

ECONOMY

Get the Hawala out of here!

THINK STRATEGICALLY:

The Hawala System

P.R. Courts Ask for Pay Raise Amid FOMB Cuts to Pensioners; Stocks Breaking Records, Investor Sentiment High

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



Judicial branch's untimely 35 percent salary increase

The hawala system has existed since the eighth century between Arabic and Muslim traders along the Silk Road. Hawala is a method of transferring money without moving any money. Interpol's definition of hawala is "money transfer without money movement." Another explanation is "trust." Hawala is an alternative remittance channel that exists outside of traditional banking systems. Transactions between hawala brokers or hawaladers are made without promissory notes because the system is heavily based on trust.

If the hawala system or the hawaladers are new to you, it is only because locally the hawala system is called the Central Government, Legislative Branch and the Judicial Branch. All are based on its citizens entrusting them with the power to lead the country in the best possible manner. The Judicial Branch is a system also based on trust, the trust that it will interpret and apply the rule of law in Puerto Rico. Here in Puerto Rico, the Big Hawalader of the Supreme Court is seeking to raise their base salaries 35 percent. Assuming the average superior court judge makes shy of \$90,000 a year, the raise would signify an increase of \$31,500 and the new average salary would be \$121,500 a year. The most significant problem

with this salary-increase request is that it comes amid the plan of adjustment of the Financial Oversight & Management Board (FOMB), where bondholders, retirees and most constituents are to receive significant haircuts on their bonds, pensions and obligations.

The country should be appalled with this request from the Judicial Branch because it does not reflect Puerto Rico's reality and current dire financial condition. But remember, for the hawala system, trust is key. While most judges may be doing an ok job implementing justice, we know the system is flawed. Very little is accomplished on time; if you were to go to a courthouse on any Friday at 2 p.m., you would find it deserted. Nothing begins before 9 a.m., and most sessions are ended quite early. In addition, the courts' infrastructure is in poor condition, and it has an outsize operation that has not adjusted to the realities of the demographic decreases. So, why not base the judges' salaries on productivity, or percentages of the caseload that was resolved, or even by measuring the court docket decreases every month and evaluating how justice is being served expeditiously.

Measuring productivity is a concept the judicial branch would fight because they view their job as an art form, and artists take time. So, we must trust that justice will be served with prudence

and compassion once the new salaries are implemented. However, before we conclude, let us review some of the data that compares the salaries of public servants in Puerto Rico with their peer group in the United States.

We compare the average salary of a judge with that of the per capita income in Puerto Rico; their pay is \$70,657 or 365 percent higher than Puerto Rico's per capita income. What is the basis of this salary increase? Why now? What metrics are being used to measure

productivity? Does the Judicial Branch know Puerto Rico is in bankruptcy? All the right questions are not being answered. The fact is that our Hawala System based on trust is costing Puerto Rico a pretty penny.

Week in markets: U.S. stocks breaking records, investor sentiment high

The U.S. stock market continues to rally as it produced the fifth-straight week of substantial growth. The main drivers of the rally are:

- U.S. and China trade negotiations showing strong signs of continued progress.
- 78 percent of corporations registering better-than-expected earnings growth has increased investor confidence.
- Global economic front is showing signs of normalization.
- U.S. Treasury yields have climbed to their highest level in months.

Although there are still several items to be finalized in trade negotiations, we are cautiously optimistic that in the near term, there will be a final deal that will provide the markets with the confidence it needs to maintain the current bull market.

The Dow Jones Industrial Average closed at 27,681.24 for a gain of 333.88 points, or 1.22 percent, and a year-to-date (YTD) return of 18.70 percent. In addition, the S&P 500 closed the week at 3,093.08, for a gain of 26.11, or 0.85 percent, and a YTD return of 23.40 percent. The Nasdaq closed the week at 8,475.31 for an increase of 88.91, or 1.06 percent, and a YTD return of 27.70 percent.

The Birling Capital PRSI closed the week at 1,661.96, or a gain of 63.75, or 3.99 percent over the previous week, and

a YTD return of 20.14 percent. Meanwhile, the U.S. Treasury's 10-year note rose during the week, closing at 1.94 percent, or an increase of 13.45 percent, with a YTD return of minus-0.80 percent. The U.S. Treasury's 2-year note rose during the week to 1.68 percent, an increase of 8.39 percent for the week, and a YTD return of minus-0.88 percent.

Final word: Birling Capital's 1st glance at 2020 outlook

For our vantage point, we would like to review the economic and market data dynamics that we are analyzing for the year ahead at Birling Capital:

•2020 global growth remains timid:

With world a forecast of 2.7 percent for 2020, and 2.8 percent for 2021, we must wait until the ink is dry in the U.S. and China trade deal; we expect global growth to remain suppressed until the headline risks are eliminated, and supply chains return back to normal.

•Mixed monetary policy gamut:

With most Central Banks adopting "swinging toward easing," we must remain vigilant to the economic impact of the normalization of the U.S. and China trade war and its impact on the world economies.

•Growth in the European Union:

The EU projected growth at 1.4 percent in 2020, which remains low as the EU has suffered the global trade disruption harder than other regions of the world.

•**Brexit and the UK:** The United Kingdom is set to expand 1.4 percent in 2020, assuming an orderly outcome to Brexit and a partial economic recovery for 2020.

•**Asian growth in the spotlight:** China is expected to grow at 6.1 percent for 2020, which is highly dependent on the outcome of the trade deal. Japan's economy is set to decline to 0.7 percent in 2020, with fiscal measures expected to somewhat mitigate the growth volatility.

•**Latin America and the Caribbean:** We expect 2.5 percent growth in 2020. After the overall economy contracted by 35 percent in 2019.

•**Middle East and Africa:** With 1.3 percent growth to end 2019, we expect 3.5 percent growth in the region for 2020.

For our year-end 2020 outlook, we plan to provide readers our yearly report, "5 Forecasts, 5 Themes & 5 Reactions for 2020," in the last issue in December 2019.

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

Category	Puerto Rico	United States	Change
Per Capita Income	\$19,343	\$64,767	Minus-70.13%
Teachers	\$28,000	\$59,170	Minus-52.68%
Police Officers	\$28,500	\$51,426	Minus-44.58%
Fire Fighters	\$18,000	\$49,620	Minus-63.72%
Governor	\$60,000	\$143,270	Minus-58.12%
Supreme Court Justice	\$125,000	\$267,000	Minus-53.18%
Judges	\$90,000	\$133,840	Minus-32.76%

Weekly Market Close Comparison	11/8/2019	11/1/2019	Change	YTD
Dow Jones Industrial Average	27,681.24	27,347.36	1.22%	18.70%
Standard & Poor's 500	3,093.08	3,066.91	0.85%	23.40%
Nasdaq	8,475.31	8,386.40	1.06%	27.70%
Birling Puerto Rico Stock Index	1,661.96	1,598.21	3.99%	20.14%
U.S. Treasury 10-Year Note	1.94%	1.71%	13.45%	-0.800%
U.S. Treasury 2-Year Note	1.68%	1.55%	8.39%	-0.880%