



PUERTORICO
CREDIT
CONFERENCE
2011

Reconstruction Plan Progress & Pension Reform

Juan Carlos Batlle
President
Government Development Bank

April 8, 2011



Disclaimer

Today's presentation includes certain statements that are not historical in nature. These statements are based on the Government of Puerto Rico's current beliefs regarding future events, and are based upon a number of estimates and assumptions that are subject to significant uncertainties, many of which are outside the control of the Government of Puerto Rico, its agencies and instrumentalities. This presentation has been prepared solely for informational purposes, and should not be construed as a recommendation to buy or sell any security or to participate in any particular trading.



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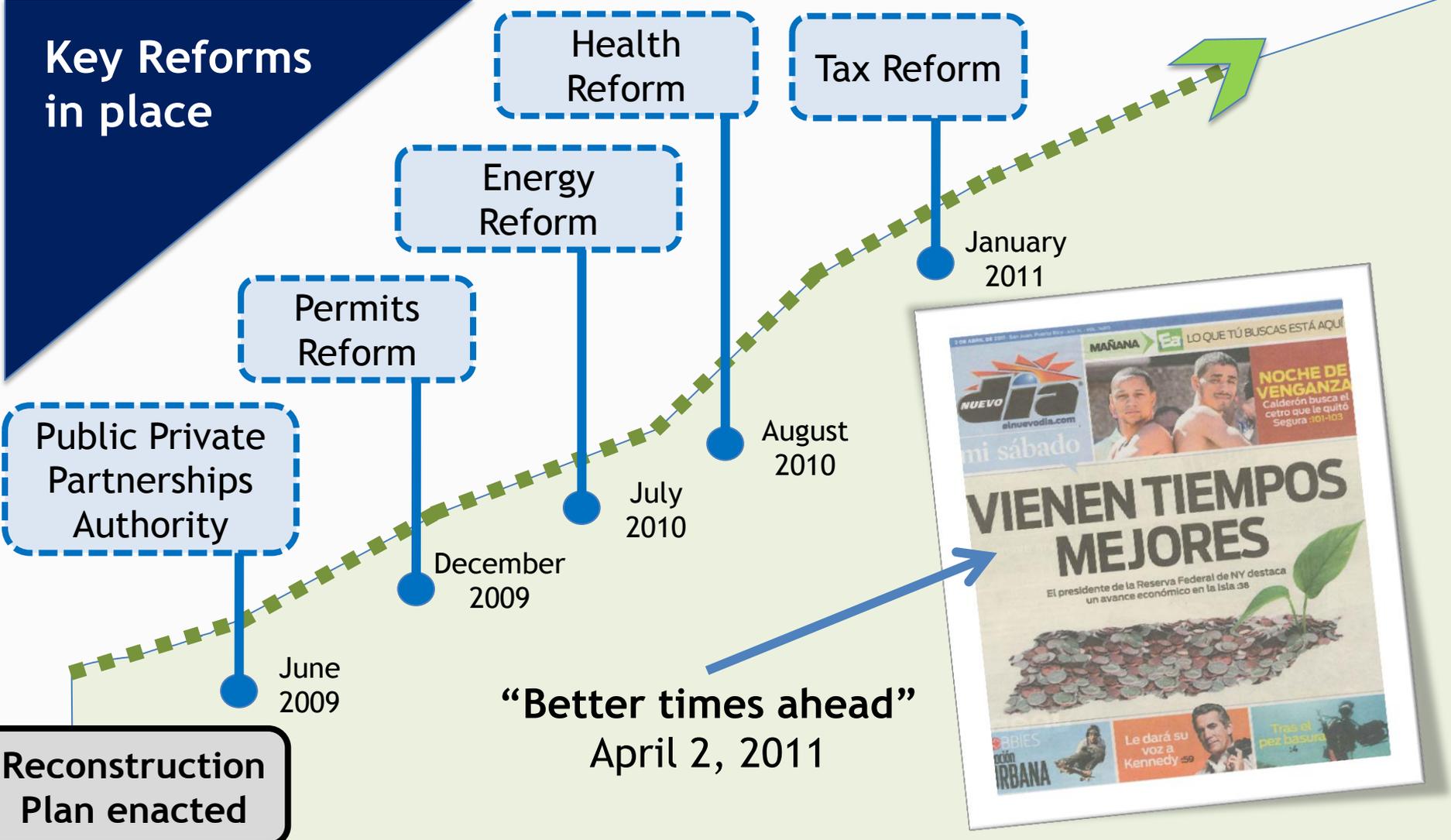
Pension Reform Plan

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Concluding Remarks



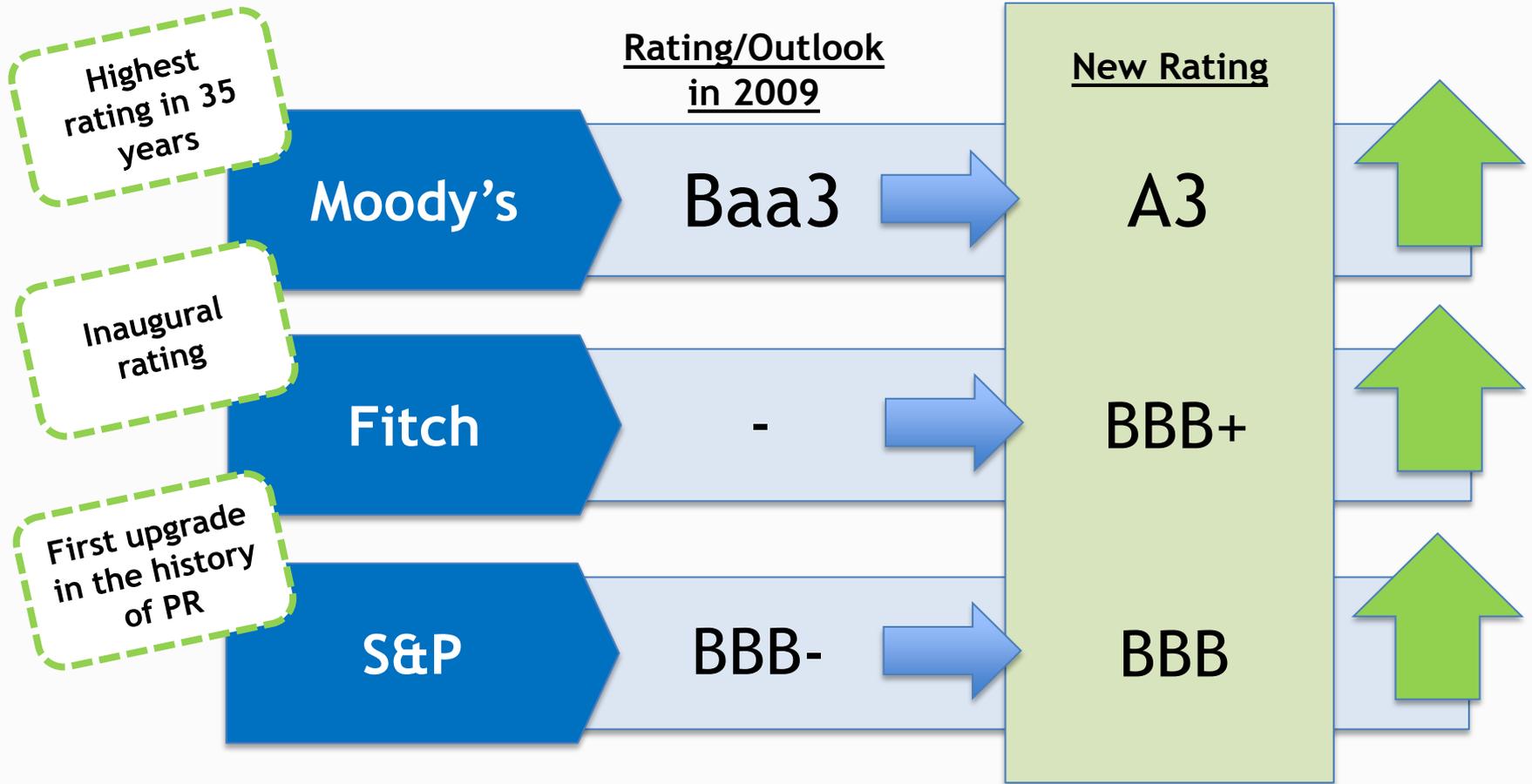
Puerto Rico's reconstruction path has been challenging but we are committed to continue addressing critical issues to reestablish sustainable economic growth





