PRESS RELEASE

Contact : María S. Rosario
Tel: (787) 728-9200 / (787) 722-2525 exts. 2013 / 2014
Cel. (939) 644-4606 / www .gdb-pur.com

GDB Government Development Bank for Puerto Rico
COMMONWEALTH OF PUERTO RICO

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MOODY'S DOWNGRADES PUERTO RICO'S CREDIT AND KEEPS IT ON ITS WATCHLIST

The chairman of the Board of Directors of the Government Development Bank for Puerto Rico (GDB), Alfredo Salazar, announced today that Moody's Investors Service downgraded the rating of the credit of the bonds of the Commonwealth of Puerto Rico from Baa2 to Baa3, and kept them in its Watchlist for possible further downgrade due to the chronic budget and fiscal imbalance that could prevail for the next years.

"I was in a meeting with Moody's analysts this morning, and, regrettably, I must inform of their decision to downgrade all our bonds, including $25 billion in bonds in circulation and $6 billion in bonds that now fall in the category of non-investment grade," Salazar said. This action by Moody's confirms the urgent need for our government to reach an agreement regarding the sales tax and other measures aimed at straightening our finances. If we do this the quality of our credit could improve, as stated by Moody's in its report.

Following are excerpts Moody's opinion that present their reasons and considerations for the downgrade and what would need to happen for the rating to improve.

This action reflects the Commonwealth's strained financial condition, and ongoing political conflict and lack of agreement regarding the measures necessary to end the government's multi-year trend of financial deterioration

Outstanding bonds affected by this downgrade include:

- $7.2 billion in outstanding GO bonds
- $3.5 billion in Commonwealth-guaranteed bonds
- $4.3 in Commonwealth appropriation bonds
- $9.8 billion in government bonds programs linked to the general creditworthiness of the Commonwealth

The Commonwealth appropriation bonds and some of the subordinated revenue bonds of the Highway and Transportation Authority are now rated just below investment grade at Ba1.

In deciding the downgrade acknowledges that the Commonwealth recognizes the need to correct its chronic budget imbalance and continues to debate the adoption of significant tax and fiscal reforms. Even assuming the enactment of significant measures along the lines being discussed, Moody's believes that budget deficits and fiscal imbalance could continue in the coming years.

Moody's clarifies in its opinion that these downgrades do not indicate an expectation of G.O. or other debt payment shortfalls by the Commonwealth in the near future. Rather, the rating change indicates Moody's appraisal of the Commonwealth's fiscal and governance condition as compared to other state and municipal credits in the U.S. bond market.

The government shut-down is an unexpected development, and indicates that the debate between the Governor and Legislature over issues of budget and tax reform is more intractable than has previously been represented.

When Moody's placed the Commonwealth's Baa2 general obligation rating on Watchlist for possible downgrade in February, it was based on expectations that the government's multi-year pattern of large budget deficits and deficit borrowings would continue in 2006 and possibly beyond.

Both the Governor and the Legislature made public representations of their commitment to work together in 2006 to implement the budget and fiscal reforms necessary to rebalance the budget. A Joint Resolution to this effect was passed overwhelmingly by the Legislature and signed by the Governor in November 2005, and was presented as an historic cooperative achievement. The current government shut-down situation is a stark contrast to the representations contained in that Joint Resolution and indicates that the parties are not in accord on how to solve the Commonwealth's fiscal problems.

At this time, the Commonwealth's rating remains on Watchlist. We view the current situation as a high-stakes effort to force a resolution of the Commonwealth's longer term budget issues in the context of the fiscal 2006 budget loan request. If this is not productive, or if the political stalemate continues into fiscal 2007, the rating implications could be negative.

Assuming the government does agree on a significant tax increase, such as the retail sales tax under discussion, and other measures to improve its finances going forward, credit quality could be improved.