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GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
GOVERNMENT OF PUERTO RICO

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MOODY'S REAFFIRMS A3 RATING FOR PUERTO RICO'S CREDIT

Changes outlook to negative due to the funded status of Employee Retirement System; Federal Reserve Bank highlights Puerto Rico's economic recovery

SAN JUAN, PR - Government Development Bank (GDB) President Carlos M. García today acknowledged Moody's Investor Services' most recent report in which the credit rating agency reaffirmed the A3 rating of Puerto Rico's general obligation bonds (GOs), the highest rating for the Commonwealth in more than 35 years.

In its report, Moody's indicates, that the funded status of the Puerto Rico Government Employee Retirement System represents a challenge that could affect Puerto Rico's credit rating in the future, reason for which, although it reaffirmed the A3 rating, it changed the outlook on the credit from stable to negative.

On April 2010, Moody's recalibrated Puerto Rico's credit to A3 —the highest level Puerto Rico has achieved in more than 35 years. Today, the agency's rating committee has passed judgment on the progress Puerto Rico has achieved in implementing its fiscal stabilization plan and has reaffirmed the A3 rating with an alert related to the retirement system. "The funding status of the retirement system is a point of focus of our Administration as discussed during our last investor conference", García said.

Last February, at the GDB's 2010 Investors Conference, Governor of Puerto Rico Luis G. Fortuño announced the creation of a Special Commission for the Reform of the Retirement Systems. The Commission, composed of nine experts, including employee representatives, is expected to issue a report with recommendations in September.

"The rating outlook for the Commonwealth of Puerto Rico is negative, reflecting the weak funding status of the employees retirement system. While we acknowledge that the commonwealth is working on a plan to address the retirement system problems, and that the current management has proactively and successfully addressed many difficult financial decisions in the past 18 months, we believe that at this time there are a limited number of options the commonwealth has to improve the funded ratio given the commonwealth's relatively weak finances and economy and high debt".

Still, García stressed the strong debt service coverage of the Senior Pension Funding Bonds. "The original program called for the issuance of $7 billion in bonds, yet only $2.9 billion have been issued," García indicated. The rating of A3 was also reaffirmed by Moody's with a negative outlook on the Senior Pension Obligation Bonds.

Meanwhile, García noted the importance of the most recent Federal Reserve Bank of New York report highlighting the progress of Puerto Rico's economy, the fifth in a series of independent reports from various organization that have applauded the present administration's fiscal stabilization and economic recovery plan.

The Federal Reserve Bank of New York highlighted the progress made by Puerto Rico's economy, particularly in the manufacturing area, in its most recent quarterly report on the economic conditions in the component regions of the central bank's Second District.

"Recently, economic activity in New York State, New York City and Puerto Rico appeared to be recovering," said the report by Federal Reserve Bank of New York chairman and CEO William C. Dudley.

Dudley, together with a group of analysts, held a press conference to present the report on the economic situation of the Second District, which includes Puerto Rico, New York State's northern and southern regions, Connecticut and the northern part of New Jersey. The report reveals that economic activity in Puerto Rico, New York State and the City of New York are showing early signs of recovery, ahead of other regions.

According to the report, manufacturing employment in Puerto Rico as well as the other Second District regions showed improvement in April and May and a slight downturn in June. "In the Commonwealth, the number of jobs in manufacturing has held steady in recent months, though employment has improved in the professional and business services, wholesale and finance sectors," indicated the Fed experts, while recognizing that the construction industry continues to experience significant job losses.

"We are already seeing the light at the end of the tunnel as we continue to implement our reconstruction plan," concluded García.

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