All major credit rating agencies have recognized our fiscal progress with positive rating actions

Improvement in Credit Rating:





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We continue to focus on prudent cash management, allowing us to monitor the Government's expenses as needed

FY 2011 3rd Quarter ended with \$141 million in cash balance as projected

(in \$ millions)	Actual			Projected
	Q1	Q2	Q3	Q4
Beginning Balance	87	125	401	141
Collection and Receipts	2,734	3,376	3,229	3,971
Expenses Incl. Debt Service	3,553	3,637	3,673	3,406
Total Financing Activity	700	(225)	43	(1,009)
Total Stabilization Funds	157	761	142	326
Ending Cash Balance	125	401	141	23



FY 2011 3rd quarter ended with \$141 million in ending cash balance

3rd quarter - FY 2011

(in \$ millions)	Initial Projections	Actual	Difference
Beginning Balance	\$401	\$401	-
Collection and Receipts	3,205	3,229	\$24
Expenses (including D/S)	3,612	3,673	\$61
Total Financing Activity	(7)	43	\$50
Total Stabilization Funds	157	142	(\$15)
Ending Cash Balance	144	141	(\$3)

- Ending cash balance for 3rd quarter was \$3 million or 2.1% below initial projections.
- Collections and receipts ended \$24 million above projections, while expenses ended 1.7% above quarterly projections.
- Total stabilization funds drawn during 3rd quarter were 9.6% below projections.



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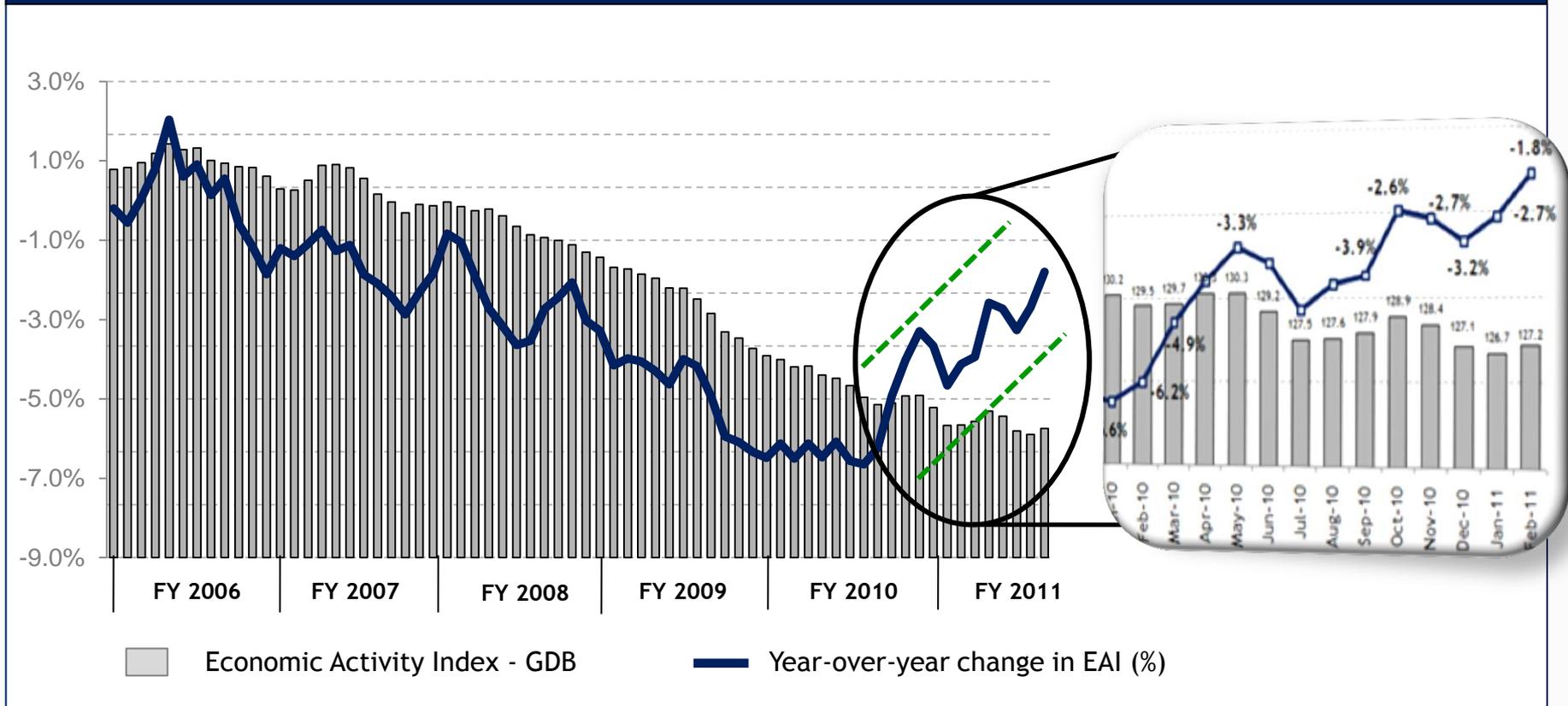
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GDB Economic Activity Index during February 2011 registered an increase to 127.2, the first month-over-month increase since October 2010

February YOY decline is the smallest since September 2007





Economic improvement was further recognized by the Federal Reserve Bank of NY chief who acknowledged that Puerto Rico is on track to an economic recovery

“Puerto Rico may finally be emerging from its painful recession...”

“The recovery in Puerto Rico has taken longer to get off the ground, but now shows signs of firming.”

“...many indicators suggest that conditions are in place for stronger employment growth in the coming months.”

