

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

Para publicación / Difusión inmediata

Contacto : *María S. Rosario*

Tel: (787) 728-9200 / (787) 722-2525 exts. 2013 y 2014

Cel. (939) 644-4606 / www.gdb-pur.com



GOVERNMENT
DEVELOPMENT
BANK FOR
PUERTO RICO

COMMONWEALTH OF PUERTO RICO

May 19, 2005

CHANGE IN CREDIT RATING BY MOODY'S REFLECT PREVAILING FISCAL SITUATION

The president of the Government Development Bank for Puerto Rico (GDB), William Lockwood, said that Moody's Investors Service rating agency announced its determination to downgrade the rating for the Commonwealth bonds from Baa1 to Baa2 due to the fiscal and economic situation that this Administration had identified since it took office in January 2005.

The reasons mentioned by Moody's for taking this decision include the fact that in the last two fiscal years 2004 and 2005 the central government deficit has been financed by loans, the effect of the \$1 billion transfer to the Special Communities Perpetual Trust on GDB's liquidity, and the increment in total debt.

In its opinion, Moody's acknowledges as positive "the recognition by Commonwealth officials of the necessity of restoring structural budget balance as soon as possible, as embodied in the fiscal 2006 budget proposal advanced to date".

"Since we assumed our responsibilities within this Administration, we have been alerting about the possibility of Puerto Rico's credit rating being downgraded, based on the financial situation and the lack of priority to handle the fiscal crisis and achieving a balance between expenditures and available resources," Lockwood said.

-Continues-

“Today we must realize that we have to determine urgently what measures will the Commonwealth take to handle this situation, since the credit agencies will continue monitoring our actions. We must focus our efforts in continuing working to design a comprehensive fiscal reform and achieve consensus for the approval of a balanced and realistic budget,” the GDB president said.

Within the Baa rating, Moody’s assigns three degrees (Baa1, Baa2, and Baa3) to indicate differences in credit quality within the same rating grade. Baa3 is the lowest rating that is still at investment grade level.

The GDB President highlighted that one of the characteristics of Puerto Rico bonds is that they always have good demand in the municipal market because of their triple exemption. In that sense, he stated that “we do not anticipate that this downgrade will significantly affect our ability to place future bond issue in the market.”

The rating outlook for the Commonwealth bonds remains negative, however Moody’s analyst, Tim Blake, said in the opinion that “we are encouraged by government proposals to attempt to achieve budget balance without borrowing in the next fiscal year, and to increase the level of recurring pension contributions.”

As in the past five months, the Governor’s Economic Team will continue to work full blast to implement the necessary measures to protect and strengthen our credit by all means. This is evidenced by the formulation of a balanced budget proposal focused on priority areas, the specific proposals to drastically reduce public spending, the fiscal reform proposal to achieve a more fair and efficient tax system, and the economic development strategies that we are promoting.