Think Strategically

The PROMESA Decade: What It Has Achieved, What Remains, and How to Keep Puerto Rico from Going Bankrupt

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From the Trading Floor to the Policy Table

Markets, however, are only one measure of confidence. The same investors bidding Puerto Rico's banks to new highs are also the ones who will decide, a decade from now, whether the Island can borrow on its own terms again. That question is not settled on Wall Street — it is settled in San Juan, and it is the subject of this week's column, but before we get into the details, let's review the markets.

The Week on Wall Street, Ending July 10, 2026

Wall Street closed another constructive week, looking past renewed Middle East tensions to focus on resilient fundamentals, moderating oil prices, and the approaching Q2 earnings season. AI and semiconductor stocks again led the market, pushing the S&P 500 and Nasdaq to fresh record closes despite periodic tech-sector profit-taking. The S&P 500 rose 0.42% to a record 7,575.39; the Nasdaq gained 0.29% to a record 26,281.61; the Dow slipped 0.28% to 52,637.01 as investors rotated toward high-growth tech.

Puerto Rico continued to outperform. The Birling Capital PR Stock Index (PRSI) rose 0.43% to 4,884.01, and the Birling Capital U.S. Bank Index (USBI) gained 0.92% to 10,373.47. Among PR issuers, Popular (BPOP) gained 0.70% to $170.56, First BanCorp (FBP) rose 0.98% to $26.68, OFG Bancorp (OFG) climbed 1.52% to $49.35, and EVERTEC (EVTC) fell 1.47% to $29.25 — the sole decliner. The gains across PR equities and U.S. financials reflect a banking sector that remains exceptionally well-capitalized.

Treasury yields edged higher ahead of next week's inflation data: the 10-year closed at 4.56%, the 2-year at 4.21%. Tuesday's June CPI report is the week's key catalyst — the Inflation Nowcasting model points to headline CPI at 3.92% and core at 2.85%, with PCE at 3.88% and core PCE at 3.43%, all still above the Fed's 2% target. That data will shape whether markets see room for rate cuts even as growth holds up.

Year to date: Dow +9.52%, S&P 500 +10.66%, Nasdaq +13.08%. The Birling PR Stock Index leads all benchmarks, up 23.17%, ahead of the Birling U.S. Bank Index at 13.33%. Among PR companies: Popular +36.97%, First BanCorp +28.70%, OFG Bancorp +20.42%, EVERTEC +0.55%.

After the Financial Oversight Board: A Question Puerto Rico Isn't Ready to Answer

In 2016, the U.S. Congress passed the PROMESA law because Puerto Rico had simultaneously lost access to the capital markets and the institutional capacity to correct its own fiscal course. Ten years later, the question dominating public conversation is no longer whether the Financial Oversight and Management Board (FOMB) should have existed, but whether Puerto Rico is — or will be — in a position to operate without it. I keep asking myself what our political leaders have actually learned throughout this entire process, but that is something only time will tell.

Returning to whether we are, or will be, ready to operate without the Board, an honest answer requires separating three things:

- What has been resolved;
- What remains unresolved; and
- What must be built to prevent a crisis of this magnitude from happening again?

The Tobin Report: A Precedent Ignored

Now, speaking of PROMESA, it is crucial to note that this was not the first warning. In 1974, Governor Rafael Hernández Colón commissioned Nobel laureate economist James Tobin and a committee drawn from some of the most distinguished minds at Yale, Brookings, and Columbia to study Puerto Rico's finances. The Tobin Report, delivered in 1975, warned with near-prophetic precision that the pace of government spending, the accumulation of deficits at the public corporations, and the growth of public debt would not be sustainable even under the most favorable economic conditions. Before the Tobin Committee was even created, the president of the Government Development Bank, Don Guillermo Rodríguez, sent the Governor a memorandum documenting that public debt had grown 233% over five years against gross product growth of just 47%, and that Puerto Rico's share of the U.S. municipal bond market had reached 2.34%, far above its real economic weight of 0.5% of U.S. GDP.

The change in government following the 1976 election interrupted the implementation of the Tobin plan. Its central recommendations — multi-year budgets, consolidating public corporation debt within the central government's accounts, and a public debt ceiling below 20% of gross product — sat on paper for four decades, until the fiscal crisis brought them back to light through PROMESA.

The cost of that delay was the loss of more than $37 billion in bondholder savings when the government collapsed in 2016, along with postponed retirements and middle-class families pushed into poverty. It is the lesson the Tobin Report tried to prevent, and it is the same set of principles that must now guide Puerto Rico's eventual exit from PROMESA: early warning signs must be addressed before they become a crisis, not after.

