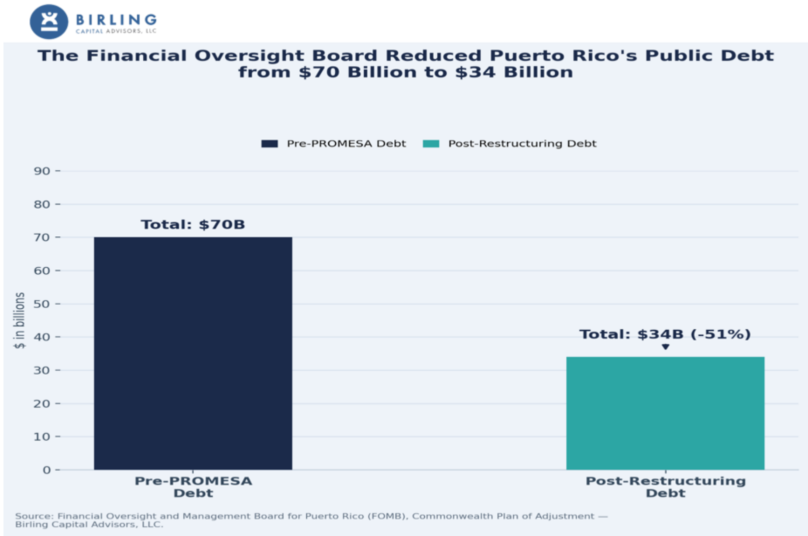
The Debt Illusion: Three Nations, Three Very Different Truths

July 20, 2026

Francisco Rodríguez-Castro, President & CEO

PROMESA and the Fiscal Indiscipline That Drove Puerto Rico Into Bankruptcy



Contrary to the narrative most repeat, Congress did not impose the Financial Oversight and Management Board (FOMB) on Puerto Rico of its own accord. The backstory: Puerto Rico was excluded from Chapter 9 municipal bankruptcy in 1984 through an amendment to the federal Bankruptcy Code, leaving the island without the authority to grant its own municipalities and public corporations access to Chapter 9 protection — a mechanism that, when authorized by the state, remains available to municipalities and public corporations in the 50 states. States themselves cannot file for bankruptcy under any chapter of the Code; what Puerto Rico lost was the authority to extend that mechanism to its own public entities.

As the crisis deepened, Governor Alejandro García Padilla and then–Resident Commissioner Pedro Pierluisi actively petitioned Congress, beginning in 2015, to restore Puerto Rico's access to Chapter 9; Pierluisi filed H.R. 870, the Puerto Rico Chapter 9 Uniformity Act, on February 11, 2015. Congress chose a different path: in June 2016, it passed PROMESA, which did not grant the requested Chapter 9 access but instead created a Financial Oversight and Management Board with budgetary control over the Government of Puerto Rico — a different, and more interventionist, structure than the one García Padilla and Pierluisi had originally requested.

PROMESA was a direct response to decades of fiscal indiscipline by the Government of Puerto Rico: structurally unbalanced budgets, continuous debt issuance to cover current operating expenses rather than capital investment, and the absence of institutional controls capable of forcing a correction before collapse. The FOMB, created under that law, assumed budgetary control of the Government and led the largest debt restructuring process in the history of the U.S. municipal bond market, reducing the island's bonded debt from more than $70 billion to less than $34 billion — a 51.4% haircut — through the Plan of Adjustment confirmed in 2022.

That exercise, though painful for bondholders, pensioners, and taxpayers alike, left a lesson that transcends the final figure: fiscal discipline is not a technical luxury. It is the difference between a debt a government controls and a debt that controls the Government.

