Think Strategically

From !Ay, Bendito! to having capital that serves a purpose and producing a transformative impact

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Francisco Rodríguez-Castro, President & CEO

¡Ay, bendito! is not Translatable

The story goes back more than ten years and was first mentioned in this column when I was looking at a Puerto Rican expression that our well-known and at times effective exclamation "¡Ay bendito!" cannot be translated. "¡Ay bendito!" is, in fact, how a people used to accepting bad news rather than meeting it head-on—compassion, tolerance, and a strong dislike of conflict all contained in those two words. I used it to describe Puerto Rico's initial reaction to the Fiscal Oversight Board: a reaction chased by resistance, outrage, and a refusal to accept that real change was at last being imposed on us, since we had asked for it.

In order to understand the reason for the formation of that Board, we have to remember what the years immediately before it were like — and must recall them in greater detail than is normally done.

The decade nobody wants to relive

In 2010, Puerto Rico had 20,000 homes that had not been sold. Estudios Técnicos had already pointed out a year before that the excess number of luxury houses priced at over $600,000 would not be sold off until three years later at the rate at which the houses were then being sold. The mid-market stock amounted to a five-year supply. It wasn't until a government stimulus scheme — which included relief on capital gains, lower transfer fees, and a five-year property-tax holiday — that inventory fell by about half by 2012.

In the same year, on one Friday in April, three banks collapsed simultaneously. These were Westernbank, a bank with assets amounting to $11.9 billion; R-G Premier, which had $6 billion in assets; and Eurobank, with $2.6 billion in assets—amounting to one-third of the Island's banking institutions and one-quarter of its banking assets, and all of this happened in a single afternoon, a situation the FDIC described as one of the most complicated resolution days in its history. A fourth listed Doral Bank, failed February 2015, making it the largest U.S. bank failure since Westernbank. All four banks had previously been listed on this Island's stock market—under the names W Holding, R&G Financial, EuroBankShares, and Doral Financial—and are now permanently absent from it.

The bankruptcy petition came next. The bonded debt involved was roughly $70 billion, the largest municipal debt restructuring in U.S. history, and it was not finally concluded until 2022. Tens of thousands of local bondholders—individuals, not merely hedge funds—were included among those affected and held billions of the debt themselves. During those same years, Puerto Rico's public companies suffered billions in market-capitalization losses, and an entire category of local financial firms was wiped out of the market. The decade that ¡Ay bendito! had in mind in 2016 was not an abstraction or a political critique, but a real one, characterised by empty houses, bankrupt banks, destroyed savings, and a stock index which had lost a quarter of its original constituents.

More than ten years later, the Board is still in office—although the kind of discussion has changed. Most of the debt has been restructured. PREPA has a certified adjustment plan. The Board now says Puerto Rico has moved from the 'crisis management' phase to strategic institutional budgeting. That was exactly why I supported accountability back then: rather than looking at revenue, spending, and government operations in isolation, you should regard the island as a single, integrated balance sheet.

A new ¡Ay bendito! is now showing up and it's more dangerous than the first one because this time almost nobody is saying it out loud.

The entire process involved developing one program

The fact that part of Puerto Rico's private economy kept growing spontaneously while banks failed and houses stayed empty is something ignored in the comments on Acts 20 and 22, which were approved in 2012 during that period of collapse. More than a decade of independent assessments commissioned by DDEC provide a consistent account.

The 2015 baseline study indicated that activity under Act 20/22 was already generating around $330 million in local real estate investment and $40 million in corporate income taxes. A study published in Econometrika revealed that between 2012 and 2017 the two programs combined led to the creation of about 33,000 new jobs, with 1,332 people holding Act 22 decrees and 781 Act 20 entities moving to the Island during that time – a number enough to raise the Island's overall employment rate by 3 percent and its total output by 2 percent. By the 2019 update, the holders of the Act 20 decrees had built a total payroll of $595 million, representing 8,257 jobs in eligible activities at an average wage of $36,424, plus an additional 8,435 jobs in non-eligible activities. Estudios Técnicos forecasted that by 2029, more than 5,026 Act 20 decrees would lead to over 24,000 jobs and $12.7 billion in sales from eligible activities, while the Act 22/60 investor decrees would reach approximately 6,392, resulting in 38,000 jobs and $7.4 billion in real estate purchases.

