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CREDIT RATING AGENCIES MONITOR BUDGET APPROVAL PROCESS IN THE LEGISLATURE

Moody Investors Service (Moody's) and Standard & Poor's (S&P) are following very closely the budget evaluation process in the Legislative Assembly in preparation for the upcoming evaluation of the Commonwealth of Puerto Rico's credit, said the Government Development Bank president, William Lockwood.

"Both in communications with us and with the press, S&P analysts in particular have made it clear that the evaluation and approval process taking place in the Legislature will weigh in their evaluation of the Commonwealth's credit," Lockwood said, adding that the analysts will follow the legislative response to the negotiation efforts by the Executive Branch, which are headed by Office of Management and Budget executive director Ileana Fas, as well as the general process of public hearings on the budget conducted by the Legislature.

Within this context, GDB's president made reference to an article published today (April 20, 2005) in *The Bond Buyer*, a paper specialized in the municipal bond market. The article states:

"Standard & Poor's analyst Horacio Aldrete said the new administration was 'quick to grasp the challenges they were facing and they are working on addressing them.' However, it is not possible to assess the government's proposed reforms at this point... 'All policies before they are implemented have to go through a process of review by policy and legislative bodies,' Aldrete said. 'We're waiting to see what sort of policies are actually implemented by the legislature. I think the administration knows what they need to do, but there still needs to be a political debate and a legislative debate about what those measures are actually going to be.'"

Lockwood met informally yesterday with representatives of Moody's, the other agency that rates the Commonwealth credits, to provide them with an update on the progress of budget deliberations and assess their inclinations regarding the Island's credit.

“Moody’s analysts received the information provided with the same seriousness with which they have been studying all the materials we have been providing them since the beginning of the year, and, although they did not show their current inclination, they did let us know that their credit committee would be evaluating the Island’s credit in the near future,” Lockwood said. “In fact, the evaluation could take place even before the formal meeting we have scheduled with them for the first week of May,” he added.

Lockwood explained that rating agencies always have the option of issuing reports on the credits they evaluate, even in the absence of the formal request for evaluation that is usually made in connection with any bond issue.

“At this time, Moody’s has several options, which include evaluating the credit without issuing a report or evaluating the credit and issuing a report keeping the current Baa1 rating with a negative outlook but stating what they expect us to do to handle the fiscal situation,” the GDB president said.

“On a more negative plane, Moody’s could also put the Commonwealth credit on credit alert for several months, or, in a worst case scenario, downgrade our credit to Baa2,” Lockwood added, explaining that a credit downgrade has the effect of increasing the cost and limiting our access to capital to finance public works.

The formal meetings with the credit rating agencies have been scheduled for the first week of May. At that time, Fas Pacheco, Secretary of the Treasury Juan Carlos Méndez, and Secretary of Economic Development and Commerce Jorge Silva, will have the opportunity, along with Lockwood, to offer the agencies a complete picture of the fiscal and economic situation of the Island within the framework of several bond issues scheduled with the purpose of closing the current fiscal year with a duly balanced budget, concluded the GDB President.