

ECONOMY

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THINK STRATEGICALLY:

Gov't Progress Index: Pierluisi's Time in Office

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The Government Progress Index evaluates the first 17 months of Gov. Pedro Pierluisi's tenure. The index is a set of metrics developed by Birling Capital that assesses the performance of Puerto Rico's economy and other variables to measure the progress of the government administration.

The index assigns scores to the different measured variables, and its maximum collective score is 40 points. When Pierluisi took office on January 2, 2021, the index stood at 13.2 out of a possible 40 points. The index sets the path for the government and the citizenry to understand and recognize success by evaluating critical economic metrics that allow for an unbiased assessment.

The index has shown constant progress since the governor began his term, achieving the following scores:

- January: 26.3
- February: 26.7
- March: 28.05
- April: 29.25

In May 2022, the governor raised his score to 29.4, an of 11.79 percent improvement compared with his January 2022 score of 26.3. Furthermore, compared to the index, the governor inherited 13.2 points in January 2021, for a 73 percent improvement 122.

Let's review the benchmarks:

- Gas prices: One of the segments beyond the control of the government is the price of energy, gasoline and its derivatives. We measure it because it is one of the parameters that most affect consumers' pockets, and evidence of this is the proposed moratorium on the so-called "Crudita," to see if it will lower the price at the pump. In January 2022, gas was \$0.73 per liter, and in May, it had increased to \$1.236 per liter, an increase of 69.32 percent, affecting multiple industries and consumers. Russia's invasion of Ukraine has impacted the oil and gas market and raised the West Texas Intermediate barometer; on February 2, it was at \$88.26, and by May 31, it had risen to \$114.77, or up 23.11 percent; at its worst, it rose to \$123.70.

- Economic progress: Annual gross



domestic product of 2.6 percent remains unchanged, but other metrics shows that economic activity continues to rise.

- Economic activity index: We maintain that economic activity rose to 3.9 percent in May versus 2.8 percent in January, an increase of 28.21 percent, and we support the outlook for continued economic growth in Puerto Rico.

- Cement sales: Increased in May to 1,297,400 bags versus 1,063,000 in January, or 22.05 percent more, proving a significant increase in activity for the entire construction sector.

- Unemployment and participation rate: Unemployment dropped in May to 6.5 percent, versus 7.8 percent in January, or 16.67 percent lower. In addition, the labor-force participation rate increased by 1.61 percent in May, or 44.1 percent, compared with 43.4 percent in January.

- Manufacturing PMI: Increased to 63.6 in May from 56.8 in January, a significant increase of 11.97 percent, which is good news for the sector.

- Puerto Rico's public companies outperform Wall Street: the Birling Puerto Rico Stock Index includes the four publicly traded Puerto Rican companies. The index closed at 2,834.29 points on May 31 versus 3,037.51 points in January, a reduction of 6.69 percent, driven by the volatility caused by the Fed's monetary policy change, high inflation levels, rising interest rates and Russia's invasion of Ukraine. On the other hand, year-to-date (YTD) performance reached -1.56 percent, outperforming the Dow Jones Industrial

Average at -9.27 percent, the S&P 500 at -13.30 percent, and the Nasdaq composite at -22.78 percent. Individual stocks almost all posted positive returns through May 31:

- Firstbank (FBP): YTD return of 8.35 percent; the stock closed at \$14.93.
- Oriental (OFG): YTD return of 6.7 percent; the stock closed at \$28.34.
- Popular, Inc. (BPOP): YTD return of -0.4 percent; the stock closed at \$81.71.
- Evertec (EVTC): YTD yield of -24.09 percent; the stock closed at \$37.94.

Financial institutions' liquidity remains more robust than ever, with more than \$3.32 billion in total market capitalization. Similarly, they had net income in the first quarter of nearly \$332.8 million, an impressive start among the four companies.

