

Puerto Rico's Comeback Was Nigh, But Then the Coronavirus Came

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Puerto Rico's wretched luck has been as constant as its tides. But just a few months ago, it seemed to be turning.

After a deadly hurricane, ruinous earthquakes, political upheaval and the largest-ever U.S. municipal-bond default, the economy was growing modestly. Unemployment was falling, and the commonwealth was moving forward on a three-year negotiation to restructure nearly \$18 billion in debt, crucial to exiting bankruptcy.

Then came the coronavirus.

In response, Puerto Rico barred cruise ships, imposed a curfew and shut all nonessential businesses on March 15. The forceful measures, which are now being loosened, are credited with controlling the outbreak. As of Thursday, the island of 3.2 million had 5,352 confirmed and suspected cases of the coronavirus and 144 deaths due to Covid-19.

But the measures have decimated industry. The pandemic-gripped economy is now expected to collapse 4% in the fiscal year ending June 30 and shrink through 2025, according to a federally appointed oversight board. By its calculation, the island will pull in just enough revenue to provide essential services -- and there won't be enough to repay bondholders, at least not under the terms already agreed upon.

And bankruptcy negotiations? On hold until further notice.

Jorge Irizarry, who heads a group that represents some 60,000 bondholders on the island, said his clients have already lost half of their investments under the court-mandated restructuring, which began in 2017.

"We thought we had an idea of what our conditional losses would be, but now nobody knows where this is going to come out," said Irizarry, executive director of Bonistas del Patio. "Here we are in 2020 -- 14 years into a recession -- and there is no light at the end of the tunnel."

Puerto Rico's debt attracted investors throughout the U.S. for its higher yields and because the securities are tax exempt in all 50 states. For years the commonwealth sold debt to paper over budget gaps. When it fell into bankruptcy in May 2017, the commonwealth and its agencies had \$74 billion of debt and the pension system owed current and future retirees \$50 billion.

Brief Rejoicing

As 2019 ended, though, there were reasons for optimism.

Despite its decade-long doldrum, the economy had grown during the calendar year, said Manuel Laboy, the commonwealth's secretary of economic development and trade. Tax revenue was up 21%, tourism was strong and -- for the first time since 2006 -- residents weren't fleeing in droves.

"All the economic indicators, at least the most important ones, were showing good signals and trending in the right direction," he said. "And the trend was for us to grow in 2020."

The New Year's cheer didn't last. On Jan. 7, a magnitude 6.4 earthquake caused hundreds of millions in damage and paralyzed much of the economy. On March 13, the island reported its first coronavirus case.

"This happened on top of the bankruptcy, on top of the hurricanes and on top of the earthquakes," said Sergio Marxuach, policy director at the Center for a New Economy, a think tank based in San Juan. "Each one of those events had economic and social consequences."

Laboy acknowledges that the pandemic will cause short-term pain, but he rejects at the oversight board's grim projections,

including that the island of 3.2 million will lose 9% of its population over the next five years.

Puerto Rico was bouncing back from Hurricane Maria in 2017 and last summer's protests that forced then-Governor Ricardo Rossello to resign amid corruption allegations, Laboy said.

"After everything we've endured, our long-term partners are still in Puerto Rico," he said. "There is this intangible asset and core competency of Puerto Rico, which is the resiliency of our people and the private sector."

But the island still must safely reopen the economy, accelerate the use of federal emergency funds -- particularly the \$2.2 billion it's slated to receive under the Cares Act -- and capture new business, he said.

The most tantalizing opportunity is directly tied to the health crisis, as there are renewed calls in Washington to return pharmaceutical and drug manufacturing to the U.S. in the name of national security. Puerto Rico -- which has almost 50 pharmaceutical factories, including for drugmakers such as Merck & Co., Pfizer Inc. and Eli Lilly & Co. -- has infrastructure, talent and location, Laboy said.

It's not an easy sell. Not only will Puerto Rico be competing against the 50 states, but it must allay fears about natural disasters. The beginning of the Atlantic hurricane season June 1 recalls Maria, which caused \$91 billion in damage, led to the death of about 3,000 people and knocked out power in some areas for almost a year.

On top of it all, the bankruptcy is likely to drag on through 2021, said John Mudd, a lawyer and Puerto Rico debt expert.

"If you're an investor and you look at Puerto Rico again and you see the same problems, and on top of all that, you have a bankruptcy -- what do you prefer, New Jersey or Puerto Rico in bankruptcy?" he said.

Antonio Martin, an 81-year-old architect who lives in Guaynabo, is among tens of thousands of residents who plowed their savings into commonwealth bonds. Unlike Wall Street speculators, who scooped up the debt at steep discounts, he paid face value.

Martin, a Cuban migrant who had seen his father lose everything to Fidel Castro's revolution, wanted a bulletproof retirement plan: The bonds were backed by Puerto Rico's constitution and, he believed, by Uncle Sam. He says he's lost about half his savings and has little faith that a resolution is near.

"Puerto Rico tricked me, and the United States tricked me," he said. "Where am I supposed to go now? I can't go back to Cuba."

Choosing Leaders

Debt and its consequences will be a central issue of the crowded governor's race Nov. 3, when Governor Wanda Vazquez and her New Progressive Party are hoping to win re-election, despite playing a starring role in last summer's political turmoil. While Vazquez is facing eight other candidates, her biggest challenge may be from inside her own party.

Pedro Pierluisi, Puerto Rico's nonvoting member of the U.S. House of Representatives from 2009 to 2017, is hoping to win the party's nomination during an Aug. 9 primary, running on a pro-business and pro-statehood platform.

Even he acknowledges the current debt plan is a nonstarter.

In February, negotiators hammered out a deal that included recoveries ranging from three cents on the dollar to as much as 77.6 cents, depending on the type of security.

"Those creditors know they cannot expect that deal to stay as is, because it's not realistic," Pierluisi said. "Nobody here wants another big default down the road."

Promesa Renewed?

The root of the problem is the island's lack of growth, said U.S. Representative Raul Grijalva, an Arizona Democrat and an architect of the 2016 Puerto Rico Oversight, Management and Economic Stability Act that allowed bankruptcy.

Promesa, as the law is known, was intended to help restructure debt and pension obligations. Instead, the oversight board created by the legislation has largely relied on cost-cutting and austerity measures to balance the budget and repay bondholders, he said.

“The implementation of Promesa without a comprehensive development plan has proved to be difficult, if not unsuccessful,” said Grijalva, who is pushing to amend it. “We have to prioritize economic activities that promote growth.”

This week, the oversight board submitted a \$10 billion budget for fiscal 2021 that includes \$675 million worth of investments in communication infrastructure and health care. “This fiscal stimulus is intended to further minimize the damage to Puerto Rico’s economy resulting from the pandemic,” Executive Director Natalie Jaresko said in a statement.

As for Martin, the bondholder, he says he’s grown old and weary waiting for an economic comeback.

“Everything is up in the air again,” he said. “Personally, I have very little hope that I will ever get repaid.”

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