

ECONOMY

Government's actions taken to preserve political capital and distance them from 'Ley 7'



Think Strategically: Procrastination Is Opportunity's Natural Assassin

BY FRANCISCO RODRÍGUEZ-CASTRO
frc@birlingcapital.org

Trump takes N. Korea to center stage: Markets react

Donald Trump's warning that further North Korean threats will be "met with fire and fury as the world has never seen," was as harsh a reaction as any President can make.

Driving the U.S. to the brink of war with North Korea should be a measure of last resort in this situation. We agree that North Korea has been imprudently conducting both nuclear tests and making threats to some of its neighbors in the Asia-Pacific region, the latest to Guam, an unincorporated U.S. territory. The North Korean threat faced a variety of follow-up statements and tweets from President Trump, who stated that the "U.S. military was locked and loaded." As the tensions between them have intensified, we believe they are also working with diplomatic solutions that would lead to some dialogue.

The U.S. markets were rattled by the confrontation in the geopolitical arena, with the S&P 500 securing its worst weekly period since March and the Stoxx Europe 600 Index closing

down 2.7% in the week, the worst since November.

The Korean peninsula, the likely theater for the conflict, would bear the brunt of the economic disruption, with the South Korean economy getting hit the worst. Just imagine how the global supply chain of products could be affected if manufacturing halts from Samsung to Hyundai, with South Korea providing, for example, 40% of the liquid crystal displays worldwide.

The last time the U.S. waged war in Korea, it cost the U.S. 4.2% of its GDP.

P.R. update: Procrastination is opportunity's natural assassin—'Procrasbendito'

President Ronald Reagan often said "Procrastination is opportunity's natural assassin"; and he was so right. Here in Puerto Rico, we have taken procrastination and combined it with the untranslatable "Ay Bendito," creating a made-up word that we could refer to as "Procrasbendito." Puerto Rico's GDP has been in negative

territory since 2006, and we used bond issues in an attempt to balance every budget since 2000. The results have been the following:

- No Access to capital markets;
- Our debt is currently in default;
- Little or no liquidity;
- Lack of transparency with Government Finances;
- Costs of Government increases out of control;
- Billions of unpaid Debt to private-sector businesses.

Any private corporation facing such a daunting scenario would seek Chapter 11 Bankruptcy protection. They would utilize this process to wisely improve their operations, shed excess properties, sell noncore assets, right-size operations, reduce their workforce and benefits, bring in new management and change all the actions that made it unprofitable.

Puerto Rico is facing its form of Bankruptcy through Title III as filed by the Financial Oversight &

Management Board (FOMB).

Consider that the approved fiscal plan has measures the FOMB felt may not be achieved, namely the \$880 million in right-sizing efforts. These cuts would only reach \$662 million, thus the FOMB felt it was necessary to implement a furlough program on government employees of two days per month to address the \$218 million savings gap. This action was sufficient for the Government to state that it would not adopt the furlough and indicate it would not abide by any of the directives the FOMB would impose on them. The Governor even stated he would face the consequences, even if it meant going to jail.

We must understand the theatrics of the government's actions, and it is evident they are taken to preserve their political capital and distance them from any remainder of Ley 7's (Fiscal Emergency Act 7-2009's) impact, which slashed thousands of government jobs. Remember, this action is taken solely for the Government's own political interest, using the FOMB as the bad guy in this scenario.

Knowing that procrastination is opportunity's natural assassin, we feel Puerto Rico has no time or credibility to achieve its plan of action without

some tough love from the Financial Oversight Board. The board exists because, for the past two decades, our politicians did little to prevent this crisis; rather, they added lighter fluid to an already difficult situation.

Final word: P.R. cannot get this recovery wrong

Governments do not usually solve problems; they often just rearrange them. The small doses of medicine that the FOMB is seeking were all discussed at length with the Government and their expert team of advisers. For that simple reason, it leads me to believe that if there was a time to stand behind the work of the Financial Oversight & Management Board, even if we dislike or disagree with its very existence, it is Now. Puerto Rico does not have the time or money to get this recovery wrong.

As British novelist, C.S. Lewis, often said, "Experience is a brutal teacher, but you learn, my God you Learn."

Francisco Rodríguez-Castro, president & CEO of Birling Capital, has over 25 years of experience working with government, multinational and public companies.

IPO Calendar (Trade Date Estimate: Week of Aug. 14, 2017)

Company	Ticker	Deal Size
Capitol Investment Corp.	CIC	\$350 million