

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

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STANDARD & POOR'S COINCIDES WITH MOODY'S IN REASONS TO DOWNGRADE CREDIT: GDB PRESIDENT PRESENTS PLAN TO FACE THE SITUATION

Standard & Poor's (S&P) credit rating agency reduced the Commonwealth's credit rating from A- to BBB, informed the president of the Government Development Bank for Puerto Rico (GDB), William Lockwood.

"S&P's decision confirms the opinion released last week by Moody's Investors Service," said Lockwood. Both entities coincide in that this determination was based on the growth of accumulated fiscal deficit registered during the past 10 years, which amounts to \$1.028 billion for fiscal year 2005; the weak spending controls, particularly in the areas of health, education and public safety; the refinancing of central government deficit through loans and its effect on GDB's liquidity. This situation aggravates with "a contentious political environment that has stalled consensus of the adopt of tax reform and the 2006 year budget," according to S&P.

In its opinion, S&P highlights as attenuating factors the "highly professional and capable management team that has shown a willingness, with the assistance of the legislative leadership, to forge a long-term financial plan (which could include decentralization of some Commonwealth functions, early retirement programs, and possible layoffs) leading to the gradual achievement of structural balance."

The outlook for the long-term bonds remains negative, reflecting S&P's expectation that the Commonwealth will structurally balance general fund operations within the next two fiscal years. "Failure to develop and implement a financial plan that effectively addresses the causes of the Commonwealth's structural imbalance could lead to further weakening of credit quality", the report states. Likewise, the rating of GDB's commercial paper was downgraded from A-1 to A-2 due to the agency's policy of tying GDB's credit to that of the Commonwealth bonds.

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However, the GDB President said, “this situation presents us an inescapable opportunity to urgently implement the measures that this Administration has proposed.” To such effect, we will present an action plan, jointly with the Office of Management and Budget and the Department of the Treasury, to establish processes and controls in critical areas such as budget compliance, devising a long-term financial plan, assessment of financial alternatives and adoption of financial policies, which is vital that we implement at short term in order to reestablish the credit of the central government.

Lockwood stressed the measures that GDB will implement immediately to increase the Bank’s liquidity in over \$2.5 billion. He announced the reimbursement to GDB of the bond issues programs for the remaining of the year, such as: the Puerto Rico Infrastructure Financing Authority, the Municipal Financing Agency, the Convention Center District and the Coliseo de Puerto Rico for an income of more than \$1.0 billion. In addition, he mentioned the sale of medium term notes, the increase of the Bank’s deposits and other transactions related to government loans if they were necessary, which would generate over \$1.5 billion.

GDB President was confident that the Puerto Rico bonds will continue to have good demand in the market thanks to their triple tax exemption and to the constitutional provisions and requirements contained in the trust indentures signed with bond buyers. Hence, he stated that “we will continue our integrated effort to keep in communication with our investors and sharing with them our working plan. We trust that the result of this strategy will be seen in the coming bond issue that will be sold by the Infrastructure Financing Authority”, he concluded.

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