



## Puerto Rico Economic Perspectives 2025: At the Crossroads of Bold Leadership and Transformative Action

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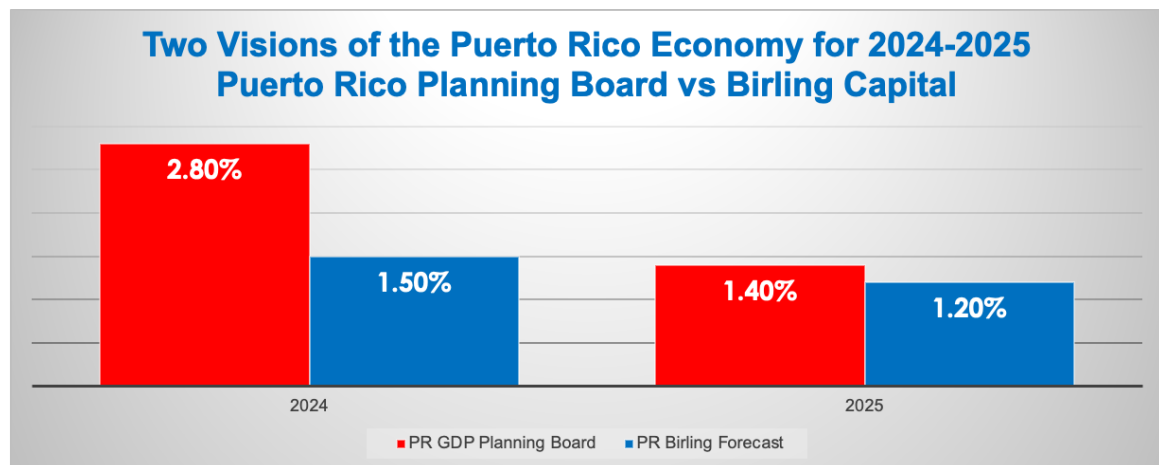
### Puerto Rico's 2025 Economic Outlook: A Roadmap to Realistic Optimism

The story of Puerto Rico's economy in 2024 feels like a tale of two worlds. On the one hand, the island experienced the tremors of an economy still reeling from the scars of past hurricanes and unrelenting infrastructural decline. On the other, the first signs of a new government, fresh leadership, and a promise of over \$90 billion in federal reconstruction funds gave rise to cautious hope. But despite this influx of capital, the question remains: Can Puerto Rico transform its economic landscape from fragile and dependent to resilient and sustainable?

As we step into 2025, Puerto Rico's economic path forward is not just a matter of numbers; it's a crossroads for the island's future. Adding complexity to the economic landscape, the start of 2025 brings new leadership on multiple fronts. On January 2, a newly elected Governor, Jennifer Gonzalez, will be sworn into office, marking a significant transition for Puerto Rico. Just weeks later, on January 20, a new President of the United States, Donald Trump, will take the oath of office, ushering in Trump 2.0. Both leaders face learning curves and a host of issues as they navigate the challenges of governance in an environment that demands swift yet thoughtful action. This political reset could shape Puerto Rico's trajectory in promising and uncertain ways.

### 2024: A Year of Struggles and Revelations

Puerto Rico ends 2024, facing profound challenges. An electrical grid that still struggles to keep the lights on, a crumbling infrastructure, and a wave of bankruptcies—up 32.3% from the previous year—underscored the fragility of the island's economic environment. For many Puerto Ricans, these issues were not abstract; they were part of daily life. The increase in commercial and personal bankruptcies paints a stark picture: businesses and households are under siege, and the road to recovery will be long and complex.



As Puerto Rico enters 2025, it does so under the leadership of a new government, including a new Governor, and a legislature poised to make crucial decisions. The looming shadow of "Trump 2.0" also adds uncertainty, with federal policies and shifts in political power influencing the island's financial future.

### **2025: A Fork in the Road**

2025 begins with Puerto Rico standing at a crossroads, marked by both cautious optimism and lingering challenges. The projections for Puerto Rico's Gross Domestic Product (GDP) growth present a duality of hope and skepticism. The Puerto Rico Planning Board forecasts a GDP growth of 1.40% for 2025, a notable decline from the 2.80% projection for 2024. However, Birling Capital offers a more tempered outlook, estimating just 1.10% growth in 2025, following a modest 1.30% in 2024. These numbers reflect more than statistics—they are a litmus test for Puerto Rico's resilience and strategic direction.

At first glance, the Planning Board's projections might seem overly optimistic, mainly when the long-term sustainability of Puerto Rico's construction boom—fueled by post-hurricane reconstruction and federal funds—is uncertain. As of September 2024, of the \$18 billion allocated for specific projects, only \$684 million had been disbursed—just 3.8% of the total. The federal funds, while substantial, are not flowing as quickly as anticipated, and there's still considerable doubt whether they can be fully leveraged to drive lasting economic transformation.

For Puerto Rico to break free from the cyclical dependence on federal funds, the island needs to build a more robust, more diversified economy that doesn't rely solely on temporary injections but on structural reforms and forward-thinking policies. The good news? It's still possible.

