PUERTORICO CREDIT CONFERENCE 2 • 0 • 1 • 2

Puerto Rico: Restoring Growth Through Fiscal Responsibility

Juan Carlos Batlle
President
Government Development Bank for Puerto Rico

Juan Carlos Pavía
Director
Office of Management and Budget

Jesús F. Méndez
Secretary
Department of Treasury

Agenda

1. Restoring Growth Through Fiscal Responsibility
2. Puerto Rico's Public Debt
3. Revenues, Enforcement Measures and Expenses
4. FY 2013 Proposed Budget
5. Concluding Remarks

Agenda

1. Restoring Growth Through Fiscal Responsibility
2. Puerto Rico's Public Debt
3. Revenues, Enforcement Measures and Expenses
4. FY 2013 Proposed Budget
5. Concluding Remarks

By 2009, Puerto Rico faced significant fiscal challenges that were restraining our prospects for economic development …

Immediate actions were taken to address the critical issues and restore confidence from our investor community and main stakeholders…

<u>TODAY</u>, we can say that we have delivered on our commitment to stabilize our finances and return Puerto Rico to a path of fiscal responsibility and economic growth, recognizing we still have a long way to go

Puerto Rico is a model of unparalleled achievements in both fiscal and economic fronts…

Since 2009 we have taken bold actions to restore fiscal balance and economic growth:

- ✓ Reduction of government expenses by $1.8 billion or 17%
- ✓ Reduction of government payroll expenses by 34%
- ✓ Reduction of budget deficit by 90%
- ✓ Enactment of the most comprehensive Tax Reform in our history
- ✓ Creation of award-winning Public Private Partnerships initiatives
- ✓ Strategic investment in infrastructure projects to restart growth
- ✓ First period of economic growth since 2006

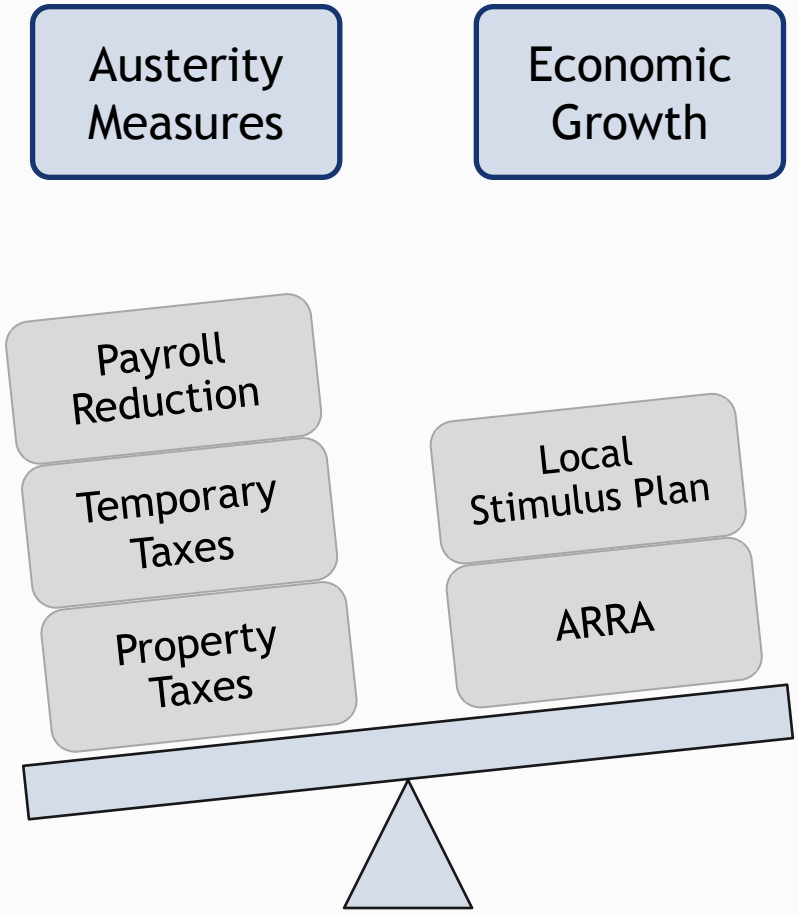
We have done this implementing best practices to stabilize government finances and stimulate our economy

Recommendations of the World Economic Forum:	Puerto Rico
Managing fiscal consolidation to promote prospects for growth	✓
Using economic organizations and/or development banks to achieve growth	✓
• Bank consolidation and recapitalization • Access to capital for small and medium-sized businesses	✓
Pursuing P3s to finance investments, tapping private sector potential and reducing debt	✓

