BIRLING CAPITAL ADVISORS, LLC Think Strategically

Puerto Rico at a Strategic Crossroads: Our Moment to Rise Before Falling into Recession

November 3, 2025

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Challenges, Reforms, and a $35 Billion Opportunity: From Fragile Recovery to Strategic Inflection

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Birling Capital's analysis identifies four critical fronts: **energy reliability**, **manufacturing revival**, **economic freedom**, and **fiscal sovereignty**. If addressed coherently, these reforms could unlock over **$35 billion in new economic activity and** restore Puerto Rico's long-term competitiveness.

Puerto Rico Economic Update: Momentum Fades Amid Structural Headwinds

After nearly two years of steady expansion, the *Economic Activity Index (EAI)* has entered a clear contractionary phase. By **June 2025**, the index declined **–0.90% year-over-year**, marking the **tenth consecutive month of negative readings**.

The downward shift reflects an economy transitioning from stimulus to slowdown. In late 2023, the index grew by more than 5%. By mid-2025, that momentum had fully reversed, revealing structural fragility beneath surface resilience.

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Five Structural Drags Define the Current Moment:

1. **Energy instability:** Puerto Rico's *SAIDI* remains the highest in the U.S. — **1,421 minutes in 2024 and 1,580 minutes year-to-date in 2025,** nearly **26 hours of annual outage per customer versus 70–80 minutes** on the U.S. mainland. This reliability gap reduces productivity and investor confidence.
2. **Execution delays:** Despite billions in federal reconstruction funding, project approvals and disbursements remain slow, limiting their short-term impact. The bottleneck in capital execution has reduced the multiplier effect of infrastructure investments.
3. **Household strain:** Inflation and higher utility costs have eroded real disposable income, weakening consumption and business demand.
4. **Lack of an Agenda to Adopt Economic Freedom:** Puerto Rico lacks a comprehensive, actionable agenda to promote economic freedom, deregulate business activity, and empower entrepreneurship. The absence of such a framework stifles innovation and discourages private investment, leaving the Island dependent on public spending rather than productivity-driven growth.
5. **A Government Without Urgency, Focus, or Execution Discipline:** The current administration's tendency to substitute action with endless discussion — often through the constant creation of committees that yield few results or meaningful legislation — reflects a lack of urgency, responsiveness, and the will to simply get the job done. Three recent examples underscore this pattern:
    - The **Tax Reform Committee**, created by Governor Jenniffer González Colón on **December 24, 2024**, is tasked with drafting a new Internal Revenue Code, but still without a public draft or timeline.
    - The **Energy Reform Committee**, announced on **December 16, 2024**, is charged with defining a strategy for Puerto Rico's energy transformation, yet no measurable progress or policy output has followed.
    - The **Inventory Tax Committee**, established under **House Bill 420 (March 2025)**, to evaluate alternatives to the municipal inventory tax, which has convened repeatedly but produced no legislative outcome.

The Governor recently emphasized this pattern when discussing her latest tax initiative, noting that her proposal revisited the original version introduced on **March 18**, which called for a **five-year freeze on the food tax and its eventual elimination through an alternative revenue source**:
"I will be re-filing today the same bill as it originated on March 18, which includes a five-year freeze on the food tax and its substitution. And this time, with the support of all 78 municipalities of Puerto Rico", the Governor stated.

Legislative Counter-Argument: Senate President Thomas Rivera Schatz

Senate President **Thomas Rivera Schatz** sharply countered the Governor's approach, arguing that the administration was once again proposing a reform **without a concrete plan**. He noted that the newly created committee to study the inventory tax merely postpones decisive action rather than delivering results:
"The Governor recognizes that her administration's proposal had no specific plan for eliminating the inventory tax. Now she says it will include whatever the Committee produces". Very well!

Welcome to yet another Committee created to eliminate the inventory tax. When that Committee has and publicly presents its alternatives — without posturing, delays, or excuses — for the elimination, we will gladly address them.
Without clear, concrete alternatives that we expect the Committee to propose, the matter remains *frozen,* and there is nothing to do. Without specific proposals, legislation without objectives will not be considered. Until then".
Rivera Schatz's statement underscores the Legislature's growing impatience with the Executive Branch's reliance on committees rather than **delivering defined, actionable legislation**.

