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## **BlackRock Sees Higher Puerto Rico Gap Than Morgan Stanley.**

Puerto Rico's five-year budget deficit leans closer to the commonwealth's \$14 billion forecast rather than a Morgan Stanley estimate that cuts that figure by more than half, according to BlackRock Inc.'s Peter Hayes.

Commonwealth officials and their advisers, called the Working Group, unveiled on Sept. 9 a five-year fiscal and economic growth plan that projects the island's budget will be short \$14 billion because of increasing health-care expenses and retirement costs. The report's base-case scenario estimates the island's gross national product will decline by one percent and may increase by as much as 2 percent in a high-growth scenario, according to the plan.

One Morgan Stanley scenario takes a different view. Puerto Rico has overestimated its funding gap, according to a presentation distributed Sept. 11 by Ryan Brady, an analyst on Morgan Stanley's municipal-debt trading desk in New York. The bank estimates a \$5.57 billion deficit through fiscal 2020, according to the report. Yet that forecast may be too low, Hayes said Tuesday on Bloomberg Television.

"We're on the higher side," said Hayes, who helps oversee \$116 billion as head of municipal debt, including Puerto Rico securities, at New York-based BlackRock. "We think some of the economic assumptions are well founded," Hayes said about the Working Group's estimates.

How to best gauge Puerto Rico's estimates are even in dispute within Morgan Stanley. Research analysts led by Michael Zexas, who work separately from the trading desk, put out a note the day before Brady's presentation stating that "we could not patch together a budget baseline with a strong enough degree of confidence."

Puerto Rico and its agencies owe \$72 billion. Officials plan to offer investors a debt-restructuring proposal in the next few weeks after saying the commonwealth will only have \$5 billion in the next five years to repay \$18 billion of principal and interest coming due. Governor Alejandro Garcia Padilla in June said Puerto Rico and its localities were unable to repay all of its obligations on time and in full.

The Working Group's five-year plan follows a report compiled by former International Monetary Fund economists led by Anne Krueger and commissioned by Puerto Rico. The Krueger report calculates a five-year deficit of \$9.6 billion.

"When you look at the economy of Puerto Rico, there's a lot of reforms that need to take place," Hayes said. "And if they don't, it's likely that deficit is going to be higher rather than smaller."

**Bloomberg News**

by Michelle Kaske

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