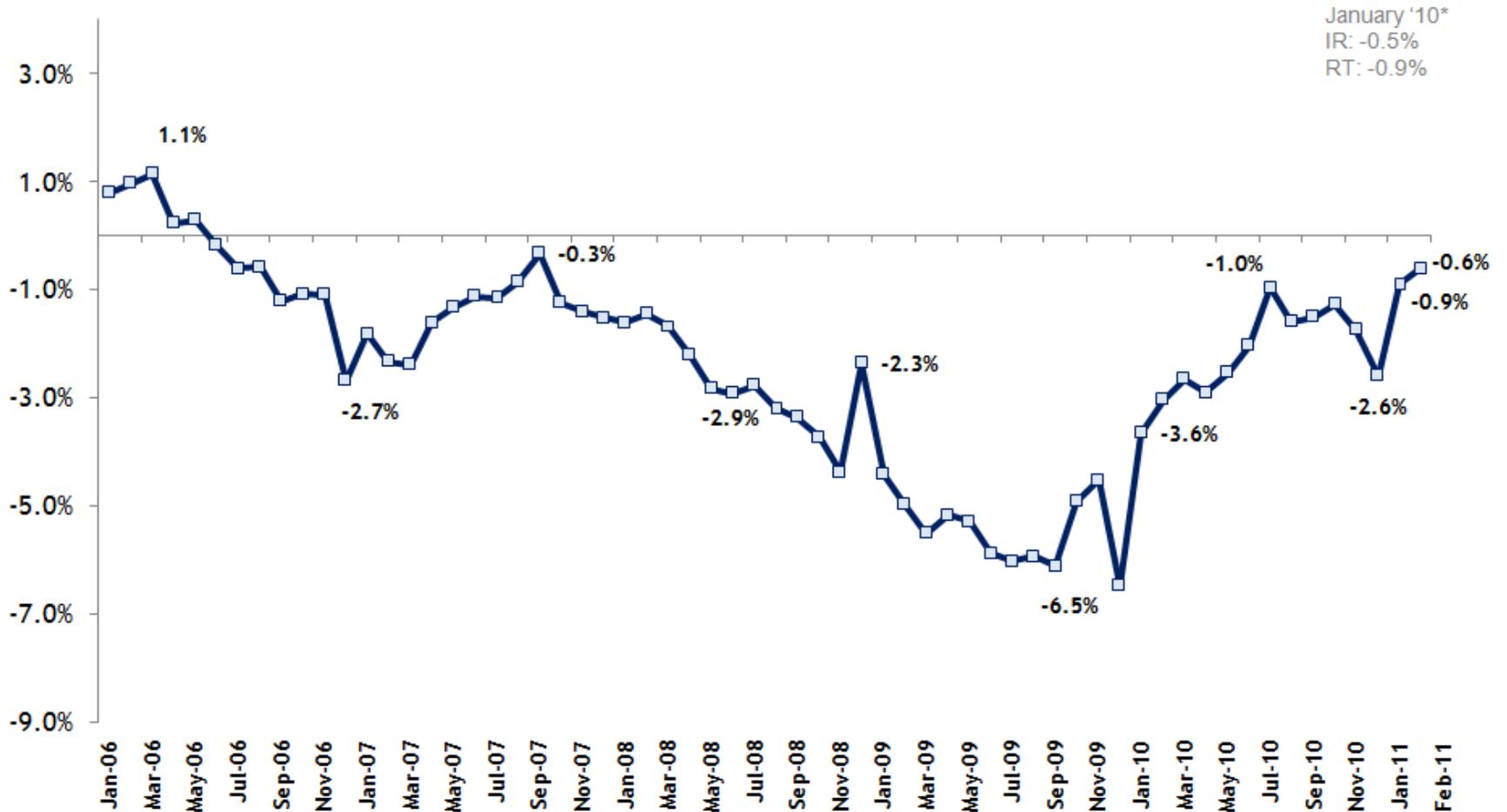
**William C. Dudley
President & CEO**

FEDERAL RESERVE BANK of NEW YORK



Our Reconstruction Plan continues to succeed with private sector employment showing marked signs of stabilization

Private Sector Employment (Year-over-year Change in Payroll Employment)