In 2022—the most recent year for which a full DDEC return-on-investment study was available—resident investors paid the government more than $200 million annually in taxes and donations, while the incentive cost the government $184 million. The program therefore yielded a positive net outcome for the Treasury in the year it was evaluated, rather than presenting a financial drain, as its critics have so frequently asserted. The same study also found that holders of the resident-investor decree established more than 1,000 businesses that year alone.

The programs should by no means be left beyond criticism – they aren't. The Treasury Department's own tax-expenditure reports have shown that billions of dollars in lost revenue have resulted from the programs throughout their existence; a 2025 report from the GAO called on the IRS to improve its oversight of those who are actually claiming the exemptions, and transparency advocates have fairly questioned how thoroughly DDEC has audited compliance in previous years. These criticisms are reasonable and should therefore be taken into account in any genuine evaluation of the programs. However, when the situation is viewed in terms of the damage it caused between 2010 and 2015, one thing becomes evident: this was the only section of the private economy that kept on growing even though no federal reconstruction funds had been used to back it up, while all the other parts of the economy were failing.

The uncomfortable number nobody wants to name

History matters because it tells us where we should focus our attention now. The government's own supervisors—rather than critics or external analysts—are showing where the wider economy will be heading, and this figure has continued to move in only one direction. In accordance with its own fiscal plan, FOMB states that after federal reconstruction funds stop being disbursed by 2035, real GNP growth will turn negative. To put it precisely in FOMB's own words, these funds “may mask underlying weaknesses” in the economy. The Puerto Rico Planning Board has also reached the same conclusion on its own and has lowered its estimate once again: as recently as in September, the Board reduced its growth forecasts for FY2026 and FY2027 by another 10 basis points each—bringing them down to 0.3% and 0.2%

respectively, from the 0.4% and 0.3% which it had projected only a few months earlier. Growth is therefore almost flat and is moving in the wrong direction with each revision. Importantly, the Board's own explanation for the fact that the figure remains positive is based on federal reconstruction spending, tourism, and manufacturing 'reshoring'—three factors which come from outside the economy, are temporary, or both, and therefore do not prove that the underlying economy can stand on its own. Data released in July 2026 already show the trend occurring in reality—the economy contracted by 0.57% in FY2025 and is on course for another contraction in FY2026, the most recent figure showing a year-on-year decline of 0.65% through May.

Let me say it again: even though Puerto Rico received federal transfers equal to more than 145% of its 2023 GNP, the island's growth rate stayed below 1.5% on average. This very low rate of growth, which is almost entirely funded by money from outside the economy, is the most obvious sign that the structure of the economy is fundamentally weak—just as the Planning Board's constant habit of lowering its own figures every few months and its tendency to attribute any growth it does note to reconstruction, tourism, and reshoring rather than to real private investment is saying in effect. If federal assistance is withdrawn, FOMB's long-term average forecast for 2029 to 2053 would fall to -0.5% per year. Furthermore, Puerto Rico, which still lacks full access to capital markets because of the PROMESA restructuring, cannot simply borrow its way out of the difficulties ahead.
The only instance of large-scale leverage is private capital, which is invested in Puerto Rico rather than remaining here in name.

The capital is on the island even if the law does not permit it to function.

It is here that two pieces of legislation—developed by a multisectoral private-sector group using an econometrically validated model—present an argument worthy of serious consideration, since it does not require Puerto Rico to attract capital out of thin air; rather, it merely asks that the territory cease legally preventing capital which is already present, capital that has already demonstrated its ability to grow in the years following 2012.
Two reforms sit at the center:

- **Act 60 Amendments**: Today, a Resident Individual Investor earns a preferential tax rate simply by establishing residency on the Island — the capital itself carries no obligation to stay or work here. These amendments change that: the rate would instead be tied directly to how much is actually invested locally. Without any investment, the rate stays at 7%; it steps down to 6% at $1 million invested, 5% at $5 million, and 4% at $10 million or more, placed in eligible Puerto Rico investments — companies, private capital funds, local startups, nonprofits, and the University of Puerto Rico. Existing decree holders would get a two-year window to convert voluntarily: investing $1 million now secures the 4% rate immediately, while investing $5 million preserves current terms until 2035, after which they'd step down to 4% as well. Anyone who doesn't follow through on the committed investment loses the benefit and pays the difference retroactively — real enforcement, not just a suggestion.
- **The reform of the IBE/IFE rules or Acts 52-1989 and 273-2012:** means that International Banking and Financial Entities currently manage over $79 billion from Puerto Rico and are basically prohibited by the existing law from investing any of that money on the island, instead retaining the funds for financial services that are all directed outside the island. Out of that total, approximately $46 billion is part of a portfolio which actually can be put to use. The reform would enable these entities to invest up to 20% of their assets on the island, the investments to be of an equity nature—that is, not involving lending so as not to compete with local commercial banks—and this would be carried out via privately regulated investment funds, employing the same definition of eligible investment as that established in the Act 60 reform, thereby setting up a single, unified framework.

