

ECONOMY

Puerto Rico Leaders
Must Take Notice and Act

THINK STRATEGICALLY:



To All of You that Promises Progress, Prosperity

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Puerto Rico has lacked what is referred to as a “Country Plan” for decades now, and it is not a coincidence that we fell into the nation’s largest bankruptcy by chance. Should you ask anyone from political leaders to journalists to business people, no one will tell you what Puerto Rico’s plans, goals and aspirations are.

Puerto Rico lacks a Country Plan that all Puerto Ricans, regardless of their ideology, race, background, age, gender or position can rally behind to preserve, respect and help in accomplishing it. All Puerto Ricans must make sure the Country Plan is never tied to the results of any electoral cycle or party.

For the past 15 years, we have seen a dramatic deterioration in our institutions and infrastructure including the central government, the Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct & Sewer Authority, as well as education, health care, security, the roadways, and a significant majority of the services we receive as citizens.

The need to have a clear vision of Puerto Rico’s economic future and its sustainability is dire. As Puerto Ricans, we cannot accept that the fate of our financial well-being is predicated solely on the amount of federal funding that reaches our shores; what is truly essential is a transformation of our economic engine. This new transformational vision must be implemented and followed regardless of which party or ideology is in control of Puerto Rico.

‘Puerto Rico First’ Goals

Puerto Rico has studied everything and implemented almost nothing over the last 20 years that our economy has been in a downward spiral.

If we choose to do almost nothing, we should at least bring ourselves up to the same level as the United States, which is ranked No. 6 in the world, while Puerto Rico is No. 65.

So let’s review our worst metrics:

- Starting a business, our rank is No. 59
- Dealing with construction permits, our rank is No. 143
- Trading across borders, our rank is No. 70
- Getting electricity, our rank is No. 92
- Registering property, our rank is No. 161
- Paying taxes, our rank is No. 163

The 10 Puerto Rico First goals discussed below are achievable if the right processes are put in place.

Goal 1: Return to a sustained real annual growth rate of no less than 4 percent within six years: The fact that it is a growth rate that our peers and competitors have exceeded in recent years suggests it is an achievable goal. The 2019 gross national product for Puerto Rico was \$70 billion at the current economic rate; compare Puerto Rico at a real growth rate of 1.7 percent versus 4 percent. The 1.7 percent real growth rate means that, in real terms, the economy grew by approximately \$1 billion. If Puerto Rico had grown at 4 percent adjusted for inflation, the economy would have increased by \$2.8 billion in practical terms. If we expand our economy at that rate for five years, we can add \$15

billion in additional revenue.

Goal 2: To increase our industrial structure in which employment in the knowledge-based economy activities is no less than 25 percent within 10 years: This is not an unrealistic target, particularly if the existing base of advanced services is taken into account. A knowledge economy that grows at least at the rate of the overall economy target of 4 percent, would generate additional revenues of \$3.5 billion per year.

Goal 3, 4 and 5: Create 300,000 jobs in the private sector over the next six years: Reduce the unemployment rate and increase the labor participation rate to a level that will allow the dependency ratio (employees/population, private employees/population) to be similar to that of the United States within six years: Creating 300,000 new jobs would mean that our labor force would comprise nearly 1.17 million people, which is higher than our record of 1.03 million in 2007, assuming the current average household income of \$20,873.80, which translates into \$6.2 billion in new wages.

Goal 6: Increase the median household income by 30 percent, from the current \$20,873.80: Increasing the median household income to \$27,135.94 translates into \$7.2 billion in additional revenue.

Goal 7: Close the “development gap,” that is, the gap between the percentage of gross domestic product represented by consumption and the percentage represented by investment, which in Puerto Rico far exceeds that of our peers. The structure of income in Puerto Rico (65 percent of people’s

income comes from three sources: public employment, federal transfers and the informal economy) and the way the tax system has been structured has stimulated consumption and not savings and investment.

Goal 8: Move to a government structure characterized by the following: employing no more than 15 percent of the employed labor force and a consolidated budget that does not exceed 25 percent of the GNP. Currently, these two figures stand at around 28 percent and 50 percent, considering that the consolidated budget includes public corporations. Although this objective may be aimed at shrinking the government, which should be a social objective, the mere fact of growing at a rate of 4 percent without increasing government participation in employment and economic activity would facilitate its achievement.

Goal 9: Transform the education system from primary to university level into one focused on entrepreneurship, trades and transformation: This is critical to achieving a more focused education system centered on entrepreneurship and wealth creation rather than educating students to look for jobs.

Goal 10: Measure ourselves against global metrics that benchmark most developing economies to move up the rankings.

All told, the Puerto Rico First Goals would create more than \$15.5 billion in increased and organic economic activity, wealth creation, job growth and education. That is before analyzing the benefits of extracting the government from the business that the private sector can do better.

Week in Markets: Global U.S. Banks Reach \$33.08 Billion in Net Income; Birling Capital U.S. Bank Index Returns 44.67% YTD

Last week closed with a positive note as the most prominent names on Wall Street delivered better earnings than expected. The additional benefit is that U.S. retail sales also trounced estimates. The indices all closed higher, as did U.S. bond yields

as prices fell, and oil continued rising, reaching \$82 per barrel.

Retail sales registered a 0.74 percent rise that beat the forecast 0.2 percent reduction. Even as the global supply chain disruptions persist, consumers’ continued spending pushes prices higher. Even automobile manufacturers, marred with computer chip shortages, saw their sales increase 0.5 percent.

We remain optimistic that the bull market will continue; we also think volatility will become more present and persistent.

Global U.S. Banks see third quarter income of \$33.08 billion and the Birling Capital U.S. Bank Index yields a 44.67 percent return year to date. A breakdown of the results follows:

- JP Morgan & Co. (JPM) reported revenues of \$29.6 billion and 1 percent compared to 3Q20, Net income of \$11.7 billion, a 24 percent increase. The stock closed at \$166.61, up 1.92 percent.
- Goldman Sachs (GS) reported revenues of \$13.61 billion, an increase of 26 percent, and net income of \$5.38 billion; the stock closed at \$406.07, up 3.8 percent.
- Citigroup (C) reported solid 3Q21 revenues of \$17.2 billion, down 1 percent, and net income of \$4.6 billion, up 48 percent. The stock closed at \$72.29, up 2.10 percent.
- Morgan Stanley (MS) reported revenues of \$14.8 billion and \$3.7 billion in net income. The stock closed at \$102.14, up 1.12 percent.
- Bank of America (BAC) reported \$22.8 billion in revenue and net income of \$7.7 billion, up 58 percent. The stock closed at \$46.37, or up 2.88 percent.

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.

Weekly Market Close Comparison	10/15/21	10/8/21	Return	YTD
Dow Jones Industrial Average	35,294.76	34,746.25	1.58%	15.32%
Standard & Poor’s 500	4,471.37	4,391.34	1.82%	19.04%
Nasdaq Composite	14,897.34	14,579.54	2.18%	15.59%
Birling Puerto Rico Stock Index	2,931.72	2,973.47	-1.40%	43.36%
U.S. Treasury 10-Year Note	1.59%	1.61%	-1.24%	0.68%
U.S. Treasury 2-Year Note	0.41%	0.32%	28.13%	0.63%