

February, 2017

## **PUERTO RICO ELECTS NEW GOVERNOR**

### **GOVERNOR COMMITS TO SUPPORTING THE PROCESS**

The people of Puerto Rico have elected a new governor. His name is Ricardo Rossello, a graduate of the Massachusetts Institute of Technology (MIT) with a first degree in biomedical engineering and economics, and an alumnus of the University of Michigan where he secured a Ph.D in biomedical engineering. He is a former college professor and son of former Governor of Puerto Rico, Pedro Rossello. He was sworn in on the 2nd of January, 2017. The new governor pledged, during his election campaign, to work with bondholders, to abide by the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) and to support the members of the Financial Control Board (FCB) to restore Puerto Rico's battered financial credibility.

The governor has already backed up his pledge by immediately signing orders for state agencies to reduce spending by 10% by the end of the fiscal year, in June, 2017, and to reduce the wage bill by cutting the number of political appointees. The governor also noted that when he is able to craft his own full budget, there will be further spending cuts. Preliminary information suggests that at least another 10% cut in expenditure is likely.

### **DEBT PAYMENT DUE DATE EXTENDED**

The government of Puerto Rico was due to make payments to bondholders as at January 31, 2017, after suspending payments in late 2016 under the provisions of

the PROMESA Act (The Act allows the government to temporarily suspend payments and not have to answer to bondholders in court). Given the fact that the governor was only in office for a few weeks before the due date of payments, it was thought prudent to give the incoming administration time to get a firm grip on the fiscal situation.

A total of US\$1.3 billion in interest and principal is due in February to bondholders. However, the Puerto Rico Financial Oversight and Management Board has granted an extension of (I) the deadline for the government to submit fiscal plan until the 28th of February, 2017, and (II) the automatic stay on debt payments until May 1, 2017, in accordance with the provisions of the Act.

The bill, which was signed in late January, also gives the new governor the option to extend the debt moratorium for an additional three months if necessary. There is a slight

silver lining for investors, given that the governor has noted that bondholders could receive some payment from a portion of the money left over after all essential services were paid. The details however remain sketchy.

Finally, the new governor has said that he is committed to reaching a settlement with bondholders out of court. During the recent election campaign, Rossello pointed out that if bondholders were willing to delay principal payments, he would be willing to cover some interest bills.

Sources: FITCH, Bloomberg,  
[www.dailymail.co.uk](http://www.dailymail.co.uk)