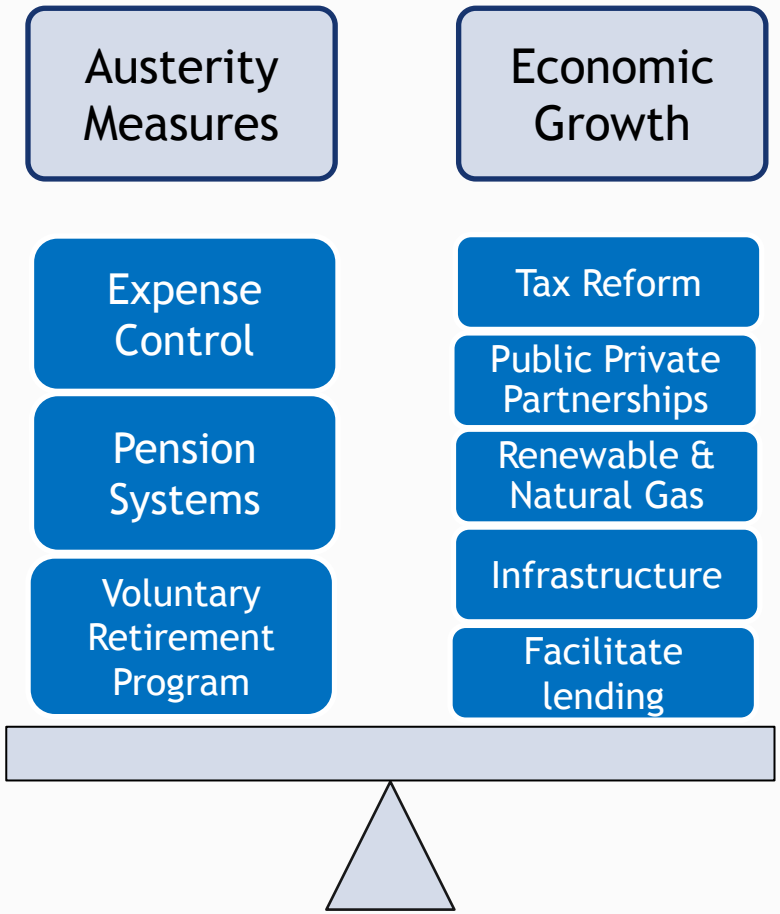
Source: Global Issues Group of the World Economic Forum

We are focused on maintaining a balance to promote growth amid a global austerity environment…

2009

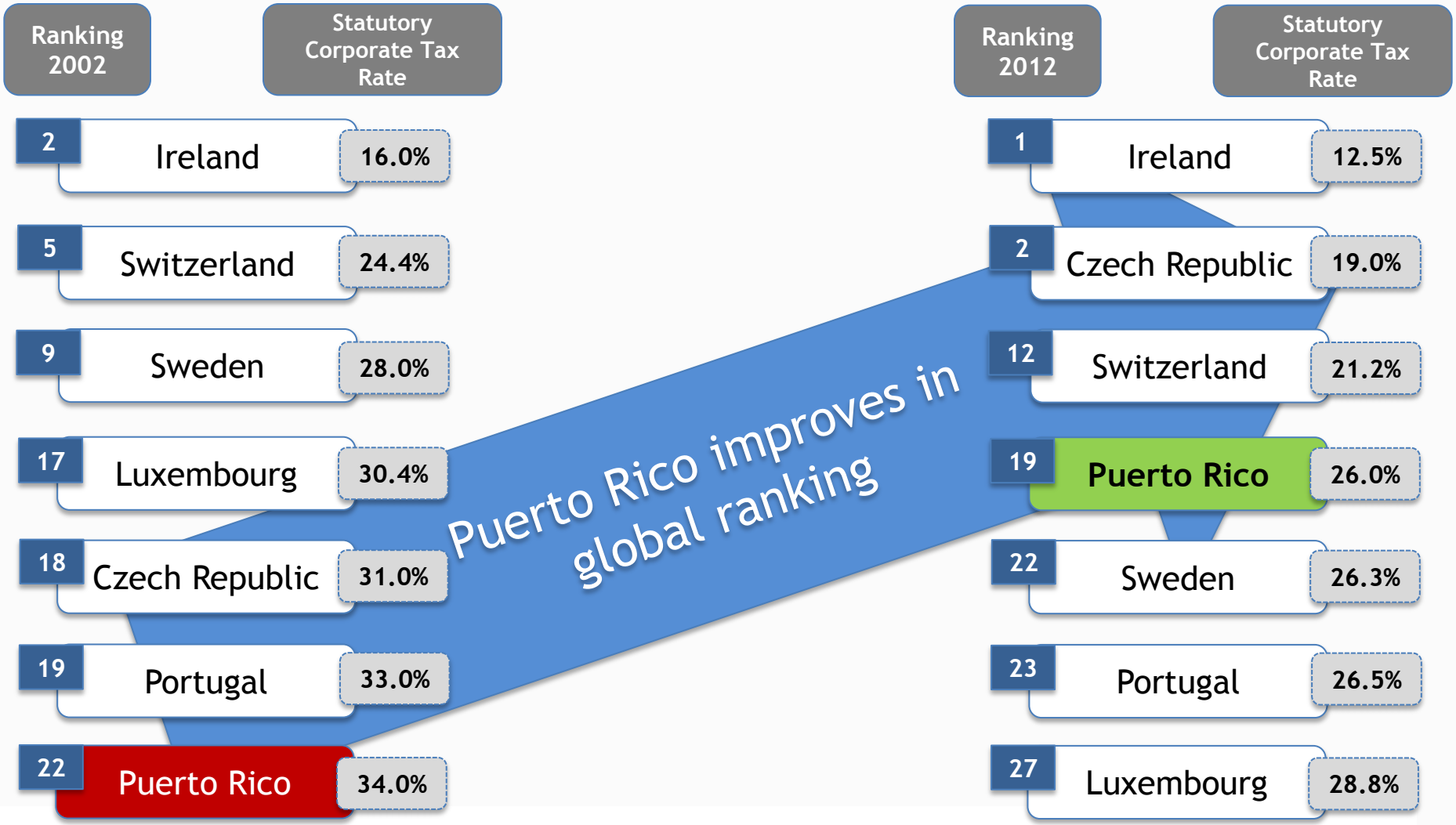


2012



A PRO-GROWTH Tax Reform that significantly improved Puerto Rico's competitiveness on a global scale…

