

Report: GDB played key role in fiscal crisis, poses systemic financial risks

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Economist Arturo Porzecanski is taking aim at the Government Development Bank in a new report that argues it played a central role in Puerto Rico's fiscal crisis.

The report, [*The Government Development Bank: At The Heart of Puerto Rico's Financial Crisis*](#), characterizes the GDB as the U.S. territory's "piggy bank" and "brain trust." Porzecanski says that despite being by far the largest banking institution in the United States which is overseen neither by the Federal Reserve nor the FDIC, the GDB has managed to escape scrutiny by credit-ratings agencies and Wall Street analysts alike.

"Evidently, few are keen to take on the almighty GDB," Porzecanski argues, "even though it is such a 'black box' and crucial arm of the government."

The GDB serves as a bank, fiscal agent and financial advisor for the commonwealth of Puerto Rico, and its instrumentalities. The GDB is the main investment officer for the government and fiscal manager of the island's debt.

The report comes as the Puerto Rico prepares to issue \$900 million in tax revenue anticipation notes (TRANs). Legislation to clear the way for the TRANs deal would provide for New York legal jurisdiction in the event of litigation related to the sale.

The New York jurisdiction is aimed in part at easing investor jitters over the Recovery Act, legislation enacted by Gov. Alejandro García Padilla this summer that allows public corporations to restructure their debts through a bankruptcy like process in island courts. The thinking among potential buyers of the TRANs is that the commonwealth government is less likely to default on debt issued on terms under New York state law.

A sale of TRANs, a standard cash flow instrument used to meet liquidity needs throughout the year, would mark Puerto Rico's first debt deal since passage of the Recovery Act in late June. The Recovery Act spurred a flood of credit downgrades by Moody's Investors Service, Fitch Ratings and Standard & Poor's, further limiting the commonwealth's access to the \$3.7 trillion municipal bond market.

Puerto Rico, which is dragging around more than \$70 billion in debt, issued \$3.5 billion in junk rated general obligation bonds in March.

Porzecanski, an American University international economist, will host a conference call Wednesday to discuss the TRANS sale and key findings of his report, including: how the GDB facilitated the decade-long borrowing binge that led to the current crisis; how the bank itself is vulnerable because of all the loans it has granted to state entities at the edge of default; how legal changes are necessary to prevent public corporation defaults from having a spillover effect on general-obligation debts; and how the bank's financial vulnerability, poor transparency, and lack of backing by a lender of last resort pose a systemic threat to Puerto Rico and to the mainland United States.

Porzecanski is director of American University's International Economic Relations Program. He previously worked for nearly three decades as a senior international economist on Wall Street.

<http://www.caribbeanbusiness.pr/news/report-gdb-played-key-role-in-fiscal-crisis-poses-systemic-financial-risks-100830.html>