COMMONWEALTH OF PUERTO RICO
Government Development Bank for Puerto Rico

PRESS RELEASE

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Working Group Response to Morgan Stanley Sales and Trading Commentary

San Juan, P.R. – The Working Group for the Fiscal and Economic Recovery of Puerto Rico ("the Working Group") today provided the following statement with respect to a recent Morgan Stanley sales and trading commentary on the Puerto Rico Fiscal and Economic Growth Plan ("FEGP").

A recent sales and trading commentary from a Morgan Stanley Municipal Credit Desk Analyst includes a number of factual and mathematical errors in addition to what appear to be a number of unstated, unsupported and erroneous assumptions that have significantly misled the market.

While we welcome a thorough analysis of our plan and its merits, it is important that all of our constituents have a clear understanding of the FEGP that is not obscured by factual inaccuracies or unjustified assumptions. As such, the Working Group felt it was critical to clarify many of the issues in the Morgan Stanley report.

Among a number of issues, Morgan Stanley's report eliminates the potential loss of revenues related to Act 154, but then includes measure 2.2 from the FEGP ("Stabilize Corporate Tax Revenue Base"), which explicitly assumes an extension of Act 154 and that the positive impact from this measure offset the potential losses related to Act 154. Since Act 154 revenues were already included in General Fund revenue projections in the FEGP, Morgan Stanley's analysis effectively either double counts Act 154 revenues or assumes that the revenues from Act 154 will not only continue to be received, but will grow by over 50%. This assumption is not explained or justified in the Morgan Stanley report, and based on the Working Group's own diligence, appears to be entirely unfounded. The removal of this adjustment from Morgan Stanley's estimated financing gap after measures increases the financing gap by approximately $2.7 billion.

Further, Morgan Stanley erroneously includes payable amortization as a positive number that decreases the financing gap, rather than as a negative number that should increase the financing gap. The correction of this clear error would add approximately $500 million to the estimated financing gap.

In addition, Morgan Stanley assumes that payables could be extended over ten years based on the faulty premise that payables only relate to public corporations. In fact, the FEGP makes clear that the majority of payables are owed to vendors and the citizens of Puerto Rico. Further delaying these payments beyond the five year period assumed in the FEGP could have significant economic consequences and could impact the government's ability to transact with third-party vendors. Adjusting this erroneous assumption adds another $1.2 billion to Morgan Stanley's estimated financing gap, in addition to the $502 million impact from the clear error in how payable amortization was incorporated into Morgan Stanley's report.

Morgan Stanley also appears to misunderstand how the ACA reimbursement mechanism works, and assumes no increase in claims or premiums over the five year period. This difference in assumptions compared to the FEGP is not justified by Morgan Stanley's analysis, which simply takes the last year of ACA funding and assumes that it will be the constant reimbursement level going forward, implying that there are no increases in claims or premiums over the five year period. Removing this adjustment would result in a further increase to Morgan Stanley's projected financing gaps of approximately $1.1 billion.

Finally, Morgan Stanley adjusts the line in the FEGP labeled "General Fund Budget (ex. Debt Service and Additional Uniform Contributions)" in the years 2017 to 2020 without any explanation. It appears that Morgan Stanley has incorporated the benefits of an extension of Law 66 into these numbers. The clear problem with this approach is that Morgan Stanley also includes the benefits of FEGP measure 2.4 ("Reduce Operating Costs"), which explicitly states it assumes an extension of Act 66 throughout the projection period. Morgan Stanley may be assuming that other cost saving initiatives could be realized so that the benefits of measure 2.4 would effectively double, but the source of those incremental savings is not mentioned or supported in the Morgan Stanley report. Consequently, it appears that this too is a double-count of potential savings. The impact of removing this adjustment from the Morgan Stanley report is to increase the financing gap by approximately $1.6 billion.

The combined impact of each of the corrections outlined above would result in Morgan Stanley's estimated cumulative financing gap after measures over the entire five-year projection period differing from that of the FEGP by less than 10%.

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The information included in this statement contains certain forward-looking statements. These forward looking statements may relate to the fiscal and economic condition, economic performance, plans and objectives of the Commonwealth of Puerto Rico or its agencies or instrumentalities. All statements contained herein that are not clearly historical in nature are forward looking.

This statement is not a guarantee of future performance and involves certain risks, uncertainties, estimates, and assumptions by the Commonwealth and/or its agencies or instrumentalities that are difficult to predict. The economic and financial condition of the Commonwealth and its agencies or instrumentalities is affected by various financial, social, economic, environmental, and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Commonwealth and/or its agencies or instrumentalities, but also by entities such as the government of the United States of America or other nations that are not under the control of the Commonwealth. Because of the uncertainty and unpredictability of these factors, their impact cannot, as a practical matter, be included in the assumptions underlying the Commonwealth's or its agencies or instrumentalities' projections.

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