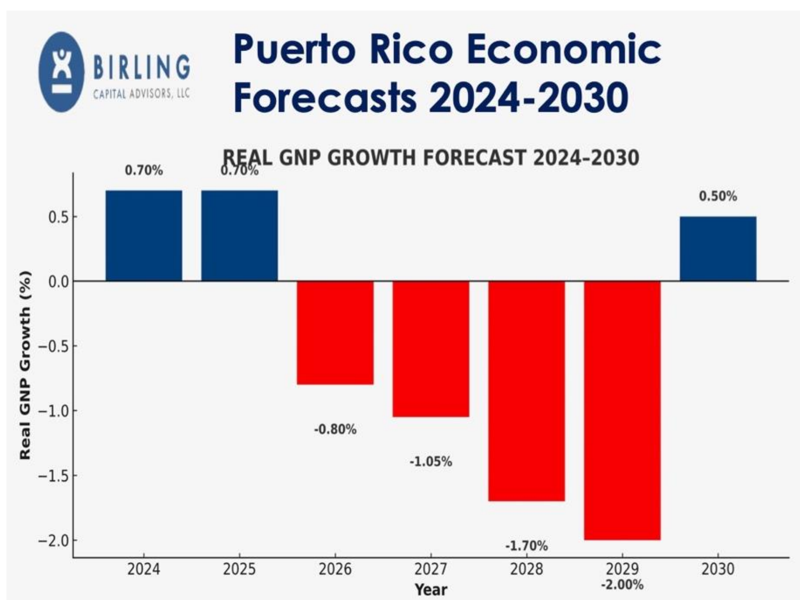
Together, these five structural drags define Puerto Rico's fragile equilibrium — an economy that appears stable but is stagnant, hovering near zero growth, with limited internal momentum and rising external uncertainty.

Birling Capital Real GNP Forecast 2024–2030: A Narrow Growth Window

Birling Capital's *Real GNP Forecast* projects **modest growth of +0.7% in both 2024 and 2025**, followed by a **four-year contraction** before a mild recovery in 2030.

Year	GNP Growth	Comments
2024	0.70%	Post-stimulus stabilization phase.
2025	0.70%	Fragile equilibrium amid weakening indicators.
2026	–0.8%	Federal reconstruction spending declines.
2027	–1.05%	Energy and cost pressures deepen.
2028	–1.70%	Contraction accelerates.
2029	–2.00%	Economic floor; reforms lag.
2030	0.50%	Modest rebound tied to reform execution.

This projection outlines a **narrow window of opportunity** in which Puerto Rico must act decisively. The Island's growth engine is transitioning from being **federal-stimulus-driven** to **productivity-driven**, and that shift demands structural reform rather than temporary spending.
Puerto Rico has liquidity, federal backing, and investor interest, but lacks the execution capacity to convert potential into prosperity. The coming decade will reveal if the Island can transform advantage into growth, defining its trajectory for years to come.



Energy: The Cornerstone of Competitiveness

For Puerto Rico, reliable electricity is more than a convenience — it is the core of competitiveness, productivity, and credibility. The Island's current reliability metrics place it among the weakest systems in

the developed world. The *SAIDI* of **1,580 minutes** (YTD 2025) is **20 times the U.S. average** and is well below those of **Germany (20)**, **Chile (62)**, and **Portugal (95)**.
Institutional fragmentation is at fault. LUMA Energy, Genera PR, and PREPA have divided responsibilities and operate without unified oversight.
This model has created a coordination vacuum, leading to slow restoration, overlapping priorities, and limited transparency. Without reform, Puerto Rico risks perpetuating a cycle of reactive crisis management instead of proactive investment. Addressing this gap is essential for unlocking sustained economic growth.
Birling Capital advocates **reducing SAIDI below 500 minutes by 2026** as a **national competitiveness goal. Achieving this would decrease business downtime, lower energy costs, and enhance Puerto Rico's attractiveness to industrial investors, ultimately supporting sustained economic expansion and greater economic independence**.

Manufacturing Revival: "Made in Puerto Rico, USA"

Puerto Rico's manufacturing legacy remains one of its most valuable assets — but it must be reinvented for a global economy defined by automation, supply-chain diversification, and U.S. industrial reshoring.
The new national initiative, **"Made in Puerto Rico, USA,"** aims to position the Island as a **trusted U.S. production hub** — offering jurisdictional security, economic flexibility, and proximity to both North and Latin America.
Success will depend on:

- **Incentivizing reshoring** from higher-cost foreign jurisdictions.
- **Developing logistics and supply-chain hubs** that integrate manufacturing, packaging, and distribution.
- **Lowering energy costs** through renewables and efficiency programs.
- **Aligning workforce training** with advanced manufacturing needs.

If Puerto Rico aligns its industrial policy with energy modernization, it can restore its position as the Caribbean's innovation powerhouse.

