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GDB GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
GOVERNMENT OF PUERTO RICO

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Moody's Lowers Puerto Rico's Credit Rating

The Rating Agency acknowledges the progress made through fiscal discipline but warns that the Island's bonds may be further lowered if the Retirement Systems's deficit is not promptly addressed

San Juan, PR.— Moody's Investors Service, one of the agencies that rates Puerto Rico's credit, announced today its decision to lower Puerto Rico's general obligation's (GO's) rating by two notches, to Baa3 from Baa1. Likewise, the downgrade affects other government obligations linked to the GO's rating. The outlook remains negative.

As in previous reports, in today's report, Moody's acknowledges the progress made in economic and fiscal matters in the last years, but it believes that it has not been enough, and shows concern over the government's ability to control expenses and reform the retirement system in the near future.

"Economic growth prospects remain weak after six years of recession and could be further dampened by the commonwealth's efforts to control spending and reform its retirement system," Moody's affirmed in its report.

"In 2006, however, Puerto Rico entered recession when the rest of the US was still in full expansion mode. Since then, the commonwealth has remained in recession. Some economic indicators, such as, auto and cement sales and the Government Development Bank for Puerto Rico's Economic Activity Index, have stabilized or are now trending up for the first time since 2006, but they are improving off a very low base, and reflect what is still essentially a weak economy that is not likely to be able to absorb much additional stress," Moody's pointed out.

The rating agency also stated that it doesn't have a clear idea as to how and when the government will solve the problem of the retirement system's deficit and warns that lack of action on pension reform could result in an additional credit rating downgrade. "In 2011, the commonwealth completed a modest first phase of pension reform (adopting an ascending schedule of future employer contributions and limiting the size of personal loans available to members), but did not undertake further meaningful additional reforms. The timetable for additional reforms remains unclear," Moody's states in its report. Other elements considered by Moody's in the report included government's debt levels and the opinion that government revenues, although rising, are still very low.

"Obviously, we are not pleased with Moody's action today, and we disagree with the fact that they did not give the incoming administration more time to introduce its fiscal team and their work plan to address these issues. Moreover, we disagree with Moody's interpretation of many aspects of the government's present fiscal situation. But, in essence, the report validates what we have been saying the past months: first, that in the last years considerable progress has been made in economic and fiscal matters; second, that this progress is not enough and we have to do more; and third, that there is no time to lose, that the new administration needs to move quickly to submit its plan to continue addressing the economic and fiscal situation," Government Development Bank President Juan Carlos Batlle pointed out.

The Baa3 rating is the lowest rating considered "investment grade" and it's the level where Moody's had Puerto Rico's GOs in 2008 before upgrading the rating by two notches as a result of the fiscal stabilization measures taken by the present administration starting in 2009.

As a result of the GO bonds downgrade, Moody's lowered the bond rating of the Public Finance Corporation, certain Puerto Rico Highways and Transportation Authority's subordinate bonds, and the bonds of the Puerto Rico Aqueduct and Sewer Authority to the highest level of what's considered "noninvestment grade", to Ba1from Baa2.

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