

Puerto Rico Tourism Investment Conference

Investment Climate in Puerto Rico

The Fiscal Outlook



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The Commonwealth has actively addressed its Fiscal Challenges

- ❖ The major challenges were:
 - Growing structural deficit covered by borrowing
 - Decreasing GDB liquidity
 - Growing debt levels
 - Large unfunded pension liability
- ❖ All of these items have been addressed in the past 18 months

1. Action to Reduce Structural Deficit

- ❖ Fiscal Reform is in full implementation and spending has decreased
 - Structural deficit reduced from \$1.4B in FY06 to \$350M for FY08
 - Reform Legislation requires Structural Balance by FY 2010
- ❖ Tax Reform has been implemented and is substantially on target
 - Revenue is increasing in spite of economic slowdown
 - The Sales Tax is producing almost twice the revenue of the Excise Tax it substituted
- ❖ A government restructuring plan for economic growth is being implemented
 - Emphasizes private sector growth and knowledge economy

2. Action to Improve GDB Liquidity

- ❖ GDB liquidity and balance sheet were strengthened
 - Loan portfolio has been reduced by over \$3B since June 2006
 - Investments increased to 56% of assets from 32% a year ago
- ❖ Other credits have been strengthened
 - PRASA – Rate increase meant \$400M relief for the Commonwealth
 - PRHTA – Toll increase in 2005 boosted financing capacity
 - PRPA – Restructured loans and currently developing 5-year financial plan

3. Action to Reduce Debt Levels



- ❖ Dedicated Sales Tax will extinguish \$6.8B of extra-constitutional debt
- ❖ GO debt issuance is declining
 - New money of \$500M for FY06, \$325M for FY07
 - \$275M proposed for FY08
 - GO debt to GNP ratio declining
- ❖ P3 strategy being developed to reduce debt
 - Priority on PRPA, PRHTA, PRASA
 - PR Infrastructure Forum celebrated recently with representatives from major international infrastructure companies and investment funds attending



4. Action to Increase Pension Funding

- ❖ Retirement system funding ratio will increase to over 70%
 - \$7B in Pension Funding Bonds to be issued within 12 months
- ❖ Structure does not increase debt payment by any employer
 - Limited obligation pledges existing statutory employer contributions
- ❖ New investment strategy and managers to improve yield
 - Investment policy revised and 18 new managers selected

Recent Developments re. Puerto Rico's Credit

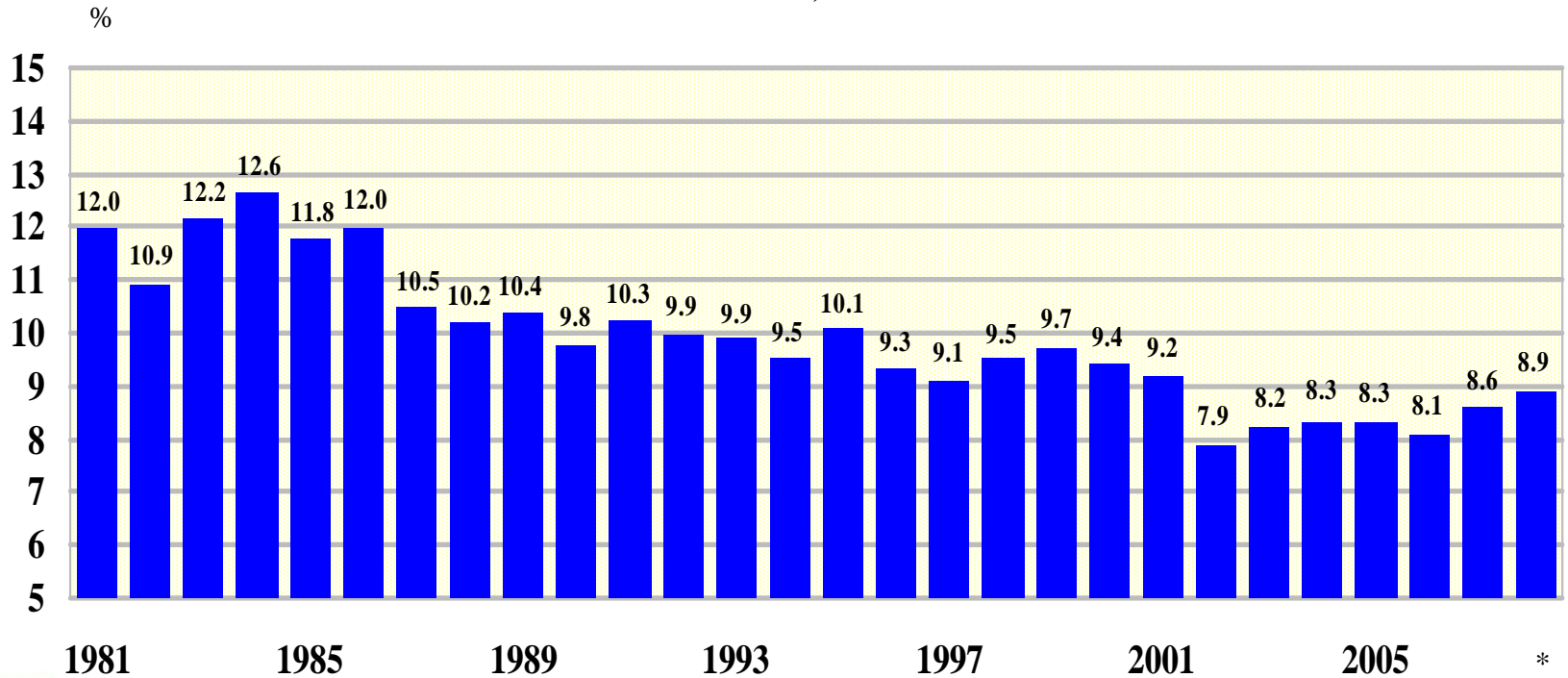
- ❖ Recently Moody's changed the outlook for the Commonwealth to stable from negative and confirmed our Baa3 rating.
- ❖ Previously, S&P had improved the outlook to stable from negative, although it downgraded the rating to BBB-, taking it to the same level as Moody's.
- ❖ The change to stable outlook by both agencies assure the stability of our current ratings.