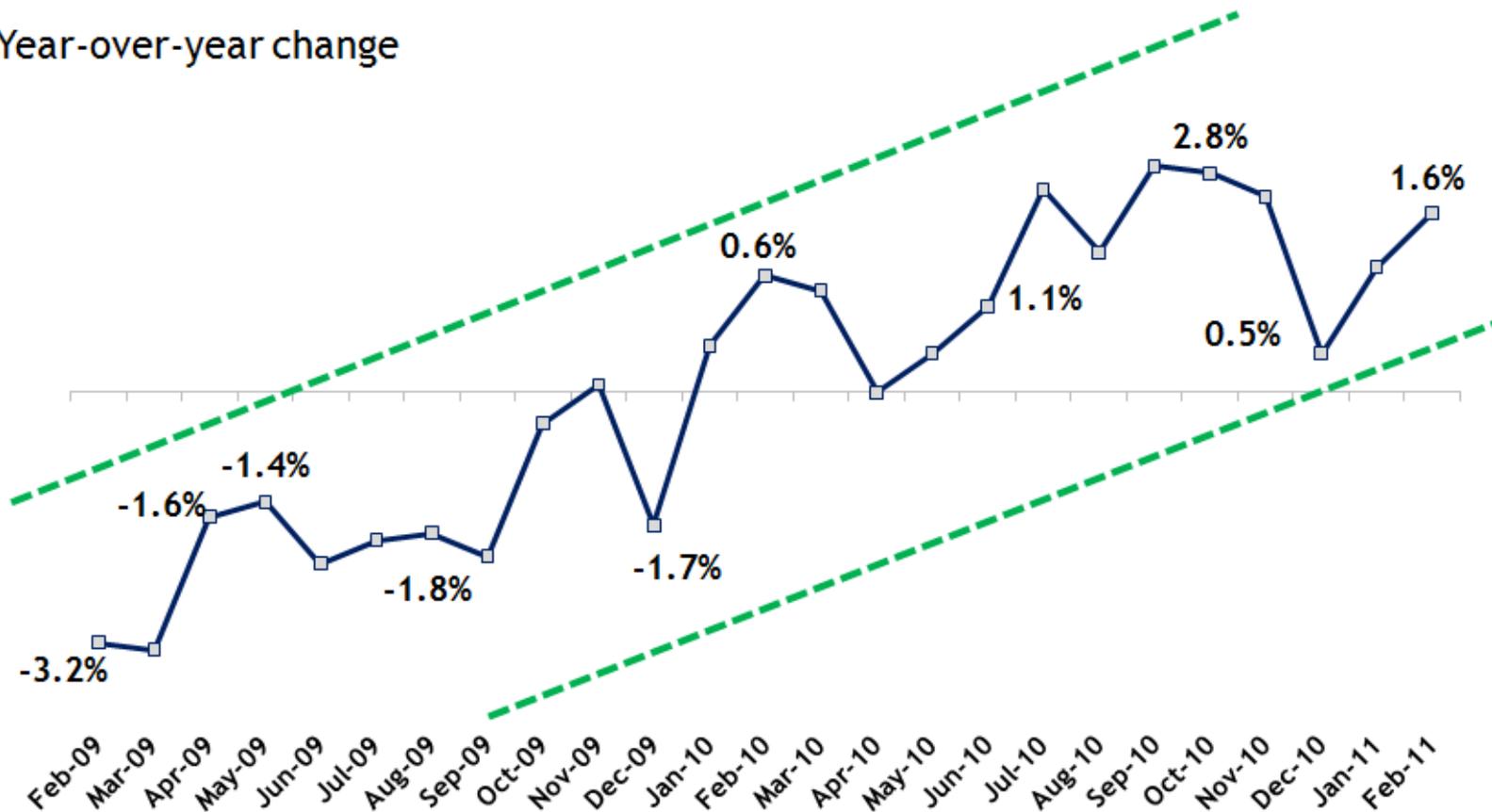




Service sector employment continues to show marked improvement

Service Sector Employment

% Year-over-year change



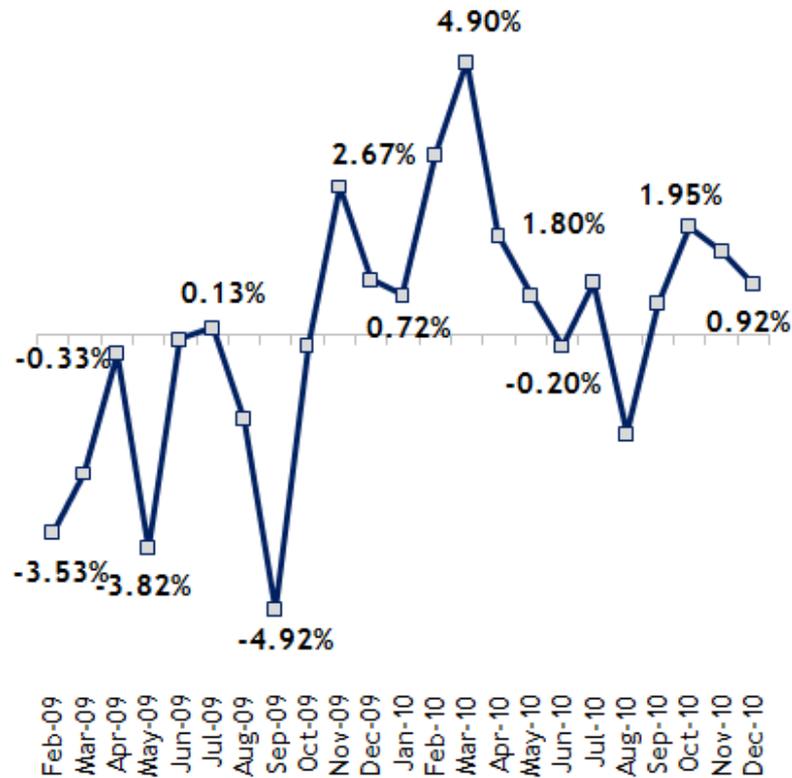


Increased consumer confidence is evidenced by rise in retail and auto sales

Retail Sales

(as of December 31, 2010)

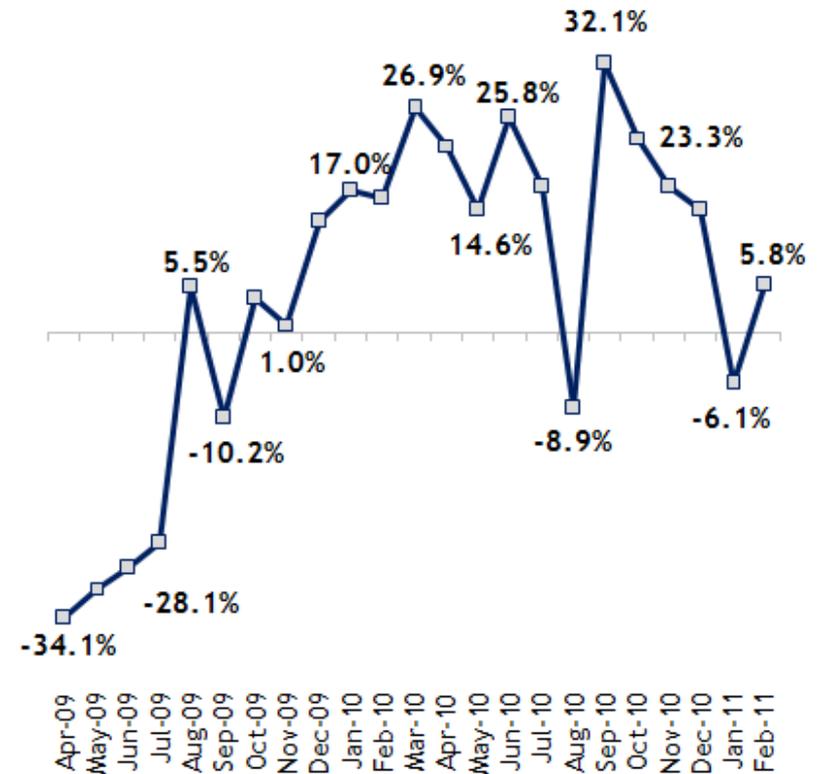
% Year-over-year change



Auto Sales

(as of February 28, 2011)

% Year-over-year change

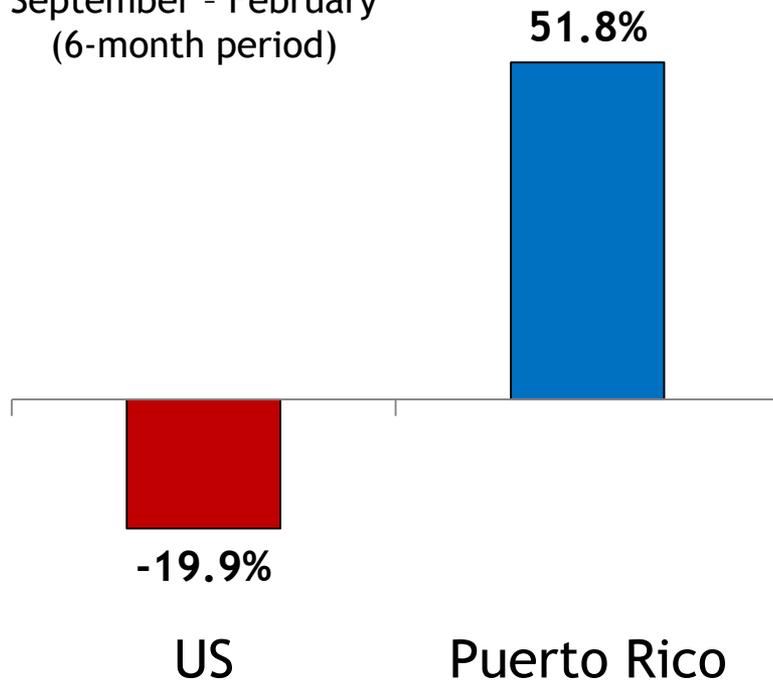




We have jumpstarted our real estate market with strategic incentives to spur economic activity

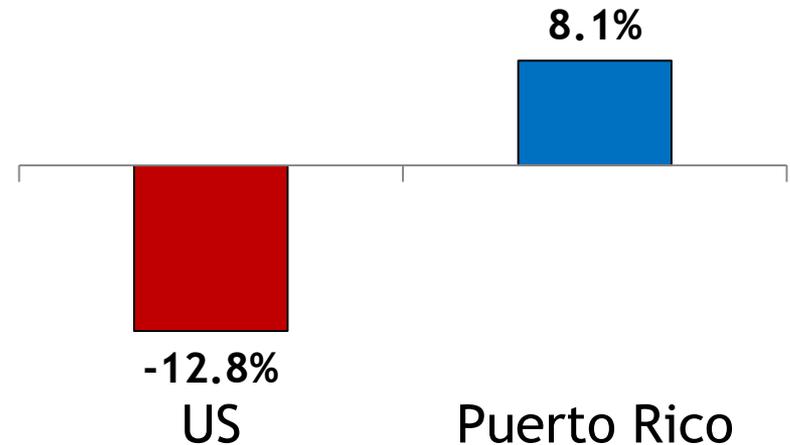
New Home Sales YOY Growth

September - February
(6-month period)



Existing Home Sales YOY Growth

September - February
(6-month period)