Years before PROMESA was even a legislative possibility, in a column I published in El Nuevo Día titled "The New York Mirror," I argued that Puerto Rico needed to look at the precedent of that city's 1975 fiscal crisis, when New York ran out of liquidity to meet its obligations amid an operating deficit of more than $600 million and debts exceeding $11 billion. Governor Hugh Carey then created the Municipal Assistance Corporation (MAC), chaired by investment banker Felix Rohatyn, which imposed financial discipline through budgets based on generally accepted accounting principles, wage and benefit freezes, fare increases on the subway system and CUNY tuition hikes, and the elimination of more than 40,000 municipal jobs. New York emerged from that crisis and today maintains permanent fiscal-oversight institutions:

- The Independent Budget Office
- The Citizens Budget Commission

Together, these give investors confidence that past mistakes will not be repeated. That is precisely the piece Puerto Rico still lacks: not a perpetual external board, but permanent local fiscal-oversight institutions that outlive the end of PROMESA the same way New York's institutions outlived the MAC.

What has been achieved by the Financial Oversight and Management Board

Debt restructuring. This is, without question, PROMESA's most tangible achievement. Through Title III, Puerto Rico restructured more than $72 billion in bond debt, reducing it to approximately $34 billion — roughly a 50% cut. This included General Obligation bonds, which were constitutionally protected, and COFINA bonds, backed by the Sales and Use Tax (IVU). Separately, $50 billion in unfunded pension liabilities was also restructured through the Retirement System's plan of adjustment. PREPA, on the other hand, remains the most significant pending restructuring case, as discussed further below. Debt service, which at its most critical point consumed roughly a third of the budget, was drastically reduced.

This achievement, however, carries a caveat I raised as far back as 2016, when I wrote that bondholders affect everyone's lives. Of the government's debt issuers, only four entities were genuinely in precarious shape with little ability to fix their own finances: the Government Development Bank, the Puerto Rico Electric Power Authority, the Highway and Transportation Authority, and the Public Finance Corporation. The remaining issuers had the capacity to honor their payments as agreed. More than $15 billion of those bonds were held by local investors — teachers, secretaries, engineers, retirees with IRA accounts — and not exclusively by so-called vulture funds. That across-the-board haircut, applied without distinguishing between genuinely insolvent and solvent issuers, exacted a real human cost that the aggregate restructuring figure alone does not capture.

Formal budget discipline. Puerto Rico now operates under certified fiscal plans and budgets that, at least in form, must show structural balance. The Board has issued Notices of Violation — most recently against the University of Puerto Rico in May 2026 — that document, with hard data, when a government entity fails to meet that standard. It is an accountability mechanism Puerto Rico did not have before 2016.

Partial return to the capital markets. Total debt was cut to $34.1 billion, and annual debt service fell from $4.2 billion to $1.15 billion, pulling general government debt down to 17.7% of GDP from roughly 68% before the crisis. The Commonwealth's credit has yet to achieve investment grade.

What remains

- **The pension system remains underfunded.** Restructuring reduced pension debt, but it did not fix the structural problem of a pay-as-you-go system that depends on the government's active payroll to pay today's retirees. Without a stable public-employment base or a real reserve fund, any economic contraction puts those payments at risk.
- **Energy infrastructure remains fragile.** Birling Capital's Energy Infrastructure Index (EII) documents the problem starkly: zero new megawatts installed in the Watchtower's red band, against a year-end projection of just 700 MW. The LUMA-Genera transition has not translated its contractual promise into measurable reliability, and without stable power, there is no sustainable private investment or GDP growth.
- **Institutional capacity has not been rebuilt.** Puerto Rico's governance continues to show the same patterns that led to PROMESA in the first place: uncertified budgets, legislative resistance to cost control, and constant tension among the Executive, the Legislature, and the Board. That recurring friction is the clearest sign that local institutions have not yet internalized the fiscal discipline PROMESA imposes from the outside.

