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**Testimony before the United States House of Representatives  
Committee on Natural Resources  
Public Hearing on The Status of the Puerto Rico Oversight, Management, and  
Economic Stability Act (PROMESA): Lessons Learned Three Years Later**

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May 2, 2019**

## ORAL TESTIMONY

CHAIRMAN RAÚL GRIJALVA, MEMBERS OF THE UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON NATURAL RESOURCES.

Good morning. Thank you for the opportunity to appear today before this Committee to discuss the lessons learned since the enactment of Puerto Rico Oversight, Management, and Economic Stability Act, PROMESA.

A basic tenet of modern capitalism is that insolvent debtors need a fresh start. And it is well known that decentralized bargaining processes for debt restructuring often lead to costly delays and the relief obtained being insufficient to restore debt sustainability, which in turn makes economic recessions deeper and longer. Aware of these premises, Congress took action and enacted PROMESA to facilitate debt restructuring and economic recovery for Puerto Rico.

The Board was given the difficult task of designing a plan for restoring the sustainability of the public debt that would lead to Puerto Rico's recovery of access to capital markets. The critical question that I would like to address today is whether the policies that the Board has promoted have been aligned with the mission that it received. I will argue that they have not.

In March of 2017, the Board certified a fiscal plan. The consensus among the economists that had been analyzing Puerto Rico's case was that the plan did not provide for economic recovery, that it included a number of unrealistic assumptions, and that the new fiscal plan had to be fundamentally different than the previous one if Puerto Rico was to have a chance for recovery.

That plan became obsolete after Hurricane Maria aggravated Puerto Rico's troubles, and it was replaced by a new plan in October of 2018. In this testimony, I intend to shed light on the consequences to the future of Puerto Rico's economy implied by this latest plan and the restructuring deal with the COFINA bondholders.

Let's start with the basics. The sustainability of Puerto Rico's debt restructuring needs to be assessed and addressed comprehensively. The critical question is how much debt reduction the island needs.

I will share five conclusions from my analysis of what has happened over the last two years.

First, the Board's debt policies are not aligned with what is needed to restore debt sustainability. The Board is still supporting too much debt service.

Second, the COFINA deal poses the serious risk of a failed debt restructuring. The deal makes sense only if the other groups of Puerto Rico's bondholders get a very large haircut. According to the calculations that my colleagues and I have performed, the generosity with the COFINA bondholders can only be sustained if the reduction on the rest of the public debt lies between roughly 85% and 95%.

Third, the terms of the COFINA deal imply that COFINA bondholders will be getting far more than they could have expected a year ago, as reflected in market prices. The outcome of the political game over disaster relief funds is contrary to the interests of Puerto Rican citizens. Those who bought COFINA bonds in the months that followed Hurricane Maria have made massive profits at the expense of the future of Puerto Rico's economy.

Fourth, the Board is addressing one piece of the debt restructuring at a time in a way that will likely prove unsustainable. If terms similar to the COFINA deal were also agreed to with creditors who hold General Obligation bonds, Puerto Rico's debt crisis will not be resolved.

Fifth, the Board and the government of Puerto Rico have overstated the savings that the COFINA deal will deliver for Puerto Rican taxpayers and understated the distributional consequences as well as the risks that the outcomes of those debt negotiations entail.

Overall, I still do not see a well-oriented restructuring process. My concern with what we are observing is that the recovery induced by federal relief assistance will be short-lived. In the short term we will likely see Puerto Rico grow, but if the problem of unsustainable debt is not resolved, we will see an economy once again in deep trouble by the time the federal relief starts to cease. That path, if taken, will inevitably end in another costly restructuring.

Thank you again for the opportunity to share my views. I hope my testimony contributes to a better-informed policy debate.

Sincerely,

Martin Guzman