13,194 total homes sold in 18 months, representing \$1.8 billion in sales

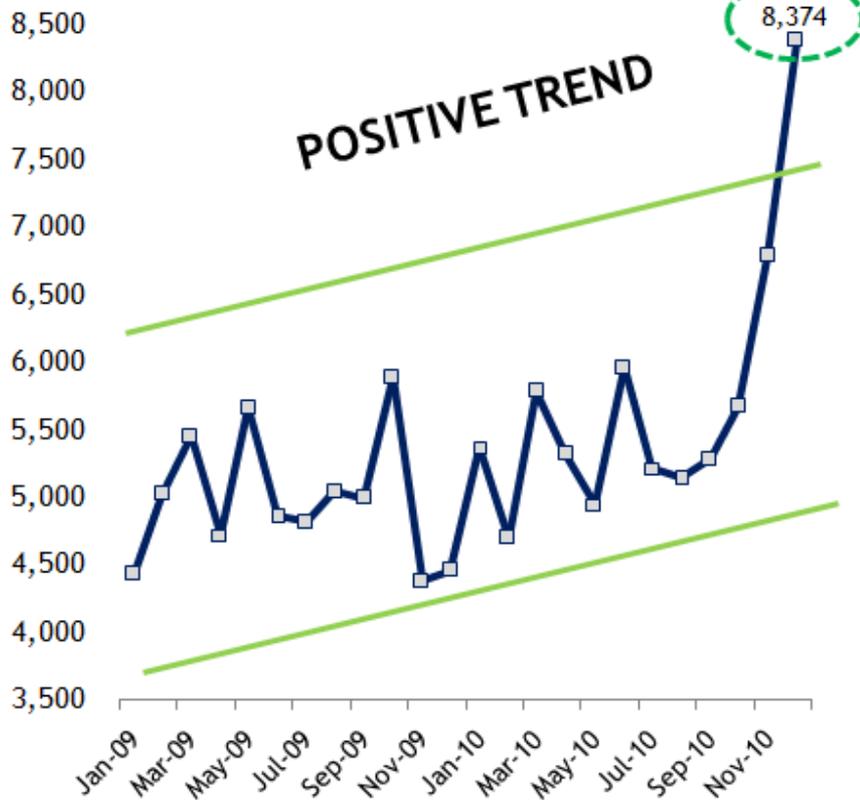
* Housing Finance Authority



Exports are up 5% on a year-over-year basis as of October 2010, net of recent months increased activity resulting from possible tax planning strategies

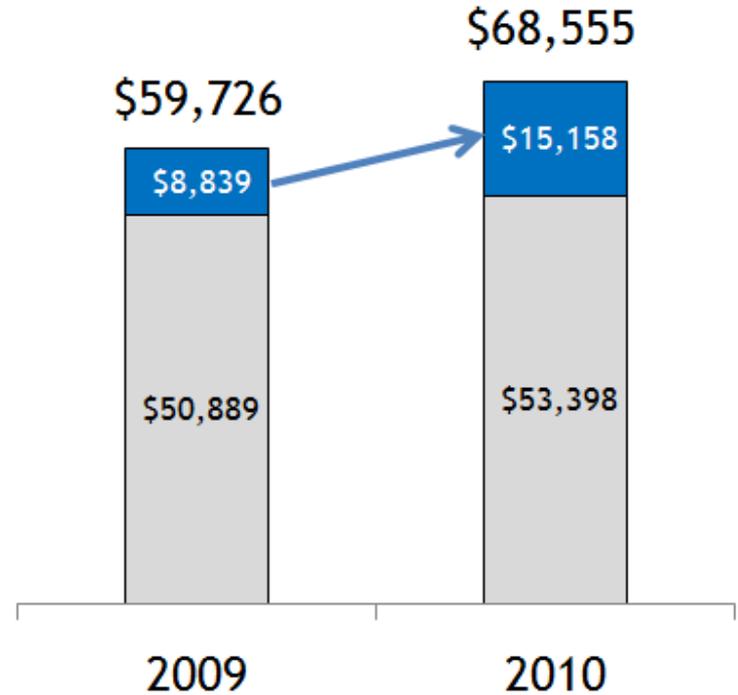
Exports

(in \$ millions)



Year-over-year comparison

(in thousands)

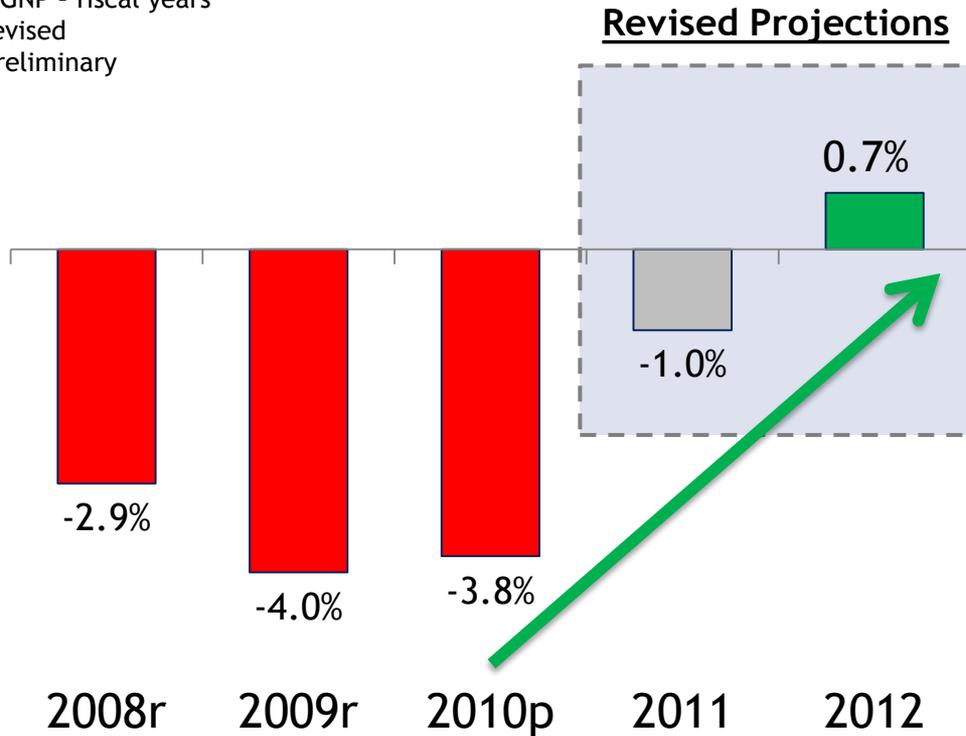




Planning Board's revised recent economic projections point to positive growth by 2012

Real Gross Product Growth (Base Forecast)

Real GNP - fiscal years
r - Revised
p - Preliminary



Projection Assumptions:

