



NEWS RELEASE

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Governor Fortuño assures investors and credit analysts Puerto Rico will remain on the path of fiscal responsibility; Economic Activity Index hits positive territory for third consecutive month

San Juan, P.R. –“Our fiscal policy is working and remains in place, and it will remain in place precisely because it’s working,” Puerto Rico Governor Luis Fortuño said today to an audience of some 300 stateside and local investors, credit analysts and investment bankers and lawyers gathered at the Vanderbilt Hotel in San Juan for the 2012 Puerto Rico Credit Conference: Restoring Growth through Fiscal Responsibility.

During opening remarks at the Conference, Fortuño assured the audience that his Administration has delivered and will continue to deliver on the fiscal and economic reconstruction plan he set forth at the beginning of his term 40 months ago.

“The fiscal and economic reforms we’ve implemented have not only stabilized our government finances, protected and improved our credit rating and restored modest but sustainable growth, but are now being considered a roadmap for other states and countries to follow,” Fortuño said.

Since coming into office three and a half years ago, Fortuño and his team have managed to reduce Puerto Rico’s budget deficit by 90%, from \$3.3 billion in 2009 to just \$333 million, or 3.8% of revenue. This is the smallest deficit the Island has seen since 2004. Fortuño has promised to eliminate the remaining deficit in the budget for fiscal year 2014.

“Our economy is clearly showing signs of improvement. Recovery will be moderate and gradual, but there’s no question that we have put Puerto Rico back on track and on the right direction. Things are looking up, but we won’t stop until we get the job done,” remarked Fortuño.

After 69 months of retrenchment, Puerto Rico's Economic Activity Index (EAI) released by the Government Development Bank (GDB) moved out of negative territory in December 2011 and has since maintained a positive trend. For March 2012, the index registered a modest, but positive 0.2% growth.

"In the last 12-18 months we've seen principal economic indicators such as retail, auto, home and cement sales showing a consistent upward trend. This is the third month in a row of consistent year-over-year positive growth in the EAI; the fourth out of negative territory," said GDB president Juan Carlos Batlle, president of the GDB.

Two weeks ago Puerto Rico's Planning Board revised upward its own economic growth projection for fiscal 2012, ending June 30, pinning it now at 0.9%. This would mark the first time since 2006 that the Island's economy has registered growth. The Planning Board went on to estimate the most robust growth in eight years for the coming fiscal 2013.

"When Governor Fortuño came into office Puerto Rico faced a dismal fiscal picture. We had a budget deficit equivalent to 44% of revenues, at the time the worst in the Nation. The progress we have made in such a short time to stabilize our fiscal situation, rebuild our economy and create the conditions for growth is quite an accomplishment when compared with our peers around the Nation and some countries in Europe," said Juan Carlos Pavía, director of the Office of Management and Budget.

In the last four budget cycles, the Administration has reduced government expenses by 17% and increased revenue by 14% during the same period. Additionally, revenue and expense projections have been reached in the last four fiscal years, including 2012 which will end this June 30.

Fiscal responsibility measures and improvements in sales and use tax collections and better than expected collections of the special excise tax on foreign corporations have been key in achieving fiscal balance.

Meanwhile, Treasury Secretary Jesús Méndez credited the comprehensive tax reform implemented in 2010 for the recent growth in economic activity. The tax reform has already slashed taxes on individuals by 25% and will cut them by half by 2016, while the top corporate rate was cut from 41% to 30% and will be further lowered to 25% starting in 2014.

"We can now leave more of our people's money in their own pockets. Puerto Rico needed a comprehensive tax reform. This was validated when 99 out of every 100 constituents decided to file their taxes using the new tax form although they had the choice to file under the old one," said Méndez.

A new Public-Private Partnership (P3) program implemented by the Fortuño Administration has been applauded by investors as a catalyst to reduce public debt and attract private capital investment. The Island saw a \$1.13 billion lump sum payment as a result of the concession of highways PR-22 and PR-5 last year. With an investment of \$756 million, the P3 program has also helped advance the modernization of at least one school in each of the 78 municipalities slated for completion this year, with a promise of 100 more in the pipeline. Currently in the works is the concession of Puerto Rico's Luis Munoz Marin International Airport slated to be announced later this year.

“Puerto Rico's P3 program is world-class. Private investors look for transparency, sound fiscal policies and economic stability when deciding where to invest. Puerto Rico met and exceeded these criteria and that's why we've committed to the Island long-term,” said Luis Palazzi, Chief Operating Officer for Metropistas, a consortium led by Goldman Sachs and Abertis Infraestructuras, the world's leader in highway infrastructure concessions.

Meanwhile, Secretary of Economic Development and Commerce, José Ramón Pérez-Riera, put into perspective the importance of having a comprehensive economic development plan, with achievable short, mid and long-term objectives, as a foundation for sustained growth.

“Puerto Rico's economy is growing and headed for further growth. We are securing the next generation of expansion by combining Puerto Rico's competitive advantages, with reforms that stimulate increased economic activity such as the new export and service law”, said Pérez-Riera.

Representatives from Citi Global Markets, Barclays, JP Morgan, and UBS participating in a Capital Markets panel discussion coincided that Puerto Rico has been in the forefront of fiscal and economic reform and that the Island needs to continue in the path established by the Fortuño Administration in order to continue moving in the right direction.

“We come from very bad times. Things have been fixed and we need to let people know. Whoever runs Puerto Rico in the next four years has to manage it the same way it's being managed today. You have to maintain prudent fiscal policy,” said Leslie Highley, Managing Director, UBS Asset Managers of Puerto Rico.

All presentations discussed today are available for download at www.gdbpr.com.

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