As seen in the following economic benchmarks, Pierluisi continues to steer Puerto Rico's economic course steadily toward growth, development and improvement in many areas, a strategy demonstrated in these unbiased metrics. This progress is by no means the job is done, but the path of economic progress is more than evident.

Governor Pedro Pierluisi

Benchmarks for Puerto Rico	May-22	Jan-22	Change
Price per liter of regular gasoline	\$1.24	\$0.73	69.32%
Puerto Rico Manufacturing PMI Index	63.60	56.80	11.97%
Sales of bags of cement	1,297,400	1,063,000	22.05%
Type 1 Crime Statistics	1,490	1,847	-19.33%
Unemployment	6.40%	7.80%	-17.95%
Gross Domestic Product Growth	2.60%	2.60%	0.00%
Economic Activity Index	3.90%	2.80%	28.21%
Labor Participation Rate	44.10%	43.40%	1.61%
Household Ownership Rate	62.90%	62.90%	0.00%
Average Per Capita Income	20230	\$20,230	0.00%
Birling Puerto Rico Stock Index	2,834.29	3,037.51	-6.69%
Government Bond Debt	\$34,000,000	\$70,000,000	-51.43%
Credit Rating	D	D	In Process
Market Access	Limited	Limited	In Process
Birling Capital's Government Progress Index	29.40	26.30	11.79%

Below is the Government Progress Index comparison of May versus January, where we note an 11.79 percent improvement; let's review the benchmarks:

In our analysis, Pierluisi's critical advances are as follow:

- Implementation of Puerto Rico's Plan of Adjustment: This allowed Puerto Rico to reduce its debt from \$70 billion to \$34 billion, a 51.42 percent discount. In addition, a reduction of the annual debt payment from \$3.9 billion to \$1.15 billion a year. The plan saves Puerto Rico 70.50 percent in annual debt payments.

- The government's non-political response to COVID-19: Focusing on vaccination without politicizing the process is one of the administration's greatest successes. Taking control of the COVID-19 pandemic and relaxing measures when warranted and tightening them when necessary.

- Puerto Rico firm on Washington's agenda: Reconstruction and other federal funds now total \$98.6 billion, enough to rebuild all of Puerto Rico's critical infrastructure and lead Puerto Rico into a future of significant progress.

On the negative side, most experts agree that most of the governor's challenges have been on two fronts:

1. The positions of the Fiscal Oversight and Management Board (FOMB)
2. The shared governance with the leadership of both the Senate and the House of Representatives Here are some observations:

- The elimination of the excise tax on foreign corporations, or Act 154: Creates an uncertain environment: It is the most critical issue for the general fund,

and the U.S. Treasury Department has already granted an additional year of transition to companies under Act 154-2010. The tax represents about \$1.7 billion in annual Treasury revenue.

- Lack of a consensus on tax matters: The lack of establishing a holistic system that alleviates the government's public policy on all tax matters and the country's economic reality may lead to more significant inflationary pressure.

- Puerto Rico's declining population: It is of great concern that the mortality rate is currently higher than the birth rate. According to the U.S. Census Community Survey, the population is projected to be around 3.1 million by 2025.

Issues Affecting Puerto Rico Entrepreneurs:

- 62.5 percent believe the economy has not recovered strongly
- 46.3 percent point to energy costs as an obstacle
- 45.6 percent cite tax costs as a factor
- 44.1 percent believe government bureaucracy impacts them

Birling Capital's Government Progress Index sets the path for government and citizens to understand and recognize success by evaluating critical economic metrics that allow for an unbiased assessment.

Benchmarking is a necessary function of government. It can improve program oversight and accountability, improve the effectiveness and efficiency of services, and assess what works and what does not while providing the critical information needed to make difficult policy decisions.

In conclusion, in our view, an opinion is truly the lowest form of knowledge. It often requires no accountability, no understanding and may sometimes be based on falsehoods. However, the highest form of knowledge is empathy, for it requires us to suspend our egos and live in another person's skin. It also requires a profound sense of purpose, which is more considerable than understanding oneself.

Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically® is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.