



# Puerto Rico - A Way Forward

July 13, 2015

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Note on Puerto Rico – A Way Forward, updated as of July 13, 2015.

The report, Puerto Rico – A Way Forward, updated as of July 13, 2015, reflects updated information regarding: (i) debt service, mainly related to obligations of the Government Development Bank for Puerto Rico (“GDB”) from FY2021-FY2025,<sup>1</sup> and (ii) a reclassification of certain Treasury expenditures over FY2015-FY2024 from interest and amortization to non-debt service outlays.

The updates to the report do not change the conclusions in the original report, Puerto Rico – A Way Forward, dated June 29, 2015, as the financing gaps between FY2015-FY2020 are substantially unchanged at an average level of just under \$2 billion a year (after accounting for the implementation of the reform measures outlined in the report). This update does not include final fiscal numbers for FY2015, which could materially change the estimated financing gaps included in the report.

The primary updates are:

- **GDB debt service after FY2021.** The latest data available to the authors show smaller amortization and interest payments from FY2021-FY2025. Notwithstanding this updated debt service schedule, large financing gaps remain, even after the assumed implementation of the measures outlined in the report, in FY2021 and FY2022 (\$992 million and \$362 million, respectively, compared to \$1,288 million and \$1,011 million, as previously stated). The financing gap disappears in FY2023 rather than FY2024 as indicated in the version dated June 29, 2015.
- **Treasury expenditure reclassification for FY2015-FY2024.** The version dated June 29, 2015 classified certain non-debt service government spending (as uniformly declining) debt service payments that ranged from \$92 million in FY2015 to \$61 million in FY2024. The reclassification does not affect any financing gaps,

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<sup>1</sup> Adjustments were also made for GDB debt service for years 2015-2020 and debt service of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”) for the years 2022-2025.

although the primary and overall fiscal balances are more negative.<sup>2</sup>

In line with the aforementioned updates, changes to the text of the version dated June 29, 2015 include:

- In paragraph 15, the fiscal deficits (before the implementation of any of the potential reform measures) now average \$2.6 billion per year through FY2020 (3.7% of GNP, compared with the originally reported figures of \$2.5 billion and 3.5%, respectively). The maximum level of the financing gap from FY2016 to FY2025 is now \$7½ billion (versus \$8¼ billion).
- In paragraph 32, debt relief is now needed for the period FY2016-FY2022 (and not through FY2023 as appears in the original version) and the financing gap disappears in FY2023 (no longer FY2024).
- In paragraph 27, Table 3 memorandum items on ratios-to-GDP of revenue, expenditure, and the primary and overall fiscal balances are adjusted to reflect the aforementioned changes (as well as a correction of a formula error).

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<sup>2</sup>Other similar adjustments were also made to reclassify certain spending associated with the Puerto Rico Infrastructure Financing Authority (“PRIFA”) and the Puerto Rico Public Buildings Authority (“PBA”). As with the treasury expenditure reclassification, these changes do not affect the total estimated financing gap.