April 24, 2021

Puerto Rico

Board Adopts New Fiscal Plan

Executive Summary: Yesterday afternoon, the Financial Management and Oversight Board (FOMB) adopted a new fiscal plan for Puerto Rico that is more optimistic because of Federal pandemic aid, foreseeing Government surpluses, but emphasizing the need for still unmade structural reforms to prevent a return to deficits. The surpluses would not change terms of agreements with bond creditors.

Issue

The Board adopted a new fiscal plan for Puerto Rico yesterday afternoon replacing the plan adopted last May.

Executive Director Natalie Jaresko acknowledged afterwards that the new plan may well have to be changed again because of the Board's refusal to anticipate a continuation of current Federal Medicaid grants despite a bipartisan Congressional agreement, the commitment of the Biden White House, and 10 years of temporary increases.

Impact

The new Plan is more optimistic than the one it replaced because of the injection of Federal assistance related to the pandemic: an estimated total of $43.5 billion. Combined with Federal funds for recovery from 2017's hurricanes and the subsequent earthquakes, a total of almost $120 billion in special Federal assistance is expected over the next 15 years.

The additional Federal funds are anticipated to boost economic growth this fiscal year from to 3.8% as opposed to 1% without the plan. Expansion is projected for FY 2022 as well before a contraction in FY 2023, but growth would occur again during FYs 2024-2026 due to disaster recovery spending.

The plan includes a $15 billion government surplus through FY 2035 if structural changes in government and the economy are made that the Board has not had much success in obtaining and a surplus of $31 billion over 30 years. Deficits would replace surpluses, though by FY 2030 if the structural changes are not made.

Jaresko said that the newly projected surpluses would not, however, be reflected in changes in negotiations with creditors.

Next Steps

The plan includes priorities of Governor Pedro Pierluisi, including $1 million for a comprehensive audit of bond issuances and $800 million for a civil service reform that would increase low government salaries. The Governor promised to work for reforms sought by the Board but complained about it "*micromanaging*" the government and about the fiscal plan's unrealistic Medicaid numbers.

The plan would also resume cuts in spending that the Board suspended last year because of the pandemic.

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