



PRESS RELEASE

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New Positive Rating for Puerto Rico's Credit

Fitch Ratings Assigns BBB+ to Government of Puerto Rico's General Obligations.

Madrid, Spain – Fitch Ratings, the New York-based credit rating agency, has just assigned the Government of Puerto Rico general obligations BBB+ rating with a stable outlook. Fitch's action is the third most recent validation, by an independent credit rating agency, of the fact that the fiscal stabilization and economic reconstruction plan implemented by the present administration is producing results.

Puerto Rico Governor Luis G. Fortuño made the announcement in the company of Government Development Bank President Carlos García and other officers of his Administration during the Multi Sectoral Economic Mission to Spain this week.

“One, two, three. First it was Moody's, then it was S&P, and now, Fitch. These are independent firms of expert financial analysts. They are not related to one another, nor to the Government of Puerto Rico... and all three have said essentially the same thing: ‘Puerto Rico has made enormous progress straightening out its finances and has a solid and dependable plan to travel the road ahead, and deserves our recognition for this accomplishment. So, we are giving it a rating that reflects the improvement in the way finances are being conducted,’” Fortuño said.

In its credit evaluation, Fitch highlighted as one of the main reasons for this very positive rating the “successful implementation of fiscal and economic reform that results in a balanced budget and emergence from the prolonged recession.”

“Faced with growing budgetary and GAAP deficits, a history of overestimating revenues and overspending, and a reliance on borrowing to meet budgetary gaps,

the current administration has taken significant action to restructure the budget amidst the prolonged recession. The administration has demonstrated its willingness and ability to make significant changes to fiscal operations. It has successfully enacted legislation to implement both temporary and permanent revenue enhancements, stepped up revenue collection enforcement, and dramatically reduced public spending. The fiscal stabilization plan, with its emphasis on reduced government spending, is designed to close the structural gap over the course of three fiscal years... The significant progress the current administration has made in implementing fiscal and economic reform is a positive credit factor," Fitch's report reads.

García draw attention to the fact that the BBB+ rating given by Fitch is actually two notches higher than the BBB- given by S&P to Puerto Rico's general obligations last November when it improved the outlook from "stable" to "positive," which was the first positive credit review by S&P since 1983.

"This is an additional validation by a third independent party. As stated in the report itself, Fitch's rating is an important acknowledgment of Puerto Rico's progress in fiscal stability and economic recovery. As Moody's and S&P did, Fitch points out the importance of taking concrete actions to solve the retirement system situation, which we are doing," García said adding that it is important for Puerto Rico to stay on the road of fiscal responsibility that has been planned.

In its credit report, Fitch also highlights a more favorable outlook for Puerto Rico's economy this year after the prolonged recession of the last four years." "While the economy continued to contract in fiscal 2010, there are indicators that the economy is beginning to stabilize, including a slowing of employment losses and increasing retail sales... and modest growth is expected in fiscal 2011," Fitch's report reads.

"This is additional evidence that the series of initiatives that we have implemented as part of the Strategic Model for a New Economy have begun to produce results. There is much left to do but the signs are very positive. As we have seen in the last few days, the commercial trade has experienced a turn not seen in Puerto Rico for many years. And that reflects a greater trust on the part of consumers, which is positive in turn," Department of Economic Development and Commerce Secretary José R. Pérez-Riera, who is also part of the Mission, said on a separate note.

Although Fitch has been evaluating different credits issued by the government of Puerto Rico, such as, bond issues by public corporations like the Puerto Rico Aqueduct and Sewer Authority, the Puerto Rico Electric Power Authority, COFINA and the Employees Retirement System bonds, this is the first time Fitch rates the general obligations of the Government of Puerto Rico.

The new rating by Fitch comes after 24 months of efforts by the Administration to stabilize and restructure the fiscal situation after an inherited budget deficit of

\$3.3 billion—or 43% of state revenues—put Puerto Rico’s credit on the brink of being rated as junk. As a result of the fiscal stabilization and restructuring plan, that deficit has been reduced to only 11% of the revenues and will be completely eliminated by 2013.

In April 2010, Moody’s rating agency recognized the progress achieved by the Administration up to that moment in its fiscal stabilization plan, recalibrating Puerto Rico’s credit rating from Baa3—the level just above junk—to A3. While Moody’s action was taken at the same time it was making an overall recalibration of its rating scales, the agency gave Puerto Rico an upgrade of three notches, not just one, acknowledging the progress achieved in handling Puerto Rico’s fiscal situation.

Between 2001 and 2007, S&P took 6 adverse actions against Puerto Rico’s credit (from A with a stable outlook in 2001, to BBB- with a stable outlook in 2007) due to the continuous decline of the government’s fiscal situation during those years. The change from a “stable” to a “positive” outlook last November prefigures another possible improvement in the credit rating by that agency in the next 6 to 24 months.

Fortuño emphasized that the Tax Reform, which is set to be enacted by the Legislature next week, will be the additional boost the economy needs in order to achieve a sustained growth pattern.

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