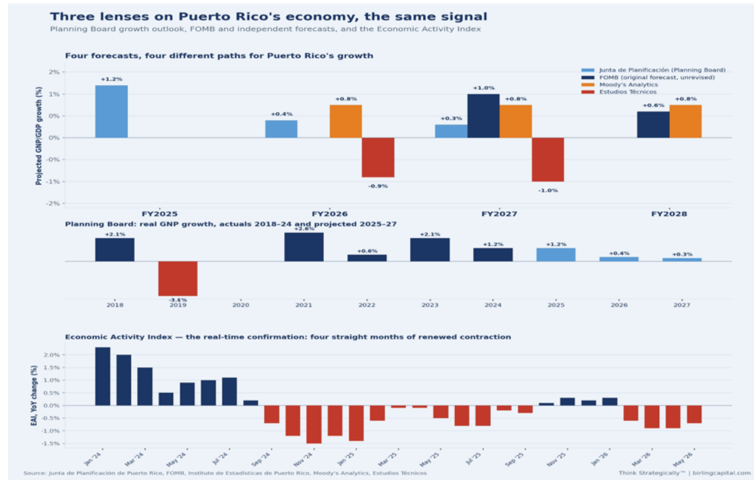
- **The tax base keeps eroding.** Net migration to the U.S. mainland continues to shrink the economically active population. Auto sales fell 19.87% against the January 2025 baseline, and unemployment held at 5.60%. A government cannot sustain its long-term obligations on a shrinking tax base.
- **Dependence on extraordinary federal funds has not been replaced by organic growth.** Much of the economic growth after Hurricane María and the pandemic was driven by temporary federal disbursements. The Board has correctly projected that once the stimulus runs out, the economy will be exposed to its real constraints: low labor-force participation, a concentrated productive structure, and private investment insufficient to replace public spending.
- **Institutions like the UPR illustrate the pending risk.** The University operates on a zero net margin, with payroll and pension obligations that consume $610.3 million — more than half its budget — before it pays its first electricity bill, and with tuition generating just 13.8% of revenue. It is a case study in how an essential institution can reach the edge of fiscal collapse even within the PROMESA framework if the structural causes go unaddressed.
- **The Board itself faces a governance crisis.** The surprise removal of five FOMB members by President Trump in August 2025 — which I described at the time as a political and economic earthquake — left open a question that still has no clear answer: who controls the negotiation process for PREPA's debt in its final stage. In that vacuum, the shrewdest players have been neither the government nor the Board, but the distressed-debt specialist funds, which have positioned themselves at every stage of the negotiation to maximize their recovery. That dynamic is the clearest warning that Puerto Rico's exit from PROMESA cannot depend on the stability of a body whose own composition is subject to Washington's will.

Six structural challenges continue to limit growth.

Birling Capital identifies six interrelated forces that continue to constrain the Puerto Rico economy:

1. **The lack of economic freedom** — Puerto Rico ranks 51st, last place, on the Fraser Institute index, with a score of just 2.6, although the Instituto de Libertad Económica de Puerto Rico has already secured three pieces of legislation to reverse that trend;
2. **After restructuring, investment in infrastructure, education, and innovation remains constraine**d— debt service fell to $1.15 billion a year, yet labor participation still lags the mainland (45% vs. 62%), and billions in disaster-recovery funds sit undisbursed;
3. **Depopulation,** which erodes the tax base and consumer demand — the population fell to 3,184,835 by July 2025, below 3.2 million for the first time since 1980, on a fertility rate of just 1.0 births per woman; recurring natural disasters, from Hurricane Maria's nearly 3,000 deaths to eight billion-dollar storms since 1980, keep resetting the reconstruction clock;
4. **Economic concentration in manufacturing and touris**m: manufacturing generated $56.888 billion of Puerto Rico's $129.368 billion GDP in fiscal 2025, with pharmaceuticals and medical devices anchoring that cluster, while tourism contributes approximately 7% of GDP and supports 102,300 leisure and hospitality jobs, or 11% of total nonfarm employment; this dual dependence leaves the Island exposed to sector-specific shocks — a patent cliff, a tariff shift, a travel-demand slowdown — that a more diversified economy would absorb far more;
5. **Federal funding** gaps tied to political status — Puerto Rico receives just $4,000 per capita in federal health funding versus $13,000 in the states, an annual gap of roughly $29 billion;
6. **Government overreach:** Spending equals 20.5% of Puerto Rico's GDP — nearly double the 13%–14% average for U.S. state and local governments, proof that political decisions, not market discipline, still run much of the Island's economic life.

Puerto Rico's economy has stalled



We have three views of Puerto Rico's economy, and it is entering a mature, slower-growth phase — and three independent measures now say so at once.