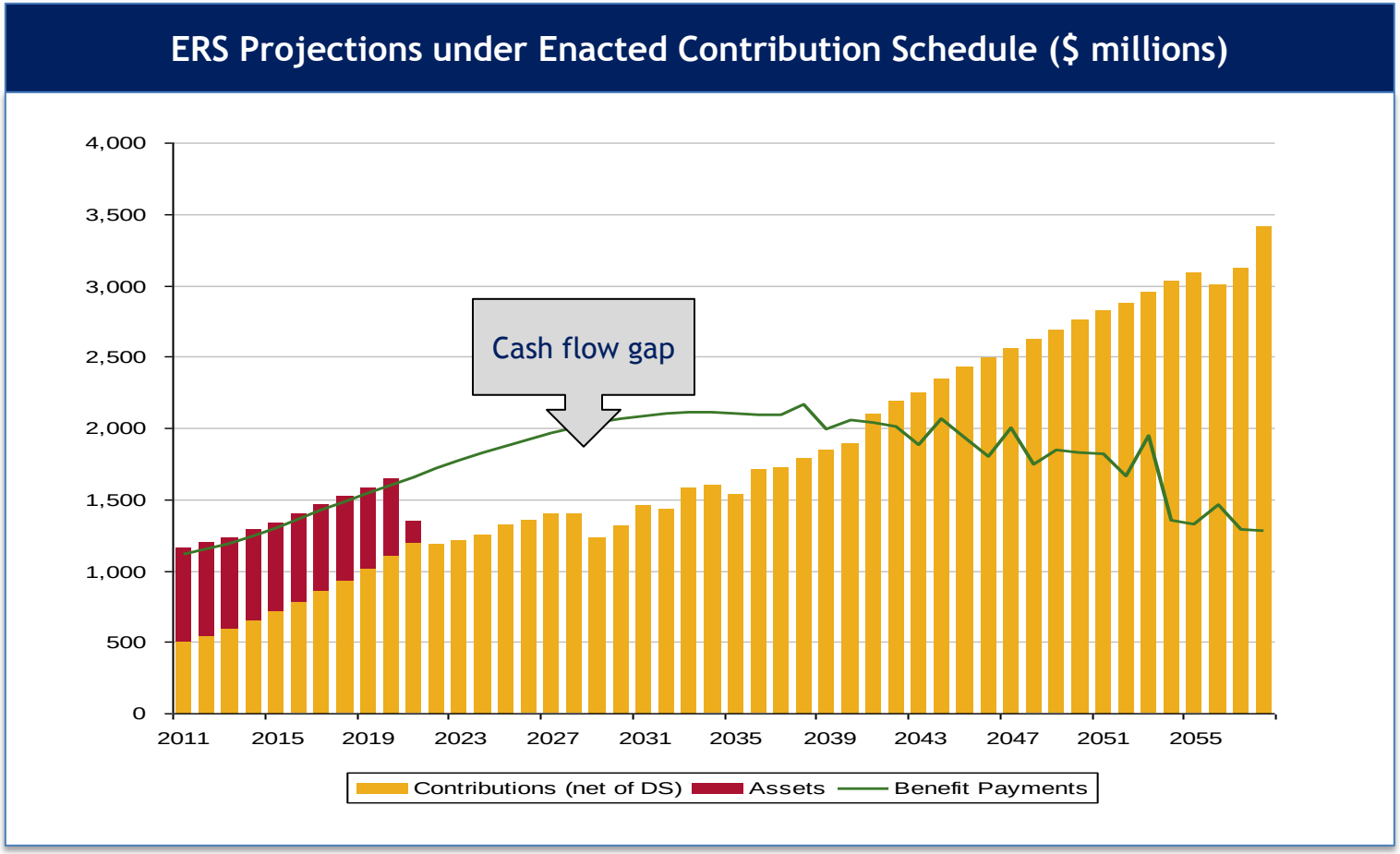
ECONOMIC STIMULUS



Source: Tax Foundation (Statutory corporate tax rates for the 34 OECD nations) and Department of Treasury (Puerto Rico).