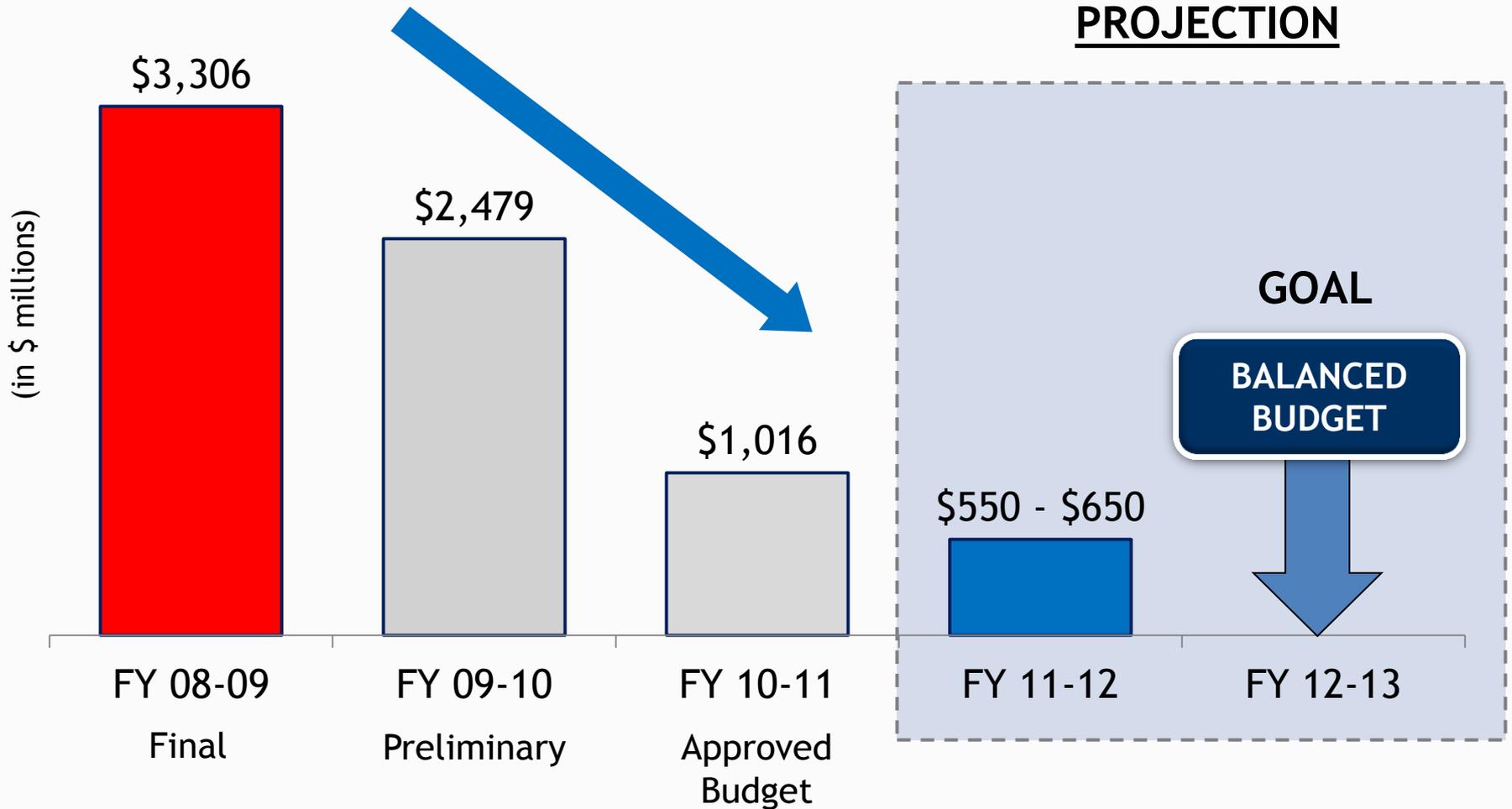
- Further deployment of ARRA funds
- Implementation of certain Public Private Partnerships (P3's)
- Deployment of Local Stimulus Plan
- Increases in consumer spending, provided by Tax Reform relief
- Based on oil price projections of U.S. Dept. of Energy
- Upturn in construction and other related sectors

Source: Puerto Rico Planning Board

Initial FY2011 projections revised to account for significant increase in oil prices



We are diligently closing the deficit gap...

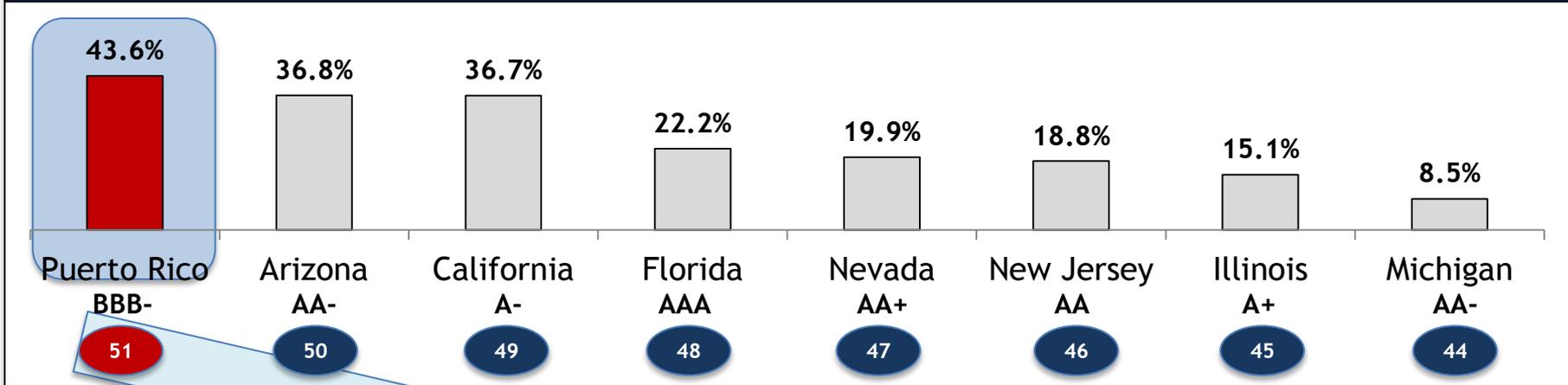


Source: OMB, Department of the Treasury and the Government Development Bank.

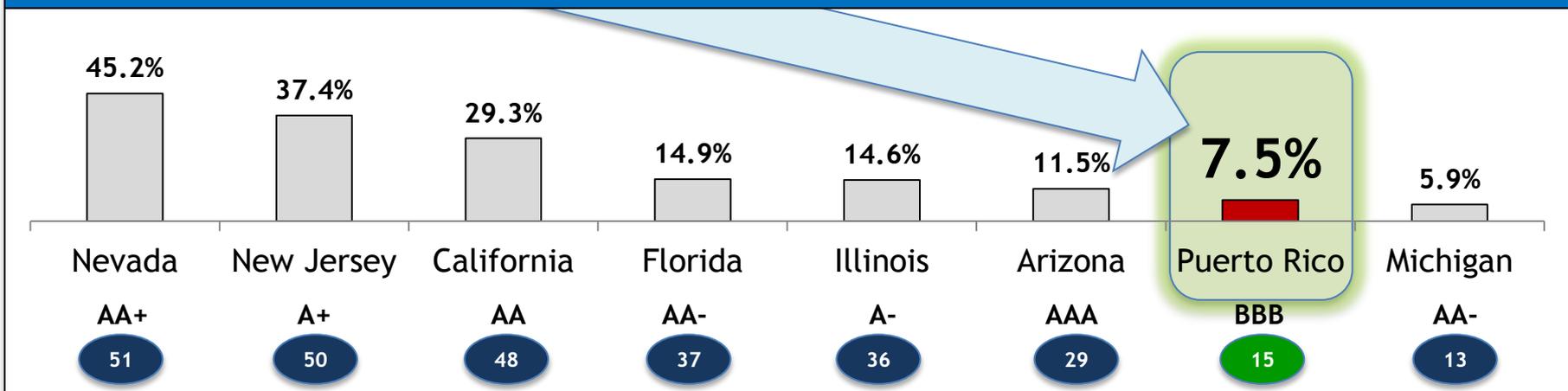


Unparalleled fiscal improvement...

Deficit as a % of Revenues for FY2008-2009



Budgeted deficit as a % of Revenues for FY2011-2012



Source: Center on Budget and Policy Priorities.