How the case was built

In order to obtain these figures, the model looks at three different scenarios—the Optimistic, the Moderate, and the Conservative—over a ten-year period, from 2027 to 2036, altering three particular inputs: the number of new investors each year who take up the revised regime, the proportion of the IBE/IFE portfolios that is invested locally, and the annual return on that capital.

The assumptions are deliberately conservative rather than optimistic. For the Optimistic scenario, it is assumed that 175 new resident investors will arrive each year, whereas in the Conservative scenario the number is 75 — in both cases less than the program's actual historical rate of adoption before the investment requirement was introduced, since a more stringent requirement will decrease the number of new entrants even as it increases the level of commitment of those who do enter. All the figures are expressed in constant 2023 dollars, and FOMB's own published baseline — which originally included data only up to FY2028 before being reduced to a single long-term average — is extended year by year to 2036 using a linear ramp according to FOMB's own stated reasons for the reduction of federal funds, not based on an independent estimate that has been added on.

The model also makes two comments of this type, and these aspects should be considered when interpreting the figures reasonably. The first of these is that it only takes into account the direct effects of the capital invested—intentionally excluding second-order effects such as the creation of new businesses as a result of increased activity, spillover effects onto sectors which are not directly involved, the revaluation of real estate, or the reduction in the outmigration of skilled workers—on the grounds that even though these effects are real, they are too speculative to quantify given the assumptions used. As the direct effects are already so large, the full picture would likely be larger, not smaller. The second point is about the population projection—which is by far the most important figure in the whole analysis—and deals with the weakest assumption in the model, namely the assumption that half of the new jobs will be taken by current residents and the other half by families who are returning or moving back to the area, a figure which is deliberately kept on the conservative side because there is no hard data on repatriation.

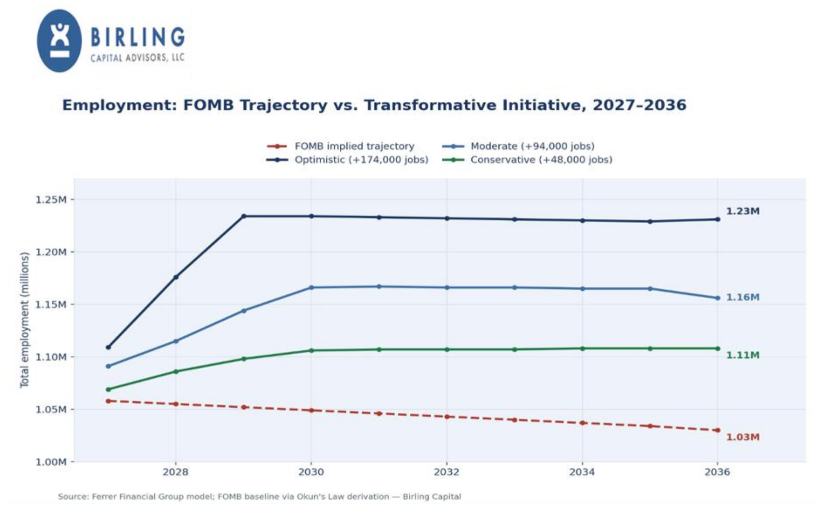
What it could mean, if we act on it

GNP Growth:

When compared with FOMB's own baseline and expressed in constant 2023 dollars, the Moderate scenario results in a GNP impact of plus 15.3 percent or $12.9 billion by 2036, ranging from plus 7.2 percent or $6.1 billion in the most conservative case to plus 26.7 percent or $22.5 billion in the Optimistic one.
If the impact on real GNP is calculated over the entire decade rather than assessed at a single point in time, it varies from about $49 billion in the Conservative case to over $190 billion in the Optimistic one, with $107 billion in the Moderate case.