Initial steps have been taken to safeguard our Pension System while proactively gathering consensus to permanently solve the problem…

FISCAL MEASURES

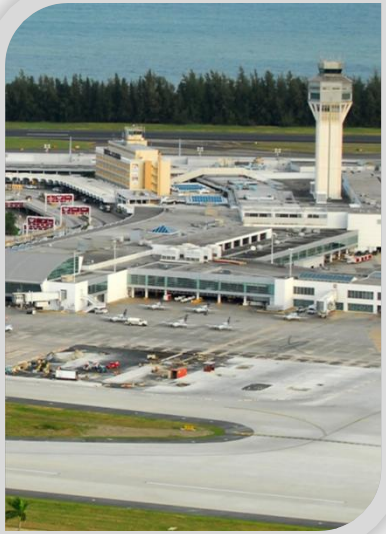


The realistic goal is to balance outflows and inflows to meet retirement obligations, protecting the solvency of the plans until the system autocorrects

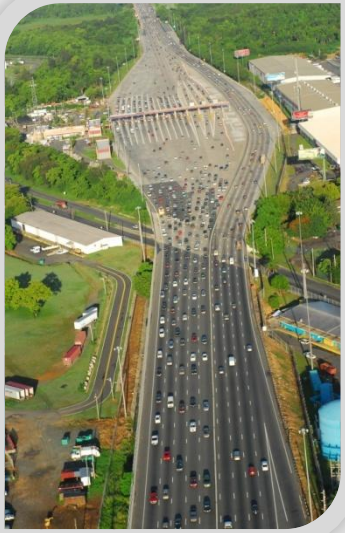
Award winning world class Public Private Partnership Program that is yielding successful results

ECONOMIC STIMULUS

June 2012



September 2011



PUERTO RICO
PUBLIC-PRIVATE PARTNERSHIPS
AUTHORITY

abertis

Goldman Sachs

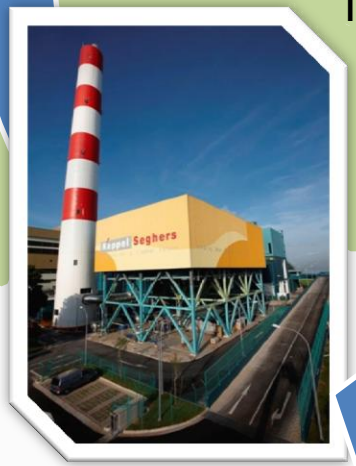
We have a plan to leverage Puerto Rico's unique geographic attributes to further diversify our fuel mix away from oil

ECONOMIC STIMULUS

SOLAR

NATURAL GAS

Over **$1 billion** in potential private sector investment in renewables



Renewable projects under development:

Wind: 140 MW
Solar: 87 MW
WTE: 100 MW

Total: 327 MW

WASTE-TO-ENERGY

WIND

New public and private investment in strategic projects and initiatives during 2011 and 2012 will promote economic activity in Puerto Rico

ECONOMIC STIMULUS

Significant investment in various economic sectors

Housing Stimulus (extended through 12/31/12)	$235 M	Real Estate
Schools Infrastructure Improvements	$878 M	Infrastructure
Infrastructure Development and Stimulus	$1.0 B	Infrastructure
Tourism Projects	$1.1 B	Various
GDB/Banking Sector Stimulus	$200 M Guaranty Program	Various

Comprehensive Tax Reform
($1.2 billion 6-yr average annual tax relief to individuals and corporations)

Public-Private Partnerships
- $1.5 billion toll road concession completed
- International airport concession underway

GDB implemented an innovative loan guaranty program to complement the local banking sector and generate economic activity across different business segments

ECONOMIC STIMULUS

The small and medium sized business sector in Puerto Rico:

- + 45,000 businesses
- + $12 billion in payroll
- + 550k jobs (+65% of total employment)
- Average employees per business: 15

Across many economic sectors:

Retail → Transportation → Information Systems → Leisure & Hospitality

Legal, financial, real estate → Professional and administrative Services

Puerto Rico Development Fund Guaranty Program ($200 million)