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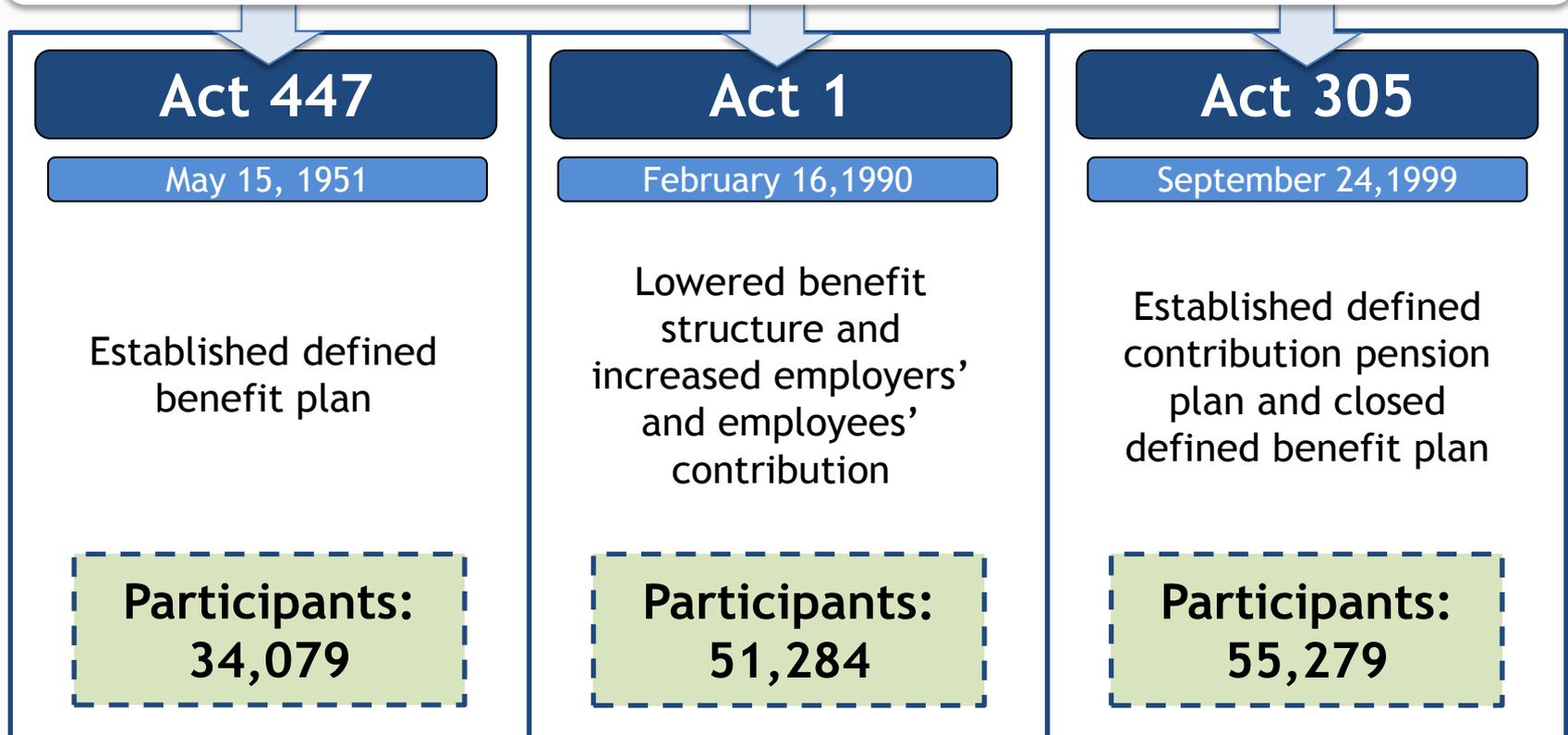
Pension Reform Plan will address long term funding levels of our Retirement System

FY 2010	Public Employees	Teachers	Judiciary
Employer Contribution Rate	9.275%	8.500%	30.340%
Active Participants	140,642	44,679	362
Retirees and Beneficiaries	106,538	33,604	394
FY 2010 Actuarial Deficit (000's)	\$ 17,834,403	\$ 7,057,799	\$ 282,785
Employer Contribution (000's)	\$ 381,243	\$ 118,127	\$ 10,021
Employee Contribution (000's)	\$ 345,265	\$ 129,888	\$ 3,104
Pension Payments and Benefits (000's)	\$ 1,060,933	\$ 470,683	\$ 17,897
Funding Ratio	8.5%	23.9%	16.4%



Retirement System Overview

Retirement System's participants are divided among three main retirement groups:



Total 140,642*

* Includes municipalities



In last year's Credit Conference, the Governor announced plans to create a Special Commission focused on finding solutions and submitting recommendations to improve the funding status of our Pension System...



As promised, the Commission submitted its recommendations to address the problems of our System

Summary of Recommendations Special Commission					
Member	Increase in Employer Contribution	Increase in Employee Contribution	Change in Benefit Structure	Evaluation of Special Laws	Limit Personal Loan Grants
Milliman Consulting (Employer Rep.)	X			X	X
AON Consulting (Employer Rep.)	X		X	X	X
AFSCME (Employee Rep.)	X				
Teachers Association	X	X	X		X
Retired Employees Association	X	X	X		
Legislative Assembly	X		X	X	X
Permanent Special Commission	X	X			X



We have identified initiatives that will extend System's assets life

April 2011

Improving liquidity and extending System assets through:

- 1 Increasing Employer Contribution Rate
- 2 Segregation of System Assets among:
 - Central Government
 - Municipalities
 - Public Corporations

Special Commission will continue evaluating alternatives where higher degree of consensus exists



A laddered increase in the employer contribution rate will provide significant funding improvement

Strategy:	(in \$ millions)	
	Fiscal Year	Cumulative Contribution
<ul style="list-style-type: none">■ Increase employer contribution by 1% per year for the first five years■ After year 5, employer contribution will be increased by an additional 1.25%	2012	1.00%
	2013	2.00%
	2014	3.00%
	2015	4.00%
	2016	5.00%
	2017	6.25%
	2018	7.50%
	2019	8.75%
	2020	10.00%
	2021	11.25%

1.0% increase (years 2012-2016)

1.25% increase (years 2017-2021)