Max Debt Service as a Percentage of Revenue

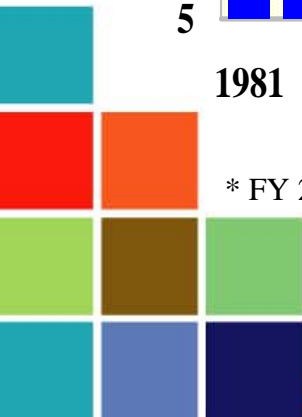


Constitutional Margin Usage

As of June 30, 2007



* FY 2008 pro forma ratio includes proposed \$425 million GO issuance.





Multi-Year Scenario

Infrastructure Investment of \$10+B Planned Over the Next 5 Years

PREPA	\$2,200M
PRASA	\$2,400M
PRHTA	\$2,200M
PRIFA	\$ 527M
Ports	\$ 586M
UPR	\$ 186M
Central Government	\$2,000M



Economic Factors – Short & Medium Term

Challenges

- ❖ Commonwealth in recession since late 2006
- ❖ US growth at a slower pace than the previous fiscal year
- ❖ High oil prices
- ❖ Politically contentious environment

Positives

- ❖ Vibrant tourism sector
- ❖ Tax reform includes tax relief for individuals in '08 & '09
- ❖ \$1B in new construction expected in FY08
- ❖ Banking sector normalizing after loss of market cap

Expected Financing Transactions Next three months

❖ Tourism Company	\$150 million
❖ PBA Refunding	\$900 million
❖ Pension Bonds	\$ 4 billion
❖ PRASA	\$930 million

Puerto Rico Tourism Development Fund (TDF)

Mission: To facilitate financing for tourism projects that generate jobs and revenues, thus stimulating the growth of Puerto Rico's tourism industry.

- ❖ TDF was created in 1993 as a subsidiary of GDB.
- ❖ TDF issues guaranties and letters of credit to facilitate financing of tourism projects.
- ❖ TDF can hold and dispose of obligations or securities issued by any entity engaged in projects that promote the development of hotel and tourism on the Island.
- ❖ In the last 14 years TDF has participated and enabled the development of:
 - 19 properties under guaranty or soon to be completed.
 - Representing 4,572 rooms.
 - Total investment of \$1.6 billion (of which TDF has participated in 64% of the investment).
- ❖ For more information please visit the TDF booth.

Current TDF Financing Projects

- ❖ La Concha Opening Dec. 07
- ❖ Intercontinental Cayo Largo Construction
- ❖ Embassy Dorado Expansion Approved
- ❖ St. Regis Bahia Beach Review
- ❖ Mandarin Oriental Review
- ❖ Regent Review