↓

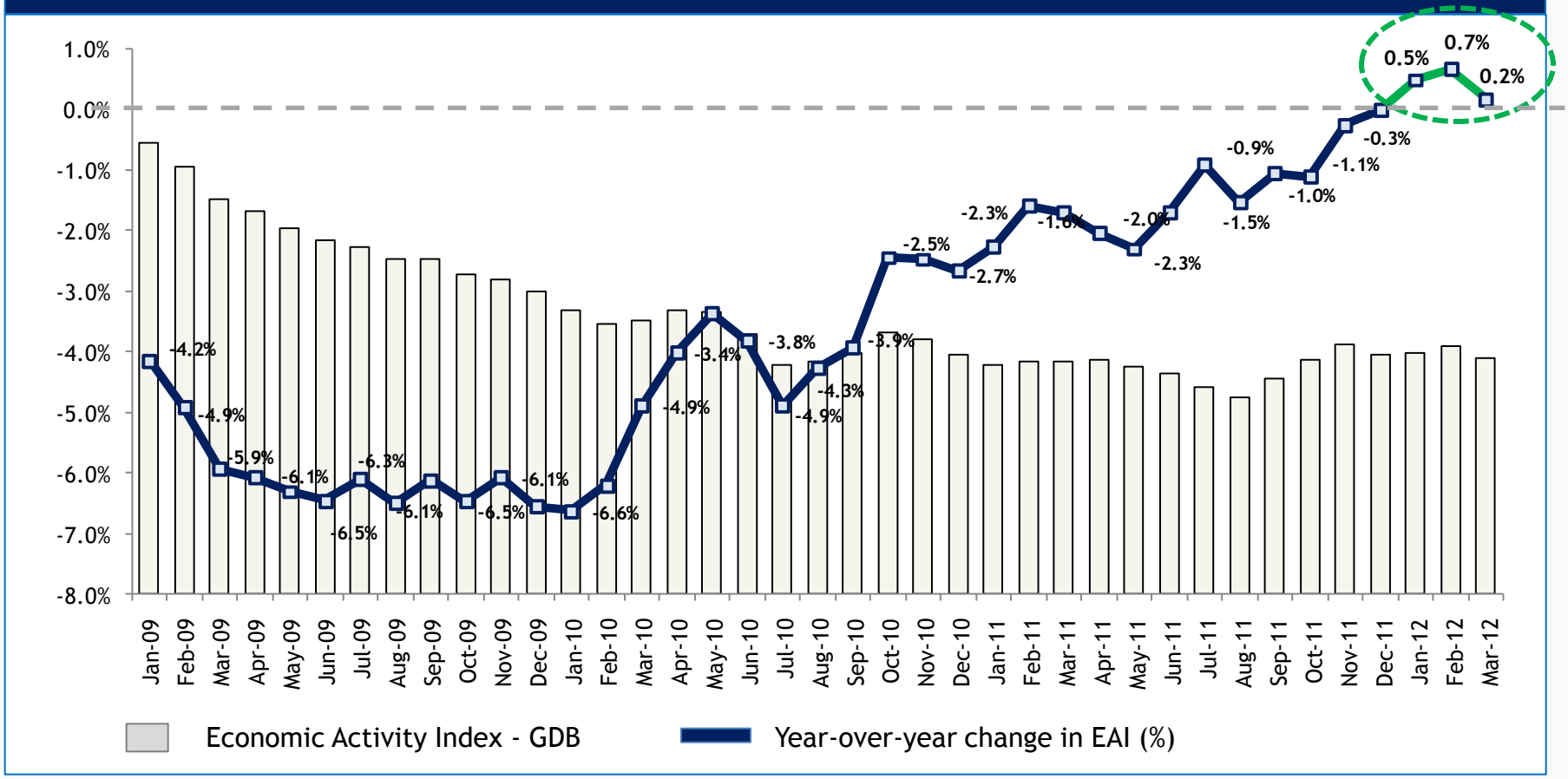
Up to $800 million in new and restructured loans through commercial banking sector facilitating credit to small and medium-sized business to promote job creation (and retention) and economic development

Economic indicators are trending in the right direction…

	FY 2012 YTD
Cement Sales	+5.3%
Auto Sales	+8.4%
Retail Sales	+3.8%
Tourism	+2.2%
Home Sales	+26.0%
Banking Sector	Return to profitability
Bankruptcies	-8.0%

GDB-Economic Activity Index continues its path towards sustained economic growth, registering the third consecutive month in positive territory…

GDB Economic Activity Index (EAI): 98% correlation with GNP



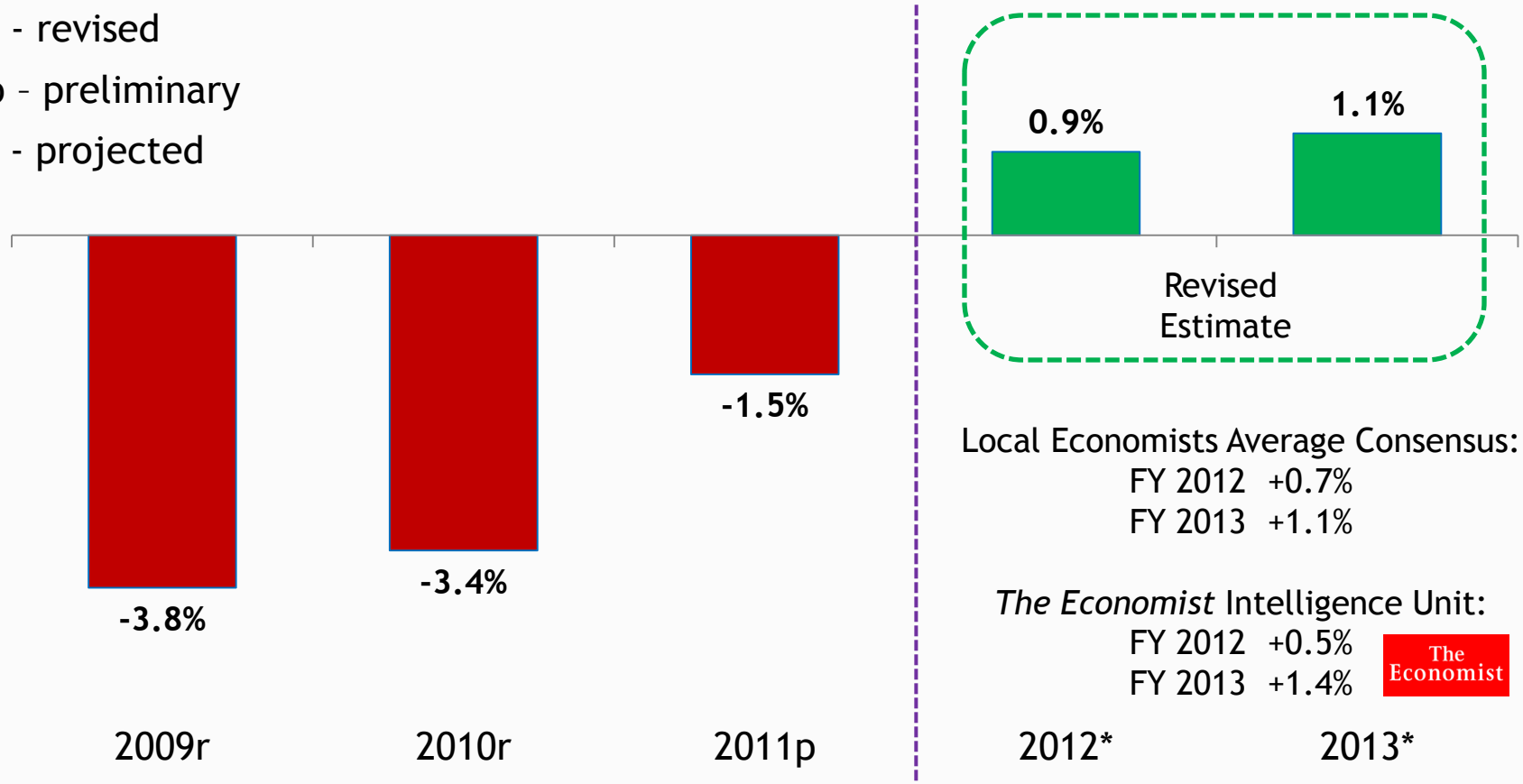
Puerto Rico Planning Board and independent economists project economic growth for fiscal year 2012 and 2013…

