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COMMONWEALTH ECONOMIC TEAM PRESENTS FISCAL SITUATION TO RATING AGENCIES

The economic team of Governor Aníbal Acevedo-Vila presented today a complete and detailed picture of the economy and fiscal situation of the government to representatives from Standard & Poor's, announced the president of the Government Bank for Puerto Rico, William Lockwood.

In this period of corporate responsibility and transparency, the role of credit rating agencies is more important than ever. They have the responsibility to keep investors abreast of any changes in the economic, fiscal, and credit quality conditions of the issuers, in this case of general obligation of the central government and revenue bonds of Puerto Rico public corporations in the U.S. bond market.

"In addition to technical rigor, the details in monthly cash flows, and alternative strategies to eliminate the fiscal year 2005 budget imbalance, we were able to get to know each other and share with them the Governor's profound changes in vision and public policy and the specific plans that motivate the Secretary of Economic Development and Commerce, Jorge Silva; the Secretary of the Treasury, Juan Carlos Méndez, Office of Management and Budget Executive Director, Ileana Fas-Pacheco, and me.

PRESS RELEASE

It is now time to proceed with final decisions, and to strengthen our management capacity and quality of performance under this plan. We are very optimistic", Lockwood confirmed.

Specifically, the officers described in great detail the revenues and expenses registered during the period of July 2004 to February 2005, the projections for the remaining four months and the measures proposed to eliminate the shortfall in fiscal 2005. This shortfall, which is estimated in \$1,367 million, includes \$992 million in excess of spending over revenues (\$550 million originally identified when preparing the budget and financed under Act 183, and another \$442 million in possible excessive spending if no control measures are implemented prior to June 2005), and \$375 million in other non-recurring income or unbudgeted items already discussed publicly and before the Legislative Assembly. Likewise, the priorities in terms of public policy and specific measures currently under consideration for the fiscal year 2006 budget were presented, as well as new roles and controls for the four institutions represented, and strategic projects to boost the economy.

"The four analysts in charge of evaluating the Commonwealth of Puerto Rico's credit traveled to the Island in response to our invitation, as part of a comprehensive strategy of openness and candor regarding public management", Lockwood said. He added that the team will also be meeting with representatives from Moody's Investors Services (Moody's) on Friday, March 11, for the same purpose.

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"We informed them that, as of today, Treasury revenues from corporate and individual taxes are stable, thus, confirming the economic stability of our country", Lockwood said, emphasizing the growing trend shown by the economy during the past two years. "The Secretary of the Treasury is focusing his efforts on generating additional revenues to balance the budget for the current fiscal year by enforcing internal and administrative measures to increase revenues from the excise tax", GDB's president added. Regarding expenditures, the presentation underlined excess expenses particularly in payroll and, more specifically, in the Department of Education, among others. OMB's Director presented detailed proposals including guaranteeing that expenses in agencies such as Education be budgeted adequately and within reality, Lockwood said

During a brief change of impressions with the visitors, Acting Governor, Marisara Pont Marchese, reaffirmed Governor Aníbal Acevedo Vilá's commitment to the rating agencies' role in our goal of stabilizing the government fiscal situation.

"We will comply with the Constitutional requirement of closing the current fiscal year with a balance budget by implementing administrative controls at the income and expense level, as well as prudent financing initiatives," Lockwood assured.

"The fiscal measures adopted to address the structural imbalance for fiscal year 2005 and future budgets once the ongoing evaluation process ends, will consider the implications of such initiatives on the Commonwealth's credit. This is our priority," said the president of GDB, the fiscal agent and financial advisor for the Commonwealth.

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As for the Bank's role, Lockwood specifically stated that the time has come to deepen the relationship between the institution and the central government, its public corporations and municipalities. "We urgently need to regain GDB's capacity to get directly involved in the managing the economic agenda, both in terms of revenues and expenses, taking advantage of its inherent responsibilities and of the influence it has by virtue of its role as creditor", the explained.

"The Administration is currently focusing on elaborating the budget for fiscal year 2006 and on the need to giver greater attention to the Retirement System", Lockwood added.

Lockwood ended the meeting by acknowledging to the visitors that the executive and legislative leadership is at a historic moment to establish the grounds necessary to recover once and for all the fiscal health for the central government and the Retirement System and move to implement the significant changes that are necessary.