The Planning Board calls it a "maturation phase," projecting growth decelerating from 1.2% in 2025 to just 0.3% in 2027 as reconstruction funds run out. Private forecasters go further: Estudios Técnicos projects outright GNP contraction of -0.9% in FY2026 and -1.0% in FY2027, while Moody's Analytics caps growth at 0.5%-1.0% through the decade's end, flagging federal-fund dependence as the core risk. At a February 10, 2026, forum, the FOMB's own panel reached consensus that FY2026 will merely "resemble" 2025 — no recession, but no real progress either.

The Economic Activity Index confirms it in real time: after peaking at 128.7 in FY2024, it slipped to 128.0 in FY2025 and 127.6 through May FY2026. A brief return to positive territory (October 2025–January 2026) was reversed by February, with four straight months of renewed contraction (-0.6% to -0.9%) through May.

The common thread: the federal reconstruction spending that powered the 2018-2024 expansion is exhausted, and nothing has replaced it. Puerto Rico isn't heading into recession — it's stuck on a plateau, and the way out depends on private investment, labor participation, and reforms that haven't yet materialized.

How to keep Puerto Rico from going bankrupt again

Preventing a second debt crisis does not depend on keeping or eliminating the Board as a symbolic act. It depends on the building; before PROMESA ended, Puerto Rico lacked the capacity in 2016. Five lines of action are unavoidable:

- Institutionalize fiscal discipline, not just comply with it under supervision. Puerto Rico needs a local fiscal responsibility law — with debt limits, structural balance rules, and automatic trigger mechanisms — that outlives the Board and does not depend on the political will of each administration. The model, as noted above, is the one New York left behind after the MAC: permanent local institutions, not ones imposed by Washington.
- Resolve energy as a precondition for growth, not a parallel project. Without measurable electric reliability — not contractual promises, but installed megawatts and reduced outage minutes — there will be no manufacturing or services investment capable of sustaining the tax base over the long term.
- Diversify the economy beyond federal dependence. The manufacturing rebound in life sciences and aerospace — Collins Aerospace, PharmaEssentia, Carelon — points in the right direction, but it needs scale. Puerto Rico must actively compete for foreign direct investment with predictable tax incentives and permitting that does not depend on political discretion.
- Reform the pension system toward real sustainability. This means gradually migrating from a pure pay-as-you-go scheme toward a pre-funded reserve model, without breaking promises already made to current retirees, but closing off future fiscal exposure.
- Strengthen the government's technical capacity and institutional continuity. Recurring governance crises are not isolated events; they are symptoms of agencies that depend on a single official and

of weak governance structures. Puerto Rico needs a professionalized public-service career track in critical economic agencies, protected from electoral cycles.

The Final Word: The Lesson Not Yet Learned

PROMESA accomplished what no local government had been able to do on its own: restructure an unpayable debt and create an external accountability mechanism. But PROMESA was never designed to be permanent, and its ultimate success will not be measured by how much debt it restructured but by whether, during its tenure, Puerto Rico built the institutional discipline to never need it again. The 2026 data — a governance crisis within the Board itself, stalled energy infrastructure, and a still-underfunded pension system — indicate that this construction remains incomplete.

Puerto Rico has now been given the same diagnosis twice. In 1975, the Tobin Report identified the disease with clinical precision and prescribed the treatment; the government read the file, agreed with the findings, and did nothing until the patient collapsed in 2016. PROMESA was the emergency room. It stopped the bleeding, restructured the debt, and stabilized the balance sheet. But an emergency room does not cure a chronic condition; it only buys the patient time to change the habits that caused the collapse. Ten years later, Puerto Rico can point to a stabilized patient, but not yet to a patient who has changed how it lives.

The window to make that change — while the Board still exerts external disciplinary pressure and before the emergency room closes for good — is narrowing. If Puerto Rico's leaders continue to celebrate initiatives rather than tangible results, the odds may be against us. A press release is not a fiscal-responsibility law. A signed contract is not a megawatt delivered. And a task force is not a pension reserve. Fifty years from now, the question will not be whether Puerto Rico survived PROMESA, but whether it finally learned, this time, to read its own diagnosis before the next crisis writes it for us.

"The only durable foundation for prosperity" is competitiveness — in U.S. markets, in world markets, and at home. Tobin's terms were blunt: years of fiscal austerity, restrained government spending, higher tax revenues, and public corporations that actually turn a surplus.

— James Tobin, as recalled by Gov. Rafael Hernández Colón, Puerto Rico Financial Analyst Association (APAF), 2014

Puerto Rico had already proven it could be done. As Hernández Colón told the island in a televised address on December 16, 1975: "The Tobin Report says that before 1969 there were savings every year — in other words, not all revenues were spent".

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