### **The Paradox of Promise: Federal Funds and Economic Reality**

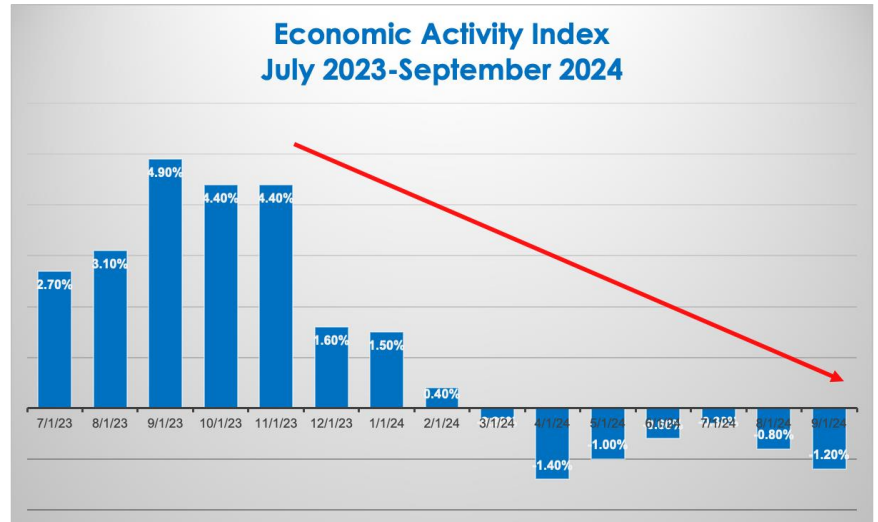
Envision \$90 billion flowing through Puerto Rico's veins, breathing life into crumbling roads, outdated schools, and long-neglected communities. Yet, this vision feels distant. By November 2024, only \$684 million of the \$18 billion allocated for reconstruction projects had been disbursed—a mere 3.8%. The promise of federal funds is undeniable, but the sluggish pace of disbursement casts a long shadow over their potential impact.

It becomes crucial to set aside the overreliance on federal funds as the solution for anything and everything and begin fixing or eliminating the more than 50 laws that place Puerto Rico 51st or last among the 50 states in competitiveness and economic freedom. Once we create a more competitive and robust economic environment, we can leverage federal funds to diversify our economy and set the stage for sustainable growth.

## Signs of Strain: The Declining Economic Activity Index

In sharp contrast to the optimism surrounding GDP projections, Puerto Rico's Economic Activity Index (EAI) paints a more somber picture. Since November 2023, the EAI has steadily declined, hitting negative territory in March 2024. By September 2024, the index had reached -1.20%, signaling a contraction in critical sectors such as employment, consumer spending, and sales of bags of cement.

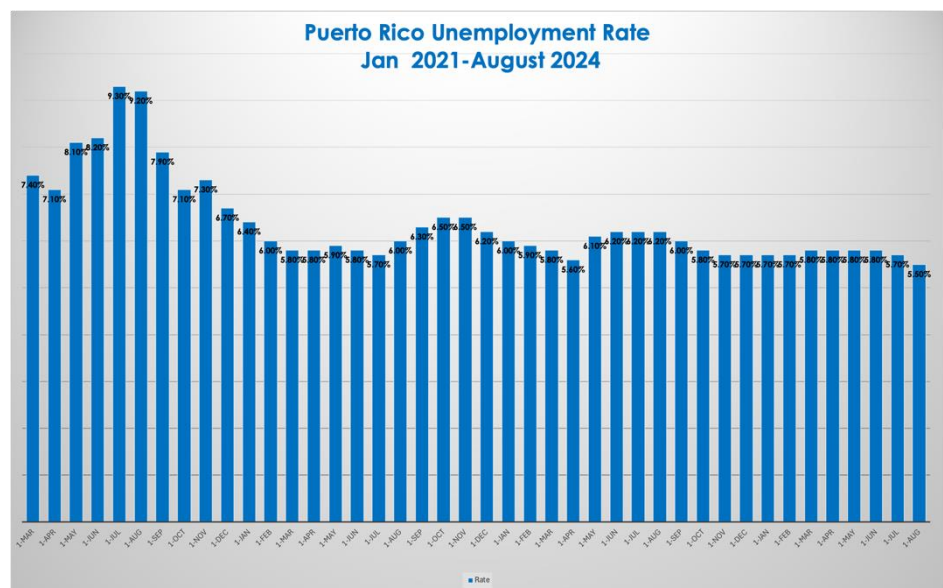
This EAI contraction is the real story. While the numbers are jarring, they also present a much-needed warning. The economy is slowing faster than anticipated, and this contraction points to a more challenging 2025 than predicted. For Puerto Rico to overcome this slowdown, there will need to be significant, swift intervention—both on a policy level and in the form of strategic investment in key areas that can drive future growth.



## Labor Market: Progress, But Structural Challenges Persist

One of the few bright spots in Puerto Rico's economic story is its labor market. As of September, the unemployment rate hit a historic low of 5.7%, the lowest in 50 years. The labor participation rate has also climbed to 43.9%, a remarkable 60% improvement since 2021.

