

The Virgin Islands Consortium

Puerto Rico Near 'Death Spiral' As Government Declares It Cannot Pay \$72 Billion Debt

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ST. CROIX -- Puerto Rico's governor has said that the government cannot continue to make payments on its roughly \$72 billion debt, contending that he needs to pull the island of 3.6 million out of its current financial troubles or head to a "death spiral."

The admission that could have wide-reaching repercussions.

The governor, Alejandro Garcia Padilla, along with senior administration officials made the revelation in an interview with the [New York Times](#) last week, and said that they would probably seek significant concessions from as many of the island's creditors which, according *The Times*, could mean deferring some debt payments for as long as five

years or extending the timetable for repayment.

"The debt is not payable," said Governor Garcia Padilla. "There is no other option. I would love to have an easier option. This is not politics, this is math."

Puerto Rico has piled up more municipal bond per capita than any other American state. And a broad restructuring by Puerto Rico, currently underway, will test the U.S. [municipal bond](#) market, which cities and states rely on to pay for their most basic needs.

According to Garcia Padilla, the government could not continue to borrow money to address budget deficits while asking residents, already struggling with high rates of crime and poverty, to shoulder most of the burden through tax increases and pension cuts.

"If they don't come to the table, it will be bad for them," Garcia Padilla told *The Times*, speaking of the island's creditors who he said must now "share the sacrifices" that he has imposed on the island's residents.

The governor, who plans to address residents during a televised address on Monday evening, said "what will happen is that our economy will get into a worse situation and we'll have less money to pay them. They will be shooting themselves in the foot."

Puerto Rico's government must set aside \$93 million each month to pay its general obligation bonds -- an action that must be taken because Puerto Rico's constitution requires that such bonds be paid before any other expense. According to *The Times*, no other American state has restructured its general obligation debt in living memory.

"My administration is doing everything not to default," Garcia Padilla said. "But we have to make the economy grow. If not, we will be in a death spiral."

According to the governor, when he took office he tried to balance the fiscal situation through austerity measures and new borrowing. But he realized that the island was trapped in a vicious cycle where it borrowed to balance the budget, raised debt and had an even bigger deficit the next year.

Residents began leaving Puerto Rico by droves for the mainland, and the island's credit was downgraded to junk, which in turn made borrowing more expensive.