



PRESS SUMMARY

SUBJECT: MARTIN GUZMAN'S TESTIMONY AT THE UNITED STATES CONGRESS ON "THE STATUS OF PROMESA: LESSONS LEARNED THREE YEARS LATER"

The Fiscal Board established by PROMESA was given the mission of bringing Puerto Rico's public debt back to a sustainable level, thus restoring access to capital markets, and building the foundations for the recovery of Puerto Rico, and bringing opportunity back to its people.

The central question addressed by Martin Guzman's testimony in the United States Congress was whether or not the Fiscal Board's policies have been aligned with its mission. His answer to this question is that they have not. He added that the result is unfortunate for the people of Puerto Rico but fortunate for a group of bondholders.

Guzman's presentation stated that in principle Puerto Rico's public debt restructuring has to address the entirety of the public debt comprehensively. The critical question is the amount of debt relief needed to make the debt sustainable. He argued that a sensible approach would be to calculate the range of debt that was sustainable before Hurricane Maria and use that range as a basis for sustainable debt projections after the hurricane, as otherwise the expansive effects of federal disaster aid result in an implicit bailout to the bondholders instead of boosting an economic recovery that can be sustained over time.

Based on his studies commissioned by Espacios Abiertos and on analysis by other colleagues, Guzman outlined the following five conclusions.

1. Although there is a strong consensus among economists following Puerto Rico's fiscal crisis on the basic premises that debt policies should follow, the policies that the Board is implementing are not aligned with that consensus. On the contrary, the Board continues to promote debt payments that are excessive in relation to the payment capacity of Puerto Rico.
2. The COFINA agreement puts the restructuring process at risk of failure. The agreement would only make sense if the debt relief for the rest of the public debt was of substantial magnitude, between 85% and 95% according to the calculations of Guzman and his co-authors, and up to 100% according to the computations of other authors.

3. The terms of the COFINA agreement imply that COFINA bondholders will obtain much more than the market expected in the months following Hurricane Maria. In sum, the result of the political game between the Fiscal Board, the Government of Puerto Rico, the Congress of the United States and the bondholders has been contrary to the interests of the residents of Puerto Rico and favorable to those who invested in speculation. Those who bought COFINA bonds in the months that followed Maria have amassed great fortunes at the expense of the future of the Puerto Rican economy and of those who had to sell in the situations of despair generated by the Hurricane.
4. The Board is tackling the debt restructuring puzzle one piece at a time in a way that will likely end up being inconsistent. If they reached an agreement with the General Obligation bondholders with terms similar to those of the COFINA agreement, Puerto Rico would be forced to default again or suffer even cuts that would once again throw the economy once into a destabilizing spiral of recession aid funding decreases.
5. The Fiscal Board and the Government of Puerto Rico have overstated the savings that the COFINA agreement implies for those who pay taxes in Puerto Rico, and have minimized both its distributional consequences and the risk it implies for the future. In Guzman's view, the message that Puerto Rico's representatives have transmitted to the people of the island has been misleading.

Guzman concluded by arguing that while he understands that the past three years have presented difficult challenges to the Fiscal Board, he still does not believe that the restructuring process is well oriented. He shared his concern that, given current trends, it is likely that the recovery caused by federal aid will be short-lived. He indicated that he expects the economy of Puerto Rico to grow in the short term, but if the unsustainable debt burden is not resolved by the time federal aid funds decline, the island will see a declining economy again, with more emigration and a prolongation of the crisis. In his view, such a path would eventually result in a new and costly restructuring.