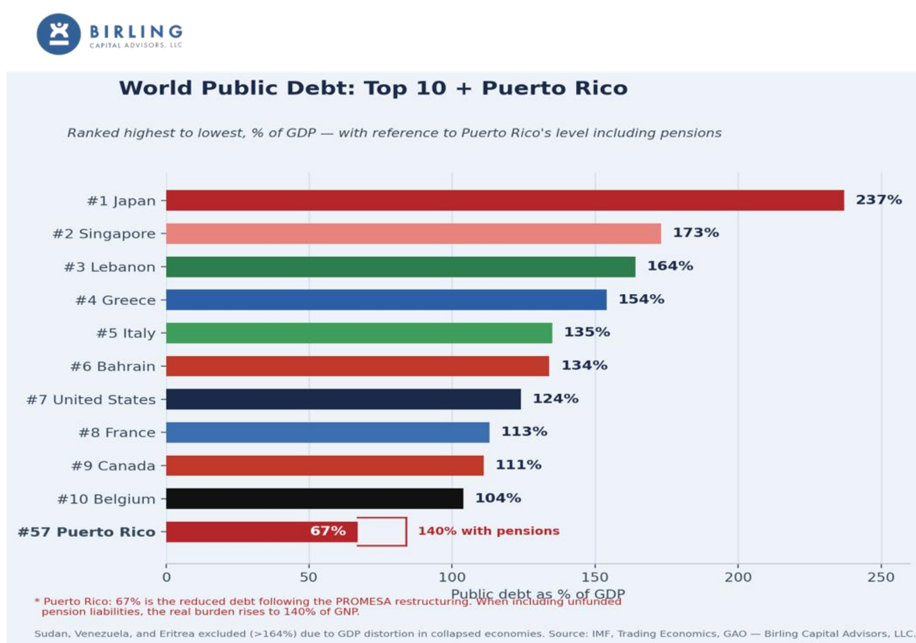
Against that backdrop, it is worth comparing how three very different jurisdictions — the United States, Singapore, and Puerto Rico — carry, manage, and explain their public debt today.

Comparing the public debt burdens of the three, the numbers alone tell only part of the story, and at times a misleading one. The United States carries debt equivalent to 123% of its national product, or $115,000 per capita, reflecting decades of structural deficits financed by the dollar's unique status as the world's reserve currency. Singapore shows an even higher figure — 175% of GNP and $170,000 per capita — but this is a statistical anomaly, not a warning sign: nearly all of that debt is domestic, issued under the GSA Act to develop capital markets and fund pension reserves (CPF), not to cover current spending. That is why Singapore maintains its AAA rating without a hint of concern; in practice, it is a global creditor disguised as a debtor.

Puerto Rico shows the opposite case: a small economy that, following the historic restructuring under PROMESA, reduced its bonded debt from more than $70 billion to less than $34 billion, a 51.4% haircut. As a result, the debt-to-GNP ratio fell from 93% in 2016 to 67% in 2022, equivalent to just $16,500 per capita in direct debt. However, once the pension obligations are added — largely unfunded and equivalent to roughly an additional 73% of GNP — the real combined burden rises to approximately 140% of GNP, or $34,300 per person. With that adjustment, Puerto Rico surpasses the United States and moves closer to Greece or Italy.

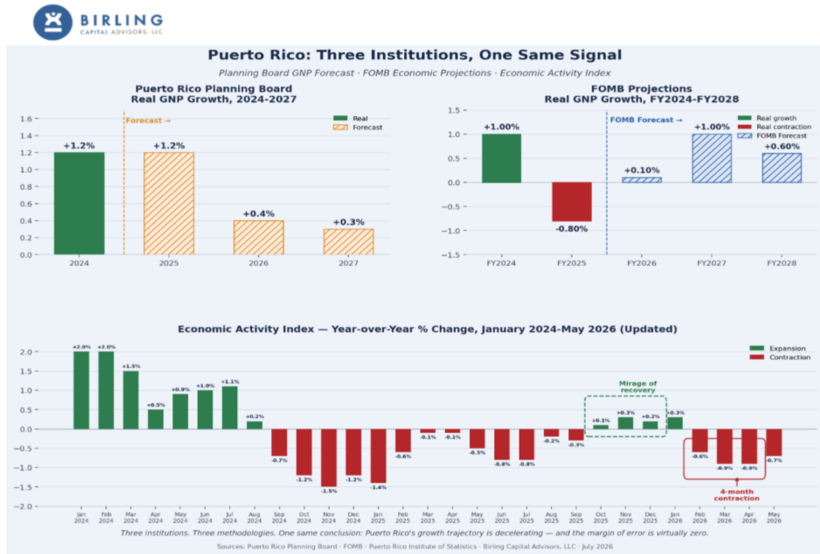
The World's Top 10 Debtors and Puerto Rico

