Here Comes “Prexit”: Puerto Rico In “Death Spiral”, Debts Are “Not Payable”, Governor Refuses To “Kick The Can”

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July 1, 2015

The only thing Puerto Rico and Greece have in common is that they both took on too much debt. The Greek problems did not cause the problems in Puerto Rico, though the mainstream media will talk ad infinitum about “contagion”. “Contagion” is the new buzzword. – Shorty Dawkins, Associate Editor

This article comes from zerohedge.com

As we noted last night, for a whole lot of time nothing at all can happen under the guise of “containment”… and then everything happens all at once. Because not even two full days after Greece activated the “Grexit” emergency protocol, leading to capital controls, and a frozen banking system and stock market, moments ago the NYT reported that the default wave has jumped the Atlantic and has hit Puerto Rico whose governor Alejandro García Padilla, saying he needs to pull the island out of a “death spiral,” **has concluded that the commonwealth cannot pay its roughly $72 billion in debts, an admission that will probably have wide-reaching financial repercussions**.

In other words, first Greece, and now Puerto Rico may be in a state of Schrodingerian default. Why the ambiguity? Because while Greece is not technically in default until July 1, Puerto Rico does not even have an option to declare outright default. But that doesn’t mean that the commonwealth will service it. Quoted by the NYT, García Padilla said “**The debt is not payable**.” He added that **“there is no other option. I would love to have an easier option. This is not politics, this is math**.”

Funny: math went out the window in 2009 when central bank “faith” took over. The problem is that faith has run out, as has the “political capital” to keep an insolvent global system running, and first Greece now Puerto Rico are finally realizing it.

As the NYT adds, this is “a startling admission from the governor of an island of 3.6 million people, which has piled on more municipal bond debt per capita than any American state.”

More:

> A broad restructuring by Puerto Rico sets the stage for an unprecedented test of the United States municipal bond market, which cities and states rely on to pay for their most basic needs, like road construction and public hospitals.

> That market has already been shaken by municipal bankruptcies in Detroit; Stockton, Calif.; and elsewhere, which undercut assumptions that local governments in the United States would always pay back their debt.

The immediate implication, as accurately presented by the NYT, is that Puerto Rico's call for debt relief on such a vast scale could raise borrowing costs for other local governments as investors become more wary of lending. Indicatively, Puerto Rico's bonds have a face value roughly eight times that of Detroit's bonds.

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