Investment Momentum and the Trump Tariff Advantage

Between 2020 and 2025, Puerto Rico attracted **$3.18 billion in new and expanded investments** — the largest wave of industrial capital since the 1990s.
Major commitments include **Eli Lilly ($1.2 B)**, **Amgen ($650 M)**, **Johnson & Johnson ($168 M)**, **Terumo ($45 M)**, and **SOLX ($64.7 M)**, alongside new entrants such as **Infosys BPM (Aguadilla)** and **Maxar Technologies (Wovenware)**.

These projects reflect a new industrial geography shaped by **President Trump's 2025 Tariff Policy**. The imposition of a **10% universal import tariff** — and higher rates on Chinese industrial goods — has accelerated the relocation of production to U.S. jurisdictions. Puerto Rico, with **tariff-free access to the mainland**, is perfectly positioned to benefit.

The Island is now a **duty-free bridge for American manufacturing**, combining cost efficiency with legal protection. Maintaining this policy momentum is critical, as Puerto Rico could **double industrial output growth** by 2030 and add more than **$1.5 billion to annual GDP** — a tangible dividend of industrial alignment and economic strategy.

Economic Freedom and Governance: The Core of Sustainable Growth

Despite these gains, Puerto Rico's broader economic landscape remains constrained by limited freedom and overregulation. The *Fraser Institute's Economic Freedom of North America 2023* report ranks Puerto Rico **last among all 51 U.S. jurisdictions**, with a score of **2.85 out of 10**, compared to **New Hampshire (7.96)**, **Florida (7.80)**, and **Texas (7.64)**.
This lack of freedom translates into tangible inequality:

- **Gini Coefficient:** 0.545 (25% above U.S. average).
- **Poverty Rate:** 43% (nearly 3× the U.S. average).
- **Median Income:** $22,419 versus $65,000 nationally.
- **Labor Participation:** 45.1%, among the lowest in the Western Hemisphere.
- **Brain Drain:** 525,000 residents lost since 2000, eroding human capital.

Economic freedom is not ideological—it is **the operating system of prosperity**. Freer markets attract investment, encourage innovation, and create jobs. Raising Puerto Rico's score by even **20% within five years** could unleash billions in private investment, diversify the economy, boost incomes and employment, and help narrow income inequality through opportunity, not subsidy.
The future of Puerto Rico's growth depends on governance that **enables rather than restrains** — a government that simplifies, clarifies, and supports enterprise. Stronger governance will help to unlock the benefits of wider economic freedom.

Fiscal Sovereignty: Rebuilding Market Confidence

Fiscal credibility is key to recovery. Puerto Rico must transition from oversight to fiscal sovereignty, where budgeting, debt, and investment decisions are credible, transparent, and data-driven.
Moving from a **"D" rating toward investment grade ("BBB–")** would reopen municipal bond access, lower borrowing costs, and restore capital-market confidence. Achieving this requires a **rules-based framework** grounded in three principles:

1. **Pension sustainability** — to protect long-term solvency.
2. **Expenditure efficiency** — to prioritize outcomes over patronage.
3. **Transparent budgeting** — to rebuild investor trust and accountability.

Fiscal responsibility is not austerity. It is the discipline that allows an economy to grow from strength, not subsidy. Reaching fiscal sovereignty would facilitate lower borrowing costs, restore investor trust, improve public services, and signal that Puerto Rico can stand on its own financial footing.

The Final Word: From Fragility to Freedom

Puerto Rico's story has always been one of resilience — a people and economy that have endured natural disasters, fiscal crises, and bureaucratic inertia. Yet resilience, while noble, is not a growth strategy. Therefore, the time has come to evolve from survival to transformation — from managing decline to creating destiny. The data is clear. The *Economic Activity Index* shows a sustained contraction; our *GNP* *forecasts* point to structural stagnation; and our *energy reliability* remains among the weakest in the developed world. These are not abstract figures — they are the daily reality defining business confidence, job creation, and household stability.

Puerto Rico stands at a decisive crossroads. It can continue to drift, dependent on intermittent waves of federal funds, or it can chart a new course — one built on the pillars of **law, fiscal autonomy, and ingenuity**. Federal funding can and should complement our growth, but it cannot define it. A sustainable economy must be born from the Island's own capacity to innovate, produce, and govern effectively.

True prosperity will come when Puerto Rico relies less on Washington's allocations and more on **its own institutions, competitiveness, and creative energy**. The strength of our future will not be measured by the volume of aid received, but by the **wealth we create, the industries we nurture, and the confidence we inspire**. Within this challenge lies our greatest opportunity in a generation. The convergence of tariff advantages under President Trump's industrial policy, Puerto Rico's U.S. jurisdictional framework, and the ingenuity of its people positions the Island to lead a new era of **American reindustrialization** — provided we execute with purpose.

