

Puerto Rico Offers Washington \$23 Billion Debt Restructuring Plan



San Juan, February 2 (RHC-teleSUR) -- Puerto Rico unveiled Monday an offer it made to its creditors to restructure US\$49.2 billion of existing debt, slashing debt repayments by almost US\$23 billion.

If accepted by creditors, the plan could give the island's coffers a much-needed boost by giving the government time to enact new fiscal and economic plans, including a reduction in expenditure by US\$13.8 billion over the next 10 years.

The old US\$49.2 billion of debt would be exchanged for US\$26.5 billion of fresh "base bonds," which carry a fixed rate of interest, plus US\$22.7 billion of new "growth bonds." The latter would become payable only once the Caribbean islands revenues top a given level.

The plan, which was presented to bondholders last Friday, will be linked to the future growth of the island.

"Next to FEGP, the debt restructuring proposal, if accepted, will ensure that the Commonwealth has sufficient resources to provide essential public services to all residents of Puerto Rico to pay their suppliers and taxpayers, recover depleted resources and liquidity to fund their retirement systems," said

the government.

In August, Puerto Rico went into default for the first time in its history, and was described by Governor Padilla as a “death spiral.”

The default came soon after the island's Government Development Bank announced that it was only able to make a partial payment on its US\$72 billion debt.

Because Puerto Rico only falls under the categorization of U.S. “territory,” it does not have the same right that U.S. states have in renegotiating its debt. Instead it must negotiate with each individual bondholder.

Bondholders lobbied against granting the island bankruptcy rights, claiming that debt restructuring would discourage reform and, importantly, decrease payments to bondholders.

About one in five U.S. bond mutual funds own Puerto Rican debt, according to Morningstar, and the territory's bond default in August was the largest in U.S. history. Much of its debt has been bought by hedge funds.

The crisis comes after years of economic turmoil on the island, produced mainly by the 2007-2010 recession and housing crisis that affected the United States. However, this situation will directly hurt the island's residents since the debt is mostly owned by residents through credit unions.

Many Puerto Ricans have abandoned the island in search of better opportunities and stability on the U.S. mainland, as the island struggles with high rates of unemployment. San Juan, February 2 (RHC-teleSUR) -- Puerto Rico unveiled Monday an offer it made to its creditors to restructure US\$49.2 billion of existing debt, slashing debt repayments by almost US\$23 billion to combat unemployment and inflation.

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