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Puerto Rico GO, Appropriation Debt Ratings Affirmed At 'BBB-' On Fiscal And Budget Stabilization Reforms

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DALLAS (Standard & Poor's) June 4, 2009--Standard & Poor's Ratings Services has affirmed its 'BBB-' rating on the Commonwealth of Puerto Rico's general obligation (GO) and appropriation debt outstanding. The rating on the commonwealth's appropriation debt, typically rated one notch below the GO, remains at 'BBB-', reflecting Standard & Poor's opinion that Puerto Rico's appropriation credit profile is not speculative grade. The outlook is stable.

The 'BBB-' ratings are based on Puerto Rico's full faith and credit pledge. "The ratings reflect our opinion of the commonwealth's chronic budget deficits, high debt levels, and protracted economic recession," said Standard & Poor's credit analyst Horacio Aldrete-Sanchez.

Factors that continue to support the ratings include our opinion of the commonwealth's strong ties to the U.S. economy, and support from the Government Development Bank for Puerto Rico (GDB), which provides a stabilizing financial and management influence, as well as a source of liquidity and market access for the commonwealth.

The stable outlook reflects our expectation that the administration and legislature will remain committed to the goals outlined in the fiscal reconstruction plan, allowing the commonwealth to gradually achieve structurally balanced budgets. In addition, the stable outlook reflects our

assumption of continued liquidity, financial, and management support from GDB. However, in our view, the stabilizing effect of GDB on the commonwealth's rating has its limitations. The rating may be pressured if Puerto Rico's reliance on GDB to fund the deficit increases materially or if the government does not continue to implement measures in the near term to reduce the structural deficit. In our view, the commonwealth's ability to use GDB only as a temporary source of flexibility to implement meaningful measures to narrow the budget deficit and not as a long-term source of deficit financing may affect the commonwealth's credit stability.

RELATED RESEARCH

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Appropriation-Backed Obligations," June 13, 2007

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