The general government public debt-to-GDP ratio, 2024–2026: the United States ranks in the global top 10 — #7 at 124% — and Singapore ranks #2. Puerto Rico, by contrast, with its 67% bonded-debt figure, would not even make the list; it would sit alongside Uruguay or Malaysia, moderate-risk economies. That positioning, however, is misleading: the ranking measures the size of debt, not its actual risk.



The lesson for Puerto Rico is not that debt is inherently unsustainable — Singapore proves the opposite at the far end of the spectrum. It is the composition and purpose of debt that determine risk, not the isolated ratio. Puerto Rico emerged from a debt crisis only to inherit a pension crisis that never went through the same restructuring process; solving one without solving the other leaves the underlying fiscal problem intact, and the island's true burden — close to 140% of GNP — resembles Athens or Rome far more than the 67% headline suggests.

Puerto Rico: Three Institutions, One Signal



Three independent sources — the Puerto Rico Planning Board, the FOMB, and the Economic Activity Index from the Department of Economic Development and Commerce — converge on the same diagnosis: Puerto Rico's growth is decelerating on a sustained basis, and the cushion available to absorb a forecasting error is practically nil.

- **The Planning Board projects** that real GNP growth will fall from +1.2% in 2024 to just +0.4% in 2025, and to +0.30% by 2027 — a steadily declining trajectory, with no sign of leveling off across the forecast horizon.
- **The FOMB**, using a different methodology, tells a bumpier story but arrives at the same destination: after growing +1.00% in FY2024, the economy contracted -0.80% in FY2025, and although the Board projects a recovery toward +1.00% in FY2027, that figure falls back to +0.60% in FY2028 — a sawtooth pattern that confirms the absence of a stable growth path, compounded by the absence of a National Economic Plan.
- **The Economic Activity Index**, the most immediate monthly barometer, is where deceleration ceases to be a projection and becomes a fact. After a 2024 that started strong (+2.0% in January–February) but lost traction month after month, the economy entered a sustained contraction from September 2024 through February 2025, bottoming out at -1.5% in November 2024. A four-month window of positive readings (October 2025 to January 2026, ranging from +0.1% to +0.3%) fueled hopes of a recovery. But it proved to be a mirage: since February 2026, the index has posted four consecutive months of contraction, ranging from -0.6% to -0.9%, with the most recent reading at -0.70%, the most concerning of the three.

The conclusion that runs through all three lenses is unambiguous: this is not an isolated pessimistic forecast or a single noisy monthly data point. It is the Planning Board, the FOMB, and the hard month-to-month data saying, through three different methodologies, the same thing. Puerto Rico is not growing fast enough to generate fiscal maneuvering room, and the recent trend points downward, not upward.

The Path to Ending the Financial Oversight and Management Board

Puerto Rico has resolved its debt crisis. It has not yet resolved its oversight crisis. The FOMB's departure is not a political decision — it is a legal test with two specific, statutory conditions, and Puerto Rico has only recently begun to clear the first hurdles.
What the law actually requires
PROMESA Section 209 establishes three conditions that must be met before the Oversight Board terminates: the territorial Government must have adequate access to short- and long-term credit markets at reasonable rates, and Puerto Rico must balance its budget for at least four consecutive fiscal years in accordance with modified accrual accounting standards — with a balanced budget defined as one that includes payments on the restructured debt. There is no third path, no gubernatorial override, and no legislative shortcut. The Board certifies its own exit once — and only once — both boxes are checked.

Where Puerto Rico stands today

On June 25, 2025, Governor Jenniffer González-Colón signed the first certified balanced budget since the Oversight Board was established in 2016 — the first of the four years required. The FY2026-2027 consolidated budget, certified in June 2026, marked a second consecutive certification, with House Speaker Carlos "Johnny" Méndez noting that two more balanced, certified budgets are needed to complete the requirement of four consecutive approved budgets.