Economic Growth - Real Gross National Product

r - revised

p – preliminary

* - projected



Local Economists Average Consensus:
FY 2012 +0.7%
FY 2013 +1.1%

The Economist Intelligence Unit:
FY 2012 +0.5%
FY 2013 +1.4%

The Economist

Agenda

1 Restoring Growth Through Fiscal Responsibility

2 **Puerto Rico's Public Debt**

3 Revenues, Enforcement Measures and Expenses

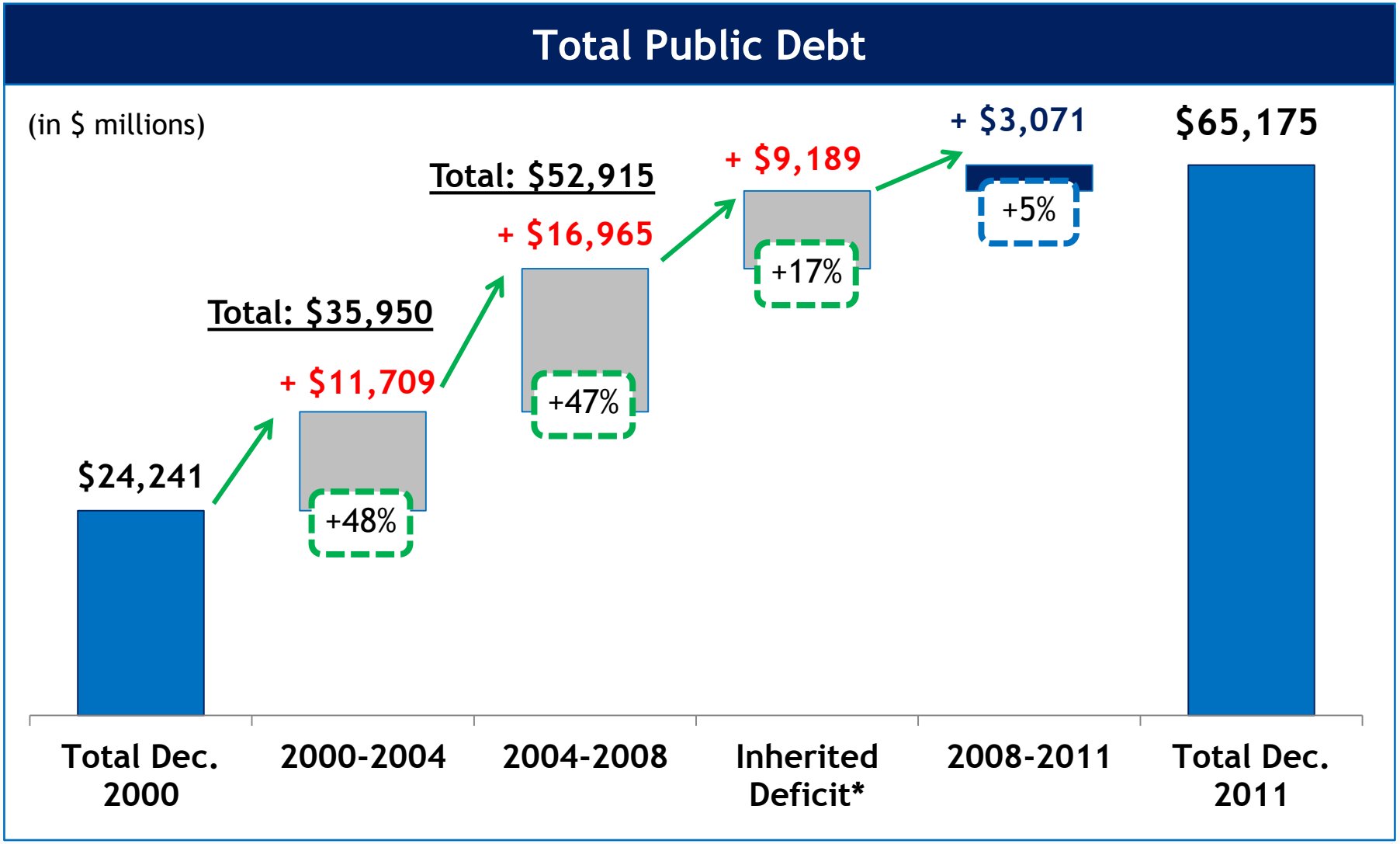
4 FY 2013 Proposed Budget

5 Concluding Remarks

Puerto Rico's public debt has five principal components:

Central Government Debt	▪ Constitutional debt, appropriation debt paid from General Fund and guaranteed debt
COFINA	▪ Sales and Use Tax debt mainly used to pay down appropriation debt and deficit financings
