

P R E S S R E L E A S E

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GDB PRESIDENT RECOMMENDS INNOVATIVE MEASURES FOR THE STRATEGIC MANAGEMENT OF PUBLIC DEBT

Government Development Bank for Puerto Rico (GDB) President, William Lockwood, recommended giving public debt a strategic use within the Island's current fiscal framework in order to return to the road to economic viability and social well being in the short and medium term.

"Puerto Rico is the jurisdiction with the lowest credit rating when compared to all states and has the greatest dependence on the use of debt, which means that we devote a greater share of our resources to debt service than any other jurisdiction," said the President, while stressing that this share would be reduced if we establish greater controls to achieve efficiency in spending, debt issuance and the collection of revenues for the General Fund.

GDB's president made these statements during his appearance before the Budget and Appropriations Commission's public hearings on the government budget for fiscal year 2005-2006.

Lockwood recommended to the Legislative Assembly to evaluate this budget and "enter into negotiations" with the Executive Branch within a comprehensive scope that integrates four fundamental components: medium- and long-term strategies to face the challenges of competitiveness and capital formation within the local private sector; fiscal management; adopting fiscal reform; and injecting resources into the Commonwealth's Retirement System.

Our fiscal stability and good credit depend on our capacity to accomplish significant progress in two fields of action: understanding the current situation, and significantly improving fiscal management. In this regard, Lockwood stated that from

FY 2000 to FY 2005 net revenues to the General Fund increased by 3.6 percent, while the central government's debt increased by 12.7 percent. "What is important is to realize the origin and solutions to the current deficit situation in order to establish the necessary control, analysis and public policy decision measures. If we do not take action to improve the level of competitiveness in Puerto Rico in key sectors of our economy such as the manufacturing of pharmaceutical products and electronic components, the new generation of investors will establish their businesses in more attractive production centers such as Ireland and Malaysia," warned the President.

In reference to the increase in public debt, which amounts to \$39.419 billion, Lockwood said that "we should not continue to make loans to finance operational expenses. In periods when we have extraordinary revenues, the Government should use them to reduce its debt."

In discussing the alternatives to balance the budget for fiscal year 2005, which deficit is estimated at \$443 million, Lockwood indicated that it will require meeting with the credit rating agencies to avoid a possible adverse effect on our credit. Hence, he announced that "we will continuously monitor the revenues and disbursements of the central government, speed up administrative procedures and the implementation of reengineering processes, and the efficient use of information systems in the Department of the Treasury, OMB and GDB.

"The budget approved should provide flexibility to handle unexpected situations such as insufficiencies in projected revenue collections. It should also be prudent enough to cover the structural deficit, while registering significant progress in the management and planning of a Fiscal Reform, particularly with the approval of a consumption-based tax during 2006 as part of a plan to reduce individual and corporate taxes and maintaining incentives to productive sectors," concluded the President of GDB.