Effect: Move closer to ARC and improve funding ratio

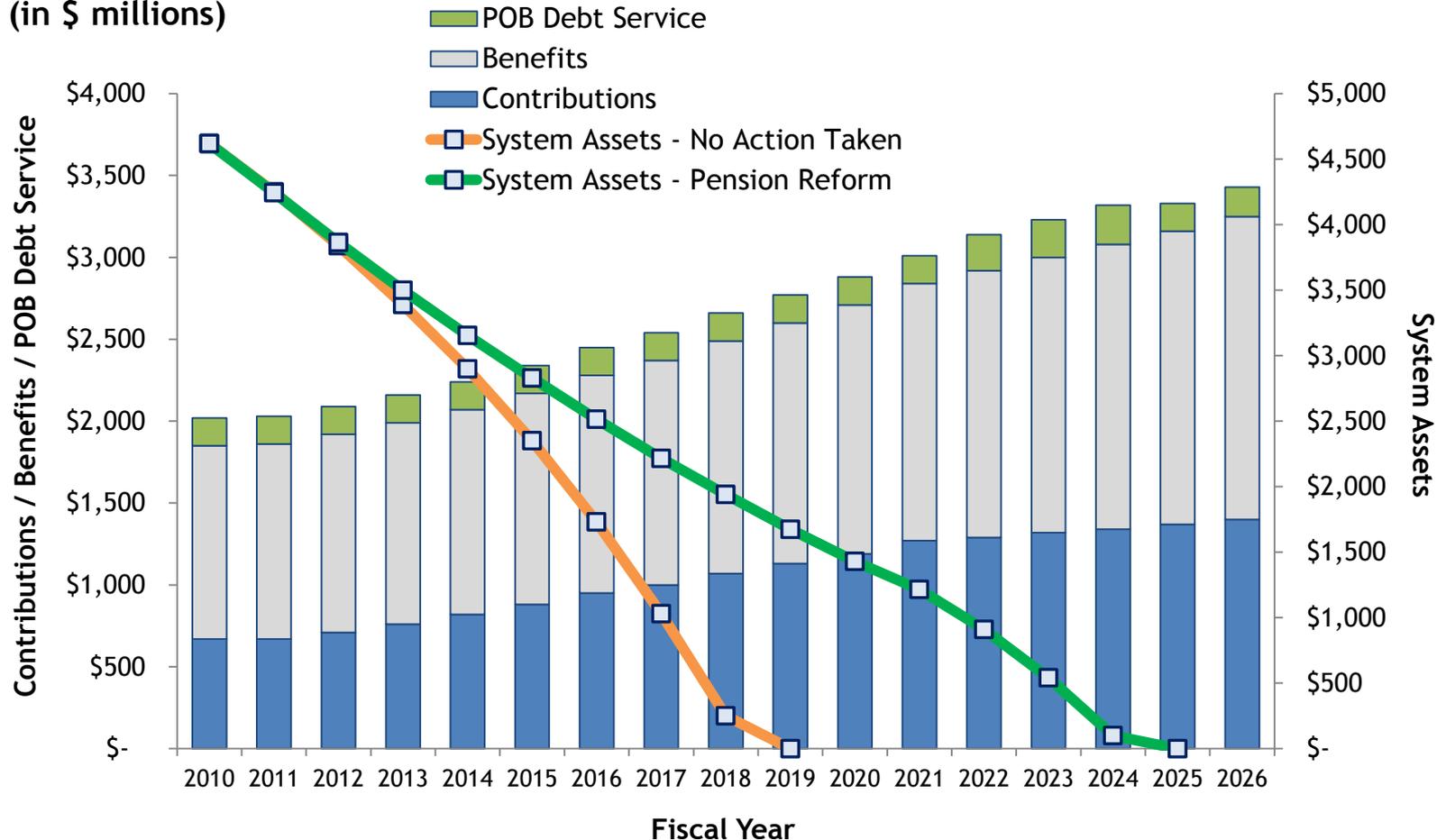
Employer contribution rate will increase from 9.275% to 20.525% by year 2021.
This increase has been factored in the budget multi-year planning



Significant extension of System assets will be achieved with these measures...

Measures will extend System's assets through year 2025

(in \$ millions)

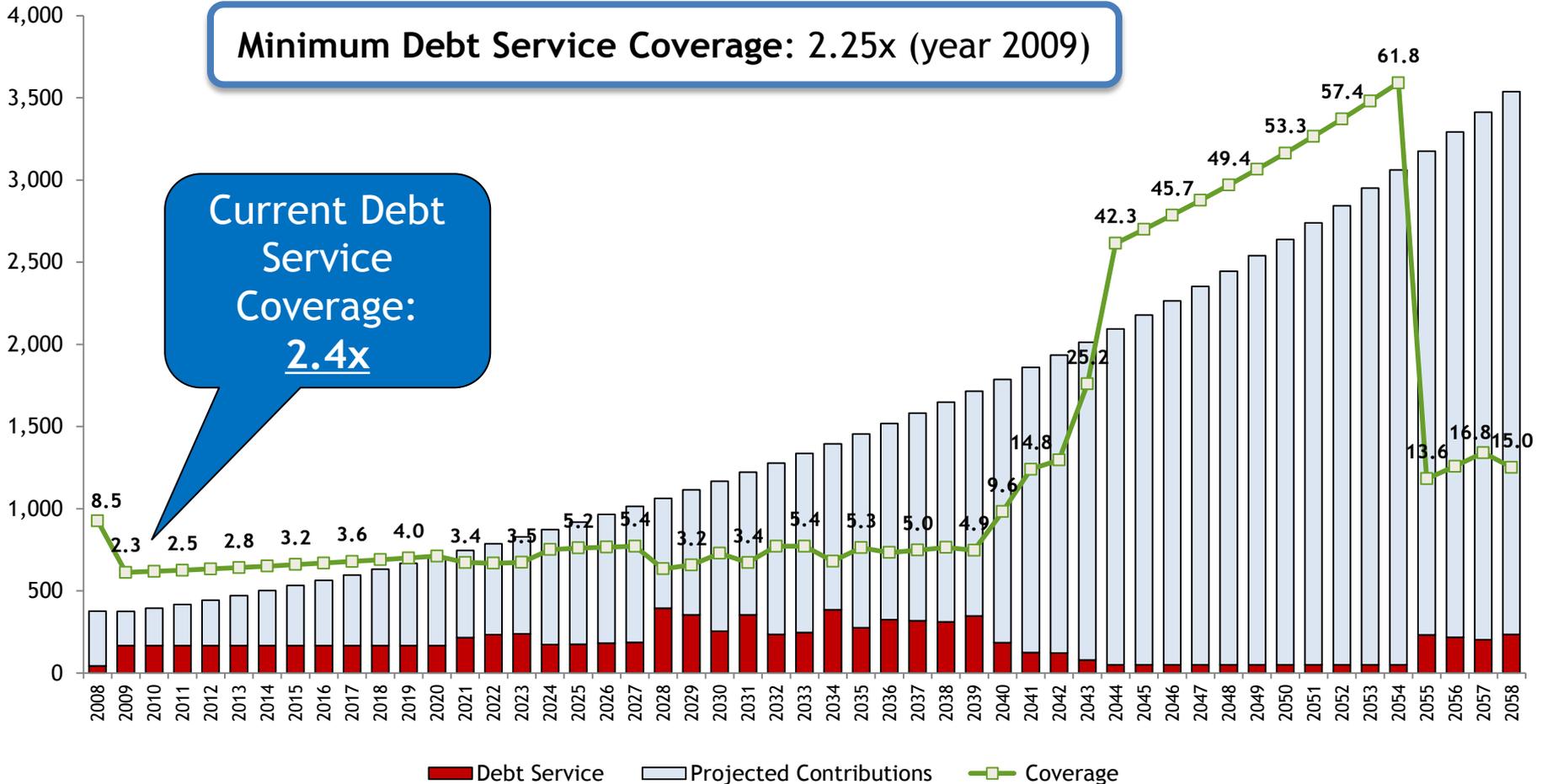


*Based on the best set of actuarial assumptions available at the time.



POB debt service coverage remains very strong...

Debt Service of Outstanding Bonds and Projected Contributions



* Project contributions base on actuarial report as of June 30, 2009; debt service on outstanding bonds.



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Fiscal progress is clear and compelling ...

FISCAL

FY 2009 / 2010

FY 2011

Deficit as a % of revenues

43.6%



7.5% by FY 2012



Credit Rating

Moody's: Baa3 (stable)
Fitch: N/R
S&P: BBB- (stable)



Moody's: A3 (negative)
Fitch: BBB+ (stable)
S&P: BBB (stable)



Financing Cost
(G.O. bond spread)

2.36%



0.80%



ECONOMIC

Unemployment Rate

16.9%



16.0%



Year-over-year change in
Economic Activity Index

-6.1%



-1.8%



YOY change in private
employment

-5.9%



-0.6%



YOY change in service
sector employment

-0.6%



2.3%





...and our Reconstruction Plan continues to deliver results



Recent positive rating actions recognize the Administration's successful implementation of Fiscal and Economic Reform in a multi-year effort to balance the General Fund budget by FY 2013



General Fund budget deficit as a percent of revenues has been lowered from 44% in FY 2009 to a projected 7.5% by FY 2012



Recent indicators confirm Puerto Rico's economic improving trend



Main economic reforms in place to foster sustainable economic development



Advancing initiatives to address liquidity and long-term funding status of our Retirement Systems



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