A narrower, more technical dispute has surfaced around FY2026's year-end closeout. As the fiscal year ended June 30, 2026, the governor and Legislative Assembly had not reached agreement on a revised budget accounting for unbudgeted revenues, so the Oversight Board certified that closeout revision on its own. The Board was careful to note this determination applies only to the closeout of the original FY2026 budget and is separate from FY2027, which it had already certified — and Puerto Rico's own budget office confirmed both fiscal years were prepared responsibly and in compliance with applicable law. In short, two of the four required years are now on the Board. The remaining open question is technical, not existential — whether the FY2026 closeout revision itself will be confirmed balanced once the year's audited financial statements are complete.

The hidden bottleneck: audited financial statements

This is the part most political commentary skips. A budget isn't "balanced" for Section 209 purposes just because the Legislature says so — a budget can only qualify as one of the four consecutive balanced budgets if the Commonwealth's auditors determine it was actually balanced at fiscal year-end under modified accrual accounting standards. In other words, the certification is retrospective and audit-dependent, not just a legislative vote.

And Puerto Rico's audits are badly backlogged. As of a December 2025 filing, Puerto Rico's latest audited financial statements dated back to fiscal year 2022, with FY2023 statements for both the Commonwealth and PREPA delayed to the third quarter of 2026 after PREPA informed Treasury its own audit wouldn't be finished until early 2026. Timely publication of audited financials is itself a key requirement for ending the Board's mandate, and the delay means Puerto Rico remains out of compliance with that condition. PREPA's FY2023 audit has now landed (mid-2026), roughly three years after fiscal year-end — meaning even a "balanced" budget year can't be formally confirmed as such until roughly three years after the fact under current audit velocity.

That same backlog undercuts the other Section 209 condition too: rating agencies and capital markets can't reasonably price Puerto Rico credit without current financials, so "adequate access to credit markets at reasonable rates" is partly hostage to the same audit delay.

A realistic timeline

Run the math forward: FY2026 and FY2027 are years one and two of the four required. Two more consecutive balanced, certified budgets are needed — FY2028 and FY2029 at the earliest, assuming no interruption. That puts the nominal fourth balanced budget at fiscal year-end June 2029. But under Section 209's own terms, each of those years isn't "confirmed" balanced until its audited financial statements clear — and audits are currently running about three years behind.

Put together, the legislative clock says four more budget cycles, roughly 2029. The audit-confirmation clock, at current velocity, pushes actual certification closer to 2031–2032 — unless Puerto Rico closes the audit backlog faster than it accumulates new fiscal years, which it has not yet demonstrated it can do. And that's before factoring in whatever the market-access test independently requires once financials are current.

The honest headline: PROMESA gave Puerto Rico a legal off-ramp from the Board a decade ago. The island is only now, for the first time, actually driving toward it — but the audit backlog, not politics, is what's setting the actual exit date.

The Final Word

Puerto Rico spent a decade proving that debt secured through discipline can be resolved. PROMESA and the Plan of Adjustment cut more than $70 billion in bonded obligations by over half, and the headline ratio — 67% of GNP — reads like a fiscal recovery. It is one. But it is an incomplete one: the same restructuring discipline that forced bondholders to absorb a 51.4% haircut has never been applied to Puerto Rico's pension system, which carries a liability nearly as large as the debt itself and remains almost entirely unfunded.

That is the real difference among these three jurisdictions. Singapore's 175% debt is debt with a purpose, owed to itself. The United States' 123% debt lacks a forcing mechanism and is, for now, backstopped by its reserve-currency status. Puerto Rico's true number — near 140% once pensions are counted — is debt with no advantage: no reserve currency, no domestic lender absorbing its own obligation, and, until the pension liability goes through a restructuring of its own, no resolution.

