Puerto Rico's greatest untapped resource is its people. With only **45.1% labor participation**, the island is leaving half its productive potential idle.

- **Labor Market Modernization:** Expanding childcare, mobility programs, and wage subsidies — while reforming unemployment benefits to incentivize work — could add **\$5.35 billion in GDP** by raising participation and productivity.

- **Skill Alignment & Apprenticeships:** Aligning K-12, technical, and university curricula with industry demand accelerates job creation in high-value sectors, such as **aerospace, healthcare, advanced manufacturing, and fintech**. Expanding vocational training, trade schools, and apprenticeships builds the skilled workforce required for reconstruction, renewable energy, and industrial services.

Puerto Rico's long-term growth cannot come from federal transfers; it must come from activating its own people. **Human capital is the engine of competitiveness.**

Pillar 4: Social Equity & Governance Excellence

An economy cannot thrive if half its people live in poverty and governance remains weak. Puerto Rico's poverty rate of **43%** and its systemic governance challenges are structural brakes on growth.

- **Tech & Innovation Support:** A fully digitized government — with AI-enabled services, one-stop portals, and innovation hubs — could add **\$8.56 billion in GDP** by reducing transaction costs, enabling startups, and scaling high-tech industries.
- **Transparent & Efficient Governance:** Enforcing fiscal discipline, streamlining procurement, and embedding e-government reforms foster investor confidence, reduce risk premiums, and attract capital.
- **Equity in Healthcare & Housing:** Achieving healthcare parity with U.S. states, expanding affordable housing, and revitalizing urban centers will not only address social inequity but also reverse demographic decline by keeping families on the island.

This pillar ensures that growth translates into broad-based prosperity — not just improved metrics. By embedding transparency, equity, and innovation at the heart of governance, Puerto Rico can secure both economic stability and social legitimacy.

The Path is Measurable with the Four Pillars:

- **Infrastructure:** +\$5.35B GDP
- **Economic Freedom & Competitiveness:** +\$18.19B GDP
- **Human Capital:** +\$5.35B GDP
- **Equity & Governance:** +\$8.56B GDP

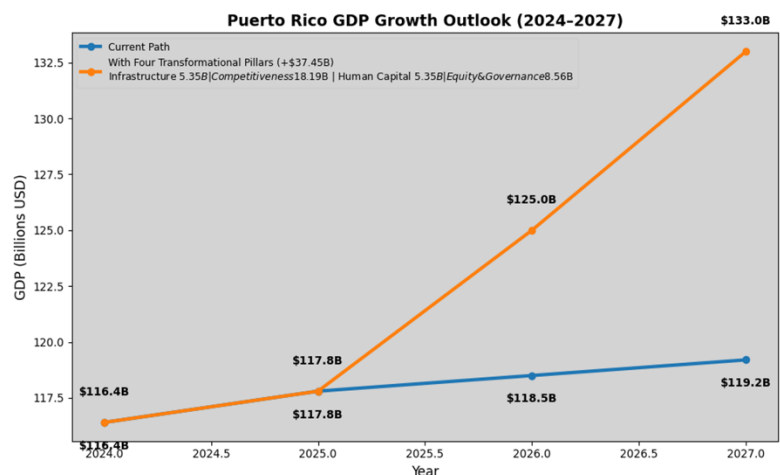
How the Impact Unfolds:

The measurable effect of the Four Pillars begins in **late 2025**, when reforms start to take hold. Puerto Rico's baseline growth is modest, at 0.6% in 2024, 1.2% in 2025, and approximately 0.5% in both 2026 and 2027, which will leave GDP at roughly **\$119 billion by 2027**. With the Four Pillars fully implemented, growth accelerates:

- **2026:** GDP rises to \$125 billion, with a GDP growth rate of 6.2% as infrastructure, competitiveness, and workforce reforms kick in.
- **2027:** GDP surges to \$136 billion, with a GDP Growth rate of 9.0% as governance reforms, digitization, and equity measures reach full scale.



Comparison of Puerto Rico GDP Growth Rates with the Four Pillars



That is **\$37.45 billion in potential GDP growth** — not theory, but a measurable opportunity. These pillars are not policy suggestions; **they are levers of transformation capable of converting stagnation into prosperity.**

The Final Word: Building Puerto Rico's Future

Puerto Rico stands at a crossroads. Global growth is slowing, the U.S. economy is stabilizing, and local markets show both resilience and fragility. The dismissal of the Oversight Board, the slow execution of reconstruction funds, and accelerating demographic decline underscore how precarious the island's trajectory has become.

But Puerto Rico has the tools to change its future. With a strong banking sector, record tourism, billions in unused federal funds, and strategic industries poised for expansion, the island does not lack resources. What it needs is **execution, urgency, and vision.**

The **Four Transformational Pillars** provide that vision. They address root causes, not symptoms. They transform fragility into competitiveness, dependency into productivity, and inequality into inclusion.

The opportunity is measurable. The path is clear. The responsibility is ours.



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