The path forward is neither ideological nor elusive. It requires restoring grid reliability, expanding manufacturing under the *Made in Puerto Rico, USA* identity, promoting economic freedom, and restoring fiscal sovereignty. Together, these reforms could unleash **$35 billion in new economic activity within five years**, reigniting confidence in Puerto Rico's capacity to govern, compete, and grow.
Economic freedom is not only an index metric — it is the moral foundation of prosperity. It transforms dependency into dignity, bureaucracy into productivity, and inequality into opportunity. The Island must embrace this philosophy with conviction, designing policies that empower individuals, unleash enterprise, and reward innovation.

In the end, Puerto Rico does not lack intelligence, creativity, or capital — it lacks **consistency in execution**. To rise, we must move beyond episodic plans and adopt a clear national vision anchored in law — a series of **Supra-National Goals** that transcend politics and become binding commitments for the Island's future. These objectives must be legislated, institutionalized, and measured — forming the backbone of **The Puerto Rico 2030 Transformational Agenda**, a bold yet attainable roadmap that positions Puerto Rico for sustained economic growth, social renewal, and technological advancement.

The Puerto Rico Transformational Agenda

The **Puerto Rico 2030 Transformational Agenda** is a unified framework designed to propel the Island toward a decade of measurable progress. These twelve goals form the foundation of Puerto Rico's next chapter of development, ensuring that the Island not only competes but thrives in the global economy.

1. **Achieve Sustained Economic Growth of 4% by 2030.**
   A stable and diversified economy that consistently grows above the U.S. mainland's long-term trend rate.
2. **Transform Puerto Rico's Industrial Structure.**
   Ensure that knowledge-based industries — technology, research, pharmaceuticals, and innovation — comprise **at least 25% of GNP**.
3. **Create 50,000 New Businesses by 2030.**
   Establish an **automatic permitting system** to support small and medium-sized enterprises — the true engines of local prosperity.

4. **Create 300,000 New Private-Sector Jobs by 2030.**
   Empower entrepreneurship, attract foreign investment, and reduce dependency on public employment.
5. **Raise the Labor Participation Rate to 55%.**
   Engage every sector of the population in productive activity through workforce incentives, training, and childcare support.
6. **Reduce the Unemployment Rate to 4.3% by 2030.**
   Achieve full employment through investment in infrastructure, manufacturing, and export-oriented industries.
7. **Narrow Regional Development Gaps.**
   Ensure that prosperity reaches every corner of the Island — from San Juan to the central mountains — by decentralizing investment and strengthening municipalities.
8. **Increase Median Household Income by 40%.**
   Raise incomes from the current **$25,600** — the 2023 median household income reported by the U.S. Census Bureau — to approximately **$35,800 by 2030** through higher productivity, better wages, and sustained economic freedom.
9. **Reform the Education System.**
   Emphasize **entrepreneurship, trade, and innovation**, aligning education with the needs of a 21st-century economy.
10. **Adopt Global Benchmarks.**
    Measure Puerto Rico's progress using international rankings in competitiveness, innovation, and ease of doing business.
11. **Ensure Long-Term Fiscal Sustainability.**
    Enact a **citizen oversight board** to monitor debt levels, prevent future bankruptcies, and preserve Puerto Rico's financial integrity.
12. **Legislate Total Economic Freedom.**
    Reduce regulatory barriers, eliminate price controls, and implement a pro-market framework that stimulates investment and innovation across all sectors.

From Vision to Law

To ensure the success of these initiatives, the **Puerto Rico 2030 Transformational Agenda** must not remain a policy proposal — it must become **law**. A comprehensive bill should be presented to the Legislature to **enshrine this agenda as law**, binding future administrations to measurable progress and accountability. This legislation would serve as the **constitutional framework for Puerto Rico's economic and social development**, guaranteeing continuity of policy and insulating long-term planning from political cycles.

The Call to Build

The journey toward prosperity will not be subsidized — it must be built. When Puerto Rico learns to depend less on external aid and more on its own capacity for innovation, discipline, and vision, it will not merely recover — it will lead.
True freedom lies in self-reliance, not dependency. The measure of our progress will not be the aid we receive, but the **wealth we generate, the opportunities we create, and the confidence we inspire**.

From fragility to freedom, from dependency to dynamism — this is Puerto Rico's defining moment.
The choice is ours — to build a society that distributes wealth instead of poverty. The time to choose is now.

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