Public Corporations	▪ Financing for capital improvement programs and operation needs paid from internal revenues
Municipalities	▪ Financing for infrastructure projects and operational needs
Non-Recourse Debt	▪ Other debt with limited or non-recourse to the General Fund (ex. Children's Trust – paid by tobacco MSA, AFICAs, etc.)

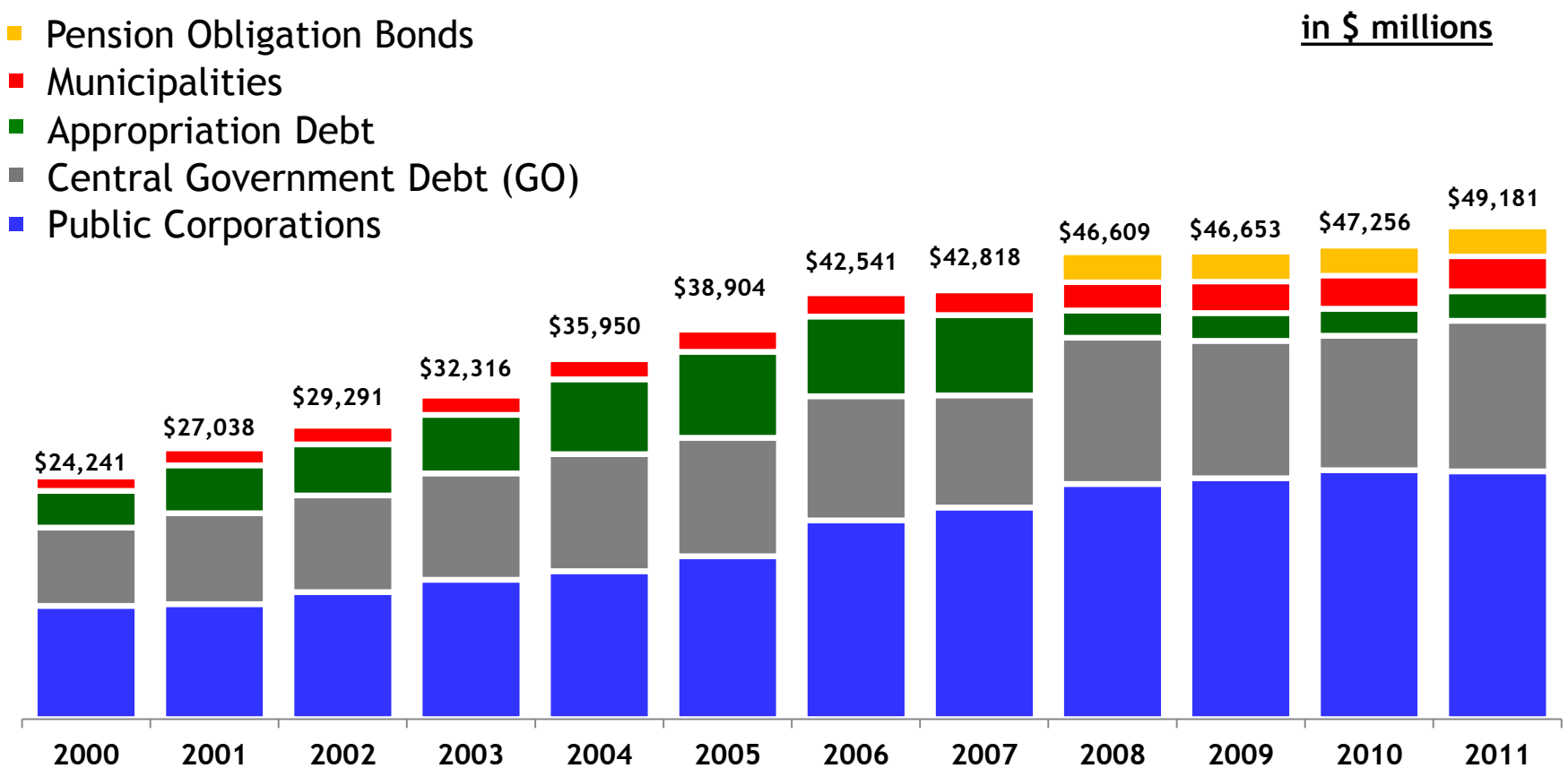
Recent increase in public debt has included deficit financings and debt service restructurings as part of our original Fiscal Stabilization Plan…



*Issued during FY 2009 and FY 2011 for repayment existing debt and inherited deficit.
Excludes non-recourse debt.