The bond crisis was Puerto Rico's reckoning with the past. The pension crisis is at its reckoning with the future — and it remains unpaid. But there is a third reckoning, and it belongs to the Board itself. PROMESA set two conditions for the FOMB's own departure: four consecutive balanced budgets and adequate access to capital markets at reasonable rates. Puerto Rico has, for the first time in a decade, begun clearing that bar politically. What it has not done is prove it — because proof requires audited financial statements, and those are running roughly three years behind the fiscal years they're meant to certify. The nominal fourth balanced budget could be achieved by 2029; formal confirmation, at the current pace of audit delivery, likely will not arrive until 2031 or 2032.

That is the quiet irony sitting underneath all of this: an institution created to enforce fiscal discipline cannot yet produce timely proof of its own progress, on the same modified-accrual standard it demands of the Government it oversees. Fiscal discipline was the lesson of PROMESA. Whether Puerto Rico applies that same discipline to the obligation it has not yet restructured — and to the paperwork it has not yet caught up on — will determine whether the next decade tells a recovery story or repeats this one.

If there is one thing worth carrying out of this column and into your own conversations about Puerto Rico's finances, it is this: the debt crisis is largely resolved, the pension crisis is not, and neither is the question of when — or whether — the Oversight Board actually leaves. The following key takeaways distill the numbers and the timeline behind that reality.

Key Takeaways

- As the fiscal crisis deepened, Governor Alejandro García Padilla and then–Resident Commissioner Pedro Pierluisi actively petitioned Congress, beginning in 2015, to restore Puerto Rico's access to Chapter 9 bankruptcy.
- Pedro Pierluisi filed H.R. 870, the Puerto Rico Chapter 9 Uniformity Act, on February 11, 2015.
- Congress chose a different path: in June 2016, it passed PROMESA — not the Chapter 9 access that had been requested.
- PROMESA created a Financial Oversight and Management Board with budgetary control over the Government of Puerto Rico — a structure more interventionist than the one García Padilla and Pierluisi had originally requested.
- The United States owes 123% of what its economy produces — $115,000 for every citizen. That is more than its entire national product.

- Singapore owes even more — 175% — but it is a healthy accounting trick: nearly all of that debt is owed to itself, to develop its bond market and fund pensions. That is why it holds the world's highest credit rating.
- After the PROMESA restructuring, Puerto Rico cut its bonded debt from $70 billion to less than $34 billion — a 51.4% haircut — bringing its debt-to-GNP ratio from 93% to 67%. That sounds like a victory.
- But that figure excludes pensions. Add that still-unfunded liability, and Puerto Rico's real burden rises to nearly 140% of national product — almost double what is announced.
- In dollars per person, a Puerto Rican today carries more than $34,000 in combined debt and pensions — higher than the average American.
- The lesson is not that all debt is bad — Singapore proves otherwise. The lesson is that the purpose of debt matters more than its size; investment debt is not the same as debt used to paper over deficits.
- Puerto Rico resolved the bond crisis. The pension crisis — the larger of the two — remains unresolved.
- PROMESA Section 209 sets two conditions for ending the Oversight Board: four consecutive balanced budgets under modified accrual accounting and adequate access to credit markets at reasonable rates. Puerto Rico signed its first certified balanced budget in June 2025 and its second in June 2026 — but needs audited financial statements to formally confirm either one, and those audits are running about three years behind.
- At the current audit pace, the nominal fourth balanced budget could be in place by 2029. However, formal certification of the Board's exit is more realistically a 2031–2032 event — meaning Puerto Rico's own bookkeeping backlog, not politics, is now the binding constraint on ending federal oversight.

Few things are as reckless as putting decisions in the hands of people who never pay a price for being wrong — and nowhere is that clearer than in politics, which survives by ignoring economics' first lesson: scarcity is real, and there is never enough to satisfy everyone who wants something. The proof is in how Puerto Rico's leaders are measured — celebrated for launching initiatives, rarely held to the results those initiatives actually produce, if any at all. That gap between announcement and outcome is a large part of why Puerto Rico is still negotiating the terms of its own recovery, a decade into PROMESA.

BIRLING CAPITAL ADVISORS, LLC

Francisco Rodríguez-Castro, President & CEO • frc@birlingcapital.com
PO Box 10817 San Juan, PR 00922 • 787.247.2500 • 787.645.8430