

ECONOMY

Benchmarking Needed to Evaluate Performance

THINK STRATEGICALLY:

Measure by Measure, Gov. Pedro Pierluisi

Objective Economic Barometers Reveal Progress

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This issue of Think Strategically is dedicated to evaluating how the Puerto Rico economy has performed after the first six months under the administration of Gov. Pedro Pierluisi. Measuring a governorship takes much more than the following metrics; however, we have decided to use them as it allows us to measure the overall direction of the island's economy, as well as to begin to detect patterns of growth and improvement in government.

During his inaugural address on Jan. 2, Pierluisi gave away several clues about his governing style, some of which we will highlight. One of the most notable was that he said, "I need all of you" to the Legislature, which for the first time is made up of five parties and an independent senator.

Two other significant statements by the governor were: "We're going to direct resources to those who need it most...and ensure that we provide essential services"; and "we are going to put the government to work for you."

Our focus is to determine how the governor has delivered on his promise. Let us review what he inherited on Jan. 2 and make a direct comparison of the progress as of July 2, in a measure-by-measure comparison.

We use the following indicators on Inauguration Day, Jan. 2, to compare the progress through July 2.

Even with the COVID-19 pandemic's headwinds, improvements are present in critical areas.

Economic Progress: When Pierluisi took office, the economy had registered a -4.4 percent contraction over the last six months; the rise in economic activity has the economy at -0.9 percent, representing an 80 percent improvement in six months.

Jobs Growth and Unemployment: Unemployment decreased 11.83 percent over the past six months, falling from 9.3 percent to 8.2 percent. In addition, the labor-force participation rate increased 6.05 percent during the same

period, rising from 39.7 percent to 42.1 percent with an increase of 14,000 jobs.

Homeownership Rate: Another critical indicator worth noting is the rise in homeownership to 68.1 percent, up from 60.9 percent, or 11.82 percent.

Construction Industry on the Rise: Construction was at 17.3 percent versus -5.60 percent just six months ago, a 408.9 percent improvement.

Puerto Rico Publicly Traded Companies Beating Wall Street Benchmarks: Finally, the Birling Puerto Rico Stock Index, which includes the five publicly traded Puerto Rico companies, has risen to 2,488.38, a 22.46 percent rise in six months.

As you can see from these metrics, Pierluisi has steered the Puerto Rico economy toward growth, development and improvement in all areas.

Puerto Rico's economic engine has to be revamped, as the pandemic forced lockdowns imposed by the previous administration force most businesses to close 143 days during 2020 out of 288 working days, assuming a six-day work week.

Pierluisi's critical measures follow:

Taking control of the government's response to the pandemic: Relaxing health-safety measures when warranted and tightening them when needed.



Massive Vaccination Drive: The effort has been a success, with 74 percent of Puerto Rico's citizens having received a COVID-19 vaccine.

Putting Puerto Rico on Washington's Agenda: Medicare and Medicaid parity and the island's reconstruction come to the fore. The once-held-up disaster recovery funds are now being rolled out; the inflow to the island includes \$83 billion related to the 2017 hurricanes, \$600 million associated with the 2020 earthquakes, and \$15 billion associated with the COVID-19 pandemic, for a total \$98.6 billion, enough to rebuild all the critical infrastructure in Puerto Rico.

Mature Leadership: Finally, having a mature, seasoned leader who allows his cabinet to work as a team while seeking very little limelight is a

refreshing tone by the governor.

On the negative side, most experts agree that most of the governor's challenge is amplified by two fronts: the Financial Oversight and Management Board's (FOMB) positions; and the shared government with the Senate and the House leadership belonging to the Popular Democratic Party.

Some related observations below:

Working with the legislature and the FOMB as a team is the best way to cure the financial crisis that has affected Puerto Rico: Reaching agreements with the FOMB, Legislature and the U.S. Congress will allow Puerto Rico to achieve five years of balanced budgets to eventually return to the capital markets. We should mention that the new government budget is the first balanced budget as required by the Puerto Rico Oversight, Management and Economic Stability Act (Promesa); this is the kind of working agreement that must be the norm, not the exception.

Bonded Debt: While on its way to being resolved, Puerto Rico's debt burden issues will affect the government's advancements in other areas.

Systemic Healthcare Risk: The challenges facing Puerto Rico hospitals and even those stateside are that they are being forced to either reduce costs at the expense of potentially devastating impacts on the communities served. Hospitals lost \$706.1 million during 2020, so the announcement that the U.S. Congress is allocating nearly \$3 billion annually to Puerto Rico for five years will provide stability to the commonwealth government's Vital health plan and the industry as a whole.

Demographic Changes and Population Loss: Although recent data suggest migration has slowed, the consensus is that by 2025, our population will

be near 2.8 million. This decline will place additional pressure on scarce government resources.

We provided a roadmap for the government to recognize success or failure through the evaluation of significant economic indicators. We must find ways to strengthen the way the government is managed and have the appropriate metrics.

Benchmarking is necessary. It can enhance government oversight and accountability in programs, improve the effectiveness and efficiency of services and reveal what works and what doesn't while providing critical information needed for making difficult policy decisions.

More than at any time in recent history, Puerto Rico's destiny is in the balance, and the direction we take is our choice. There are dangers related to our freedom, our democracy and our way of life.

For decades, we chose to ignore the signs of impending doom brought on by our wrongful ways, always hoping that down the road, all problems would fix themselves. Well, they did not.

One of the clearest examples of government inaction and imprudence is the Government Employee Retirement System. Since its creation in 1951, the system began with an actuarial deficit. Then-Gov. Luis Muñoz-Marin decided to grant pensions to participants who had worked for the government before creating the retirement system, which began with a big hole that was supposed to be paid by 1981, but was not. Over the years, these benefits continued to accumulate, along with more than \$50 billion in unfunded liabilities until the system went bankrupt. For that reason, we now have a pay-as-you-go public pension plan.

An accurate measure of the people's strength is how they rise to accept their circumstances and change their ways. Puerto Rico has the option to evaluate its government and how it is performing.

Puerto Rico Benchmarks

Governor Pierluisi	Jul/2/21	Jan/02/21	Change
Price Per Liter Regular Gasoline	\$0.81	\$0.69	17.39%
Construction	17.30%	-5.60%	408.93%
Unemployment	8.2%	9.3%	-11.83%
Average GNP Growth Rate in office	-0.90%	-4.40%	80%
Labor-force participation rate	42.10%	39.70%	6.05%
Home ownership rate	68.10%	60.90%	11.82%
Birling Puerto Rico Stock Index	2488.38	2032.04	22.46%
Median household income	\$20,539	\$20,078	2.30%
Puerto Rico Bonded Debt	\$35,000,000	\$69,000,000	-49.28%
Credit Ratings	S&P, Moody's & Fitch (D)	S&P, Moody's & Fitch (D)	Default
Access to markets	Limited access	No Access	Unchanged

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