Excluding COFINA debt, a modest 1.8% annual growth is observed since 2009 when analyzing Puerto Rico's debt profile…

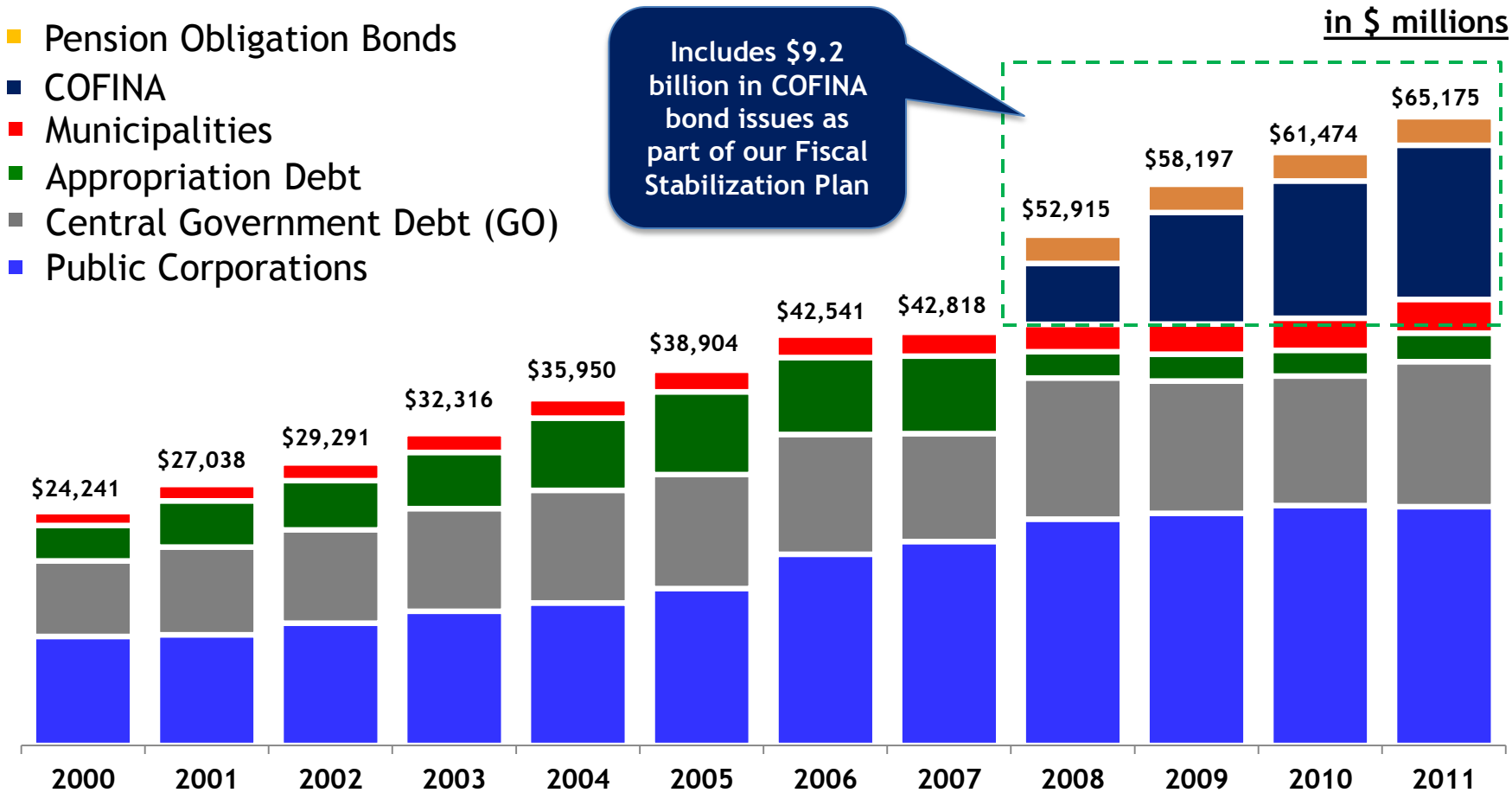
Total Outstanding Debt as of December 2011* - $49.181 billion



* Excludes COFINA and non-recourse debt.

Achieving a balanced budget and maintaining fiscal discipline will significantly reduce need for additional debt

Total Outstanding Debt as of December 2011 - $65.175 billion



* Excludes non-recourse debt.

Over the course of the last three years, Puerto Rico has relied on deficit financings to transition into a balanced budget as originally disclosed in our Fiscal Reconstruction Plan in 2009

Having reduced our budget deficit significantly over the past three years and steering towards a balanced budget during FY 2014, Puerto Rico will return to a moderate annual debt reliance…

Agenda

1 Restoring Growth Through Fiscal Responsibility

2 Puerto Rico's Public Debt

3 **Revenues, Enforcement Measures and Expenses**

