



NEWS RELEASE

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Puerto Rico's credit outlook improved and economic activity shows improvement

Standard & Poor's changes to "positive" its credit outlook; Economic Activity Index registers largest improvement in four years.

San Juan, P.R. - In what constitutes its first positive credit review on record since 1983, rating agency Standard & Poor's (S&P) changed from "stable" to "positive" its outlook on Puerto Rico's credit, Gov. Luis Fortuño announced today.

"The outlook revision is based on our view of the commonwealth's recent implementation of significant expenditure controls and revenue enhancement measures that we believe could help restore budget balance within the next two years," the S&P report states.

Fortuño highlighted the fact that the decision of the renowned rating agency takes place at the same time that the Government Development Bank Economic Activity Index (EAI-GDB) registered its strongest upswing in the past 48 months.

"Today is a great day for Puerto Rico. These are excellent news for all; they may sound a little technical, but can be translated into something very simple: the worst is over for Puerto Rico's economy and it is now moving upwards. The outlook is positive, and it's not that we say so, but rather it is being said by third-party experts whose job it is to evaluate the fiscal and economic situation of states and countries. And they have said today that in Puerto Rico we're doing exactly what needs to be done to improve our finances and our economy. And, at the same time, we see that our own Economic Activity Index confirms just that, that our economy is improving," the Governor said.

From 2001 to 2007, S&P took 6 negative actions against Puerto Rico's credit (from A with "stable" outlook in 2001 to BBB- with "stable" outlook in 2007) due to the continued erosion of the government's fiscal situation during those years.

S&P's decision to change now to "positive" its outlook on the island's credit comes in the wake of 22 months of efforts on the part of the current Administration to stabilize and restructure its fiscal situation threatened by an inherited budget deficit of \$3.3 billion—or 43% of the state's revenues—that pushed Puerto Rico's credit to the brink of being rated as "junk", the industry term given to credit obligations considered non-investment grade. As a result of the Administration's fiscal stabilization and restructure plan, that deficit has been reduced to only 11% of revenues and is expected to be brought into balance by 2013.

In its report, S&P specifically highlighted as one of the factors in its decision "the current administration's commitment to restore fiscal balance and economic growth and the progress made to date, which has required the passage and implementation of what we view as difficult and sometimes politically unpopular measures.

"In our opinion, Puerto Rico continues to face significant fiscal and economic challenges. However, in the nearly two years since his inauguration, the administration of Gov. Fortuño has made fiscal stability a priority. With broad support from the legislature, the current administration has implemented an aggressive expenditure reduction plan that trimmed nearly \$1 billion in recurring payroll expenditures... The fiscal measures adopted by the Fortuño administration, represent, in our opinion, a factor that lends near-term stability to the credit of the commonwealth, and that could yield the projected results by fiscal 2013 if the economy stabilizes and expenditure discipline is maintained," states the S&P report.

"As the very report states, the change in outlook by S&P is an important acknowledgment of the progress we have achieved in terms of fiscal stability and economic recovery in Puerto Rico. The outlook—the first positive outlook Puerto Rico has received from S&P in more than two decades—reflects S&P's view of the direction that our credit rating will take in the next six months to two years. And the outlook for Puerto Rico is POSITIVE," said Carlos García, president of the GDB. García added that it is important for Puerto Rico to stay the course of fiscal responsibility that it has charted for itself, including maintaining budget controls that will ensure a balance between ongoing revenues and expenditures, continuing on the road to improved economic performance and addressing the issue of unfunded retirement benefit obligations.

In April, rating agency Moody's had acknowledged the progress of the Administration's fiscal stabilization plan when it upgraded Puerto Rico's credit rating from Baa3—the level right before junk—to A3. Although one or two notches in the upgrade was the result of an overall recalibration of Moody's rating scales, the rating agency upped Puerto Rico 3 notches in recognition of the progress being made in managing the island fiscal situation.

Improvement in economic activity

García also highlighted the progress registered by the EAI-GDB in October, when it reached 129.4, versus 128.3 in September, the largest month-to-month uptick since October, 2006.

The EAI bears a 98% correlation with Puerto Rico's GNP, which means that the Index is a highly reliable indicator of the overall economy's performance.

Three out of the four EAI-GDB components registered an increase in October. Payroll employment, an important EAI-GDB component, continued its improving trend, adding 7,000 jobs in October, a 0.8% increase over September, when it had grown 0.7% over the previous month. The services sector has added 12,300 jobs between October 2009 and October 2010, a year-over-year growth of 4.1%.

Cement sales grew 2.9% in October as compared with September. Cement sales have averaged 1.5 million bags per months over the last 7 months, a sign of stabilization in the otherwise depressed construction sector.

Electric energy consumption registered a 1.2% uptick in October. For the first 10 months of this year, electric energy consumption has increased 2.6% compared with the consumption registered during the same period last year.

Only gasoline consumption registered a decline in October (-4.7%) in comparison with September, but it showed a 0.9% increase over October 2009, for a total of 94.7 million gallons, the third consecutive month registering above-average consumption.

Although the EAI-GDB year-over-year comparison still showed a 2.6% decline in October, it was the smallest decline since April 2008, which means that if the trend holds the Index may reach positive territory in the first quarter of 2011.

“This is evidence that the series of initiatives we have implemented as part of our Strategic Model for a New Economy are yielding results. We still have a lot to do, but the signs are very positive. As we have witnessed in the last few days, retail activity has experience an upswing that we hadn’t seen in Puerto Rico in years. This reflects greater consumer confidence, which in turn is very positive,” said José Pérez-Riera, Secretary of Economic Development and Commerce.

Fortuño noted that the additional push our economy needs in order to reach a pattern of sustained growth is the Administration’s Tax Reform that the Legislature will start evaluating this week.

“There is no doubt that when you leave more money in taxpayers’ pockets, be they individuals or small and medium-size businesses, the economy gets stimulated. This is because people then have more money at their disposal to spend, save or invest. All three options—consumption, savings and investments—generate more economic activity, which in turns translates into more income and jobs for all,” Fortuño said.

“In light of the positive economic news we announce today—the improvement of our credit with the positive outlook we have received, and the improvement in the EAI-GDB—and the economic stimulus and job creation effect that our Tax Reform will have, I have no doubt that in 2011, which is around the corner, we will all be better off and our economy will continue moving forward for the benefit of all in Puerto Rico,” the Governor concluded.

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