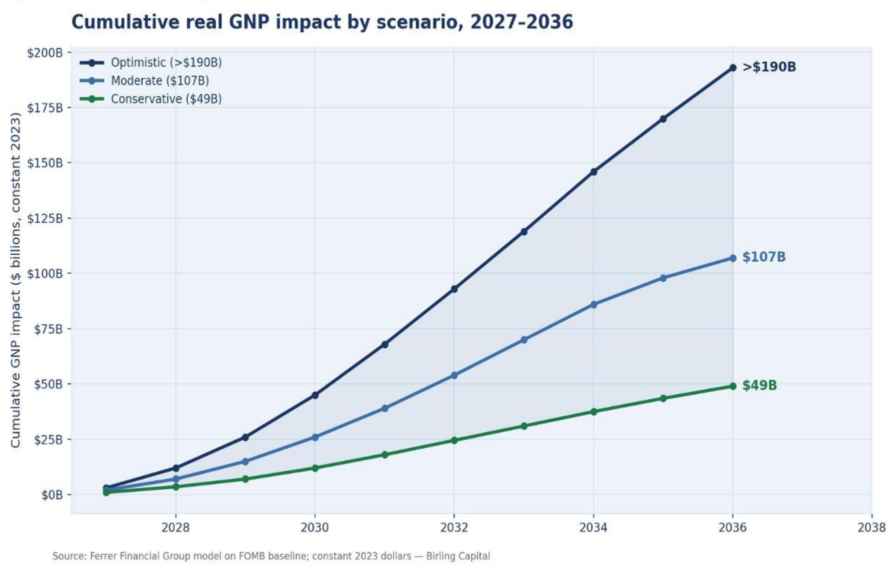
Treasury Revenues:
In the Moderate scenario, Treasury collections could total $4.3 billion over the decade—almost one-third of the current General Fund —when accumulated over ten years rather than as a single lump sum. The full range of figures extends from $2.1 billion in the Conservative case to $8.1 billion in the Optimistic one. Not acting comes at a considerable cost.

Jobs Growth:
On jobs, the FOMB's own approach—applying the usual Okun's Law relationship between output and employment—suggests a loss of about 30,000 to 40,000 jobs by 2036. In contrast, this initiative would add 48,000 steadily created jobs in the Conservative scenario, 94,000 in the Moderate one (an increase of +8.9% over current employment), and 174,000 in the Optimistic case (+16.4%). The Conservative scenario not only mitigates the expected decline but actually reverses it, producing net job growth.



Population Impact
As for population—the figure that ought to concern each and every one of us most—a projection based on Census and UN figures which currently estimates Puerto Rico's population as falling to between 2.65 and 3.0 million by 2036 might instead remain stable at nearly 3.28 million under the Moderate scenario. This does not represent a reversal of two decades of outmigration; it merely means that the decline has come to a halt—there being a difference between a line which continues to fall and one which finally levels off, this level-off itself being a necessary precondition for any future population recovery to have any chance of occurring.

The figures are modeled on the assumptions stated, not guarantees—a point the authors make clearly, and I do too. It is precisely this honesty in the modeling that gives the piece value: it does not exaggerate the second-order effects that would probably make the actual figure higher; instead, it assumes a level of adoption below the program's own historical performance rather than above it.



The final word: Capital doesn't need a translation

Over ten years ago I stated that the actual change we needed did not depend on waiting for the right moment or the right leader; instead, it was the result of an external board imposing accountability, something no one here was willing to demand of themselves. We had lost our banks, our market value, and bondholders' savings and, as a consequence of our decade-long inaction, were left with 20,000 empty homes. The only initiative that emerged from that devastation — Act 20/22 — is also the one that developed all the same, despite its flaws.

A decade or so later, accountability remains. Still, there is no determination to use the single means that does not involve asking Washington for anything—namely, the capital already based in Puerto Rico and legally prohibited from being used for Puerto Rico's interests.

¡Ay, bendito! Still doesn't translate. But this time, we don't need it to — we need to teach investors how to use the reforms that would put that capital to work: the escalating rate under Act 60, the two-year conversion window for existing decrees, the 20% of IBE/IFE portfolios finally allowed to invest at home. That language translates perfectly in any currency. Resignation isn't the only option on the table anymore, and for the first time in a long time, neither is waiting for someone else to fix it for us.

"Nations do not progress by accident; they progress when their people decide that potential is no longer enough. What every nation has in common, from Puerto Rico to India, is that the only durable foundation for prosperity is competitiveness — in U.S. markets, in world markets, and at home".
— Francisco Rodríguez-Castro

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

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