Yet, beneath these numbers lies a persistent problem: the low labor participation rate. Some 226,000 working-age Puerto Ricans, or 24% of the civilian population, remain outside the labor force. Many depend on government assistance programs like the "Food Stamps or NAP card," a stark reminder that the island's economy has yet to fully integrate all its residents into the workforce.



## A Vision for 2028: Turning Challenges into Opportunities

So, what should Puerto Rico do in 2025? The answer lies in bold, forward-thinking policies that address the island's immediate needs and lay the groundwork for lasting economic change.

1. **Economic Diversification and the ELEVÉ Program:** To achieve sustainable growth, Puerto Rico must invest in emerging sectors such as technology, digital services, and renewable energy. The ELEVÉ Program, aimed at enhancing efficiency and reducing regulatory barriers, could contribute \$37.25 billion to the island's economy by optimizing resources and fostering a competitive business environment.
2. **Transform Puerto Rico's industrial structure, ensuring that 25% of the Gross National Product comes from knowledge-based industries.** This transformation can add up to 11.75% to the GDP and using the current GDP of \$100 billion it can add up to \$11.75 billion in new economic activity.
3. **Tax Reform and Fiscal Responsibility:** The island's tax system needs a makeover. Reducing Puerto Rico's corporate tax rate from 37.5% to 25% and the personal tax rate from 33% to 25% could stimulate significant economic activity, resulting in additional wealth creation. A reduction in the corporate tax rate [and the personal tax rate could create an estimated \$570 million in additional wealth.
4. **Increase average household income by 40% from the current \$20,873.80:** A 40% increase in median household income in Puerto Rico would directly boost GDP by driving higher consumer spending. With more disposable income, households would spend more on goods and services, stimulating demand across sectors like retail, healthcare, and housing.
5. **Labor Market Reform:** Creating 300,000 new jobs by 2028, lowering the unemployment rate to 4.30% and raising the labor participation rate to 55% would go a long way toward integrating more Puerto Ricans into the workforce, reducing dependence on government assistance.
6. **Tourism and Infrastructure Development:** Increase the Tourism contribution to the GDP from 7% to 14%, adding 16,000 new rooms with diversified offering. Doubling tourism's contribution to GDP by 2028 would add thousands of jobs and create an additional economic engine for Puerto Rico.
7. **Digitization of Government Services:** can boost Puerto Rico's GDP by increasing efficiency and reducing bureaucratic barriers. Streamlined digital processes cut costs, speed up services, and make it easier for businesses to operate, attracting more investment. For residents, quicker access to services improves quality of life and economic participation. Overall, digital transformation enhances Puerto Rico's competitiveness, drives innovation, and supports sustainable economic growth.
8. **Fiscal Sustainability and Business-Friendly Policies:** An automatic permit system creates 50,000 new businesses by 2028. Encouraging new business formation through simplified processes and establishing a robust public debt sustainability plan could help build a foundation for long-term economic security.

## The Final Word: Transformations—The Courage to Rise and Demand Accountability

Transformations are the ultimate test of vision, courage, and shared responsibility. They demand bold action and a commitment to outcomes that matter. As Puerto Rico looks toward the future, it is clear that progress cannot rest solely in the hands of politicians or ribbon-cutting ceremonies. The people—the citizens of this resilient island—must take the reins, actively participating in the democratic process, demanding accountability, and ensuring that promises transform into tangible results.

Politicians may relish the celebration of announcements and initiatives, but we are responsible for ensuring these translate into real progress. A better Puerto Rico is not built on the number of speeches delivered or ceremonies held but on the lasting impact of completed projects that uplift communities, improve lives

and lay the foundation for sustainable growth. To break free from cycles of unfulfilled promises, we must foster a culture where outcomes—not gestures—are the true measure of success.

This transformation demands that we, the people, voice our concerns, champion the cause of accountability, and hold leaders to their word. We must reject empty celebrations and demand a future built on trust, transparency, and measurable achievements. Only then can Puerto Rico break from its fragile past and rise toward a thriving, resilient future.

#### Transformations Are Possible

True transformation is not for the faint of heart. It begins as an uphill journey, requiring courage, persistence, and faith in what lies ahead. The early steps test resolve, but with each small victory, momentum builds, and what once seemed insurmountable becomes a journey of purpose and possibility.

The path to a better Puerto Rico is not just a political or economic endeavor but a collective call to action. As citizens, we must demand accountability, ensuring that initiatives lead to progress, not just headlines. Together, we can rewrite Puerto Rico's story—a story not of fragility but of resilience, not of broken promises but of fulfilled potential.

Puerto Rico's moment to thrive is now as the seeds of transformation have been planted. Now is the time to nurture them with urgency, boldness, and hope. Let us rise together, holding ourselves and our leaders accountable, to create a Puerto Rico that future generations will be proud to call home. The future is ours to build—will we rise to the challenge?

We must change and improve all those areas of our economy that we have control over and set aside our overreliance on Federal Funding that we have no control over obtaining and utilizing.

**Incredible change occurs when you focus on improving the areas within your control rather than wasting energy trying to control the things that are beyond your power.**



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