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Puerto Rico Bondholders Finally See a Big Win.

- **New plan sees six-year surplus of $6 billion before debt**
- **Most-traded bond jumps by more than 20 percent Monday**

Puerto Rico and its creditors finally caught a break, at least for one day.

Bonds of the bankrupt U.S. territory soared more than 20 percent Monday after the government surprised investors by projecting that a flood of disaster-relief funds will do what officials for years couldn't: revive the moribund economy enough to replace chronic deficits with increasing surpluses, before any debt payments are made.

There's still a big question mark over whether Puerto Rico can actually deliver, given its history of fiscal folly and an exodus of residents. But the bond rally signals optimism that investors may not lose quite as much as initially feared from what has been the largest municipal bankruptcy in U.S. history, even as residents brace for a new era of fiscal austerity.

The government's latest financial turnaround plan marks the second time in as many months that it's offered a more sanguine outlook for its recovery. It projects that Puerto Rico will have a surplus, excluding bond payments, of $6 billion over the next six years after implementing plans to steady its finances. That's up from $3.4 billion projected last month. In January, while still gauging the toll of the storm, it estimated that it would have essentially no money for debts because of the devastation.

"The move is bigger than expected, but it is in reaction to the fiscal plan which has come out more positively than previous ones," said Daniel Solender, head of municipal investments at Lord Abbett & Co., which holds Puerto Rico securities among its $20 billion of state and local debt. "There still is a long way to go, but there is growing optimism that things have moved better than worst-case scenarios."

Puerto Rico general obligations were the most actively traded municipal bonds Monday. The price of those due in 2035 rose by 7 cents on the dollar to an average 43.8 cents, the highest since early October, after climbing to as much as 45 cents, according to data compiled by Bloomberg. The prices of the territory's sales-tax, electric-company and building-authority bonds also jumped in heavy volume.

The rally wiped out much of the losses that Puerto Rico bondholders suffered after the September hurricane. The bonds due in 2035 — which were sold to hedge funds and other investors for 93 cents on the dollar four years ago — had slipped to around 58 cents before the storm. They then tumbled to as little as 21 cents in December.

Governor Ricardo Rossello's administration's latest plan still needs approval from the federal board that's been installed to oversee the turnaround and requires him to implement steps to wrest savings from the government and increase revenue. The question of how much investors will recover will also be determined in court, where creditors with sometimes competing claims are fighting over the the island's cash — making the outcome highly uncertain.

The improved outlook in the latest road map reflects the federal aid and insurance claims that are coming into the island, promising to boost an economy that had been mired in a recession for years as residents left for jobs on the U.S. mainland. The stagnation culminated in Puerto Rico's fiscal collapse.

As a result of the storm, Puerto Rico is counting on $21 billion of insurance money and about $49.1 billion of federal aid, enough to have a major impact on growth. While the economy is projected to shrink about 10.6 percent in the current fiscal year, the government anticipates it will expand 7.3 percent next year and grow for the following four years. A year ago, the island was projecting continued contraction.

The latest plan was set to be considered by Puerto Rico's federal oversight board Monday until the meeting was delayed. If approved, it will be a blueprint for the board, Rossello's administration and creditors during negotiations over how much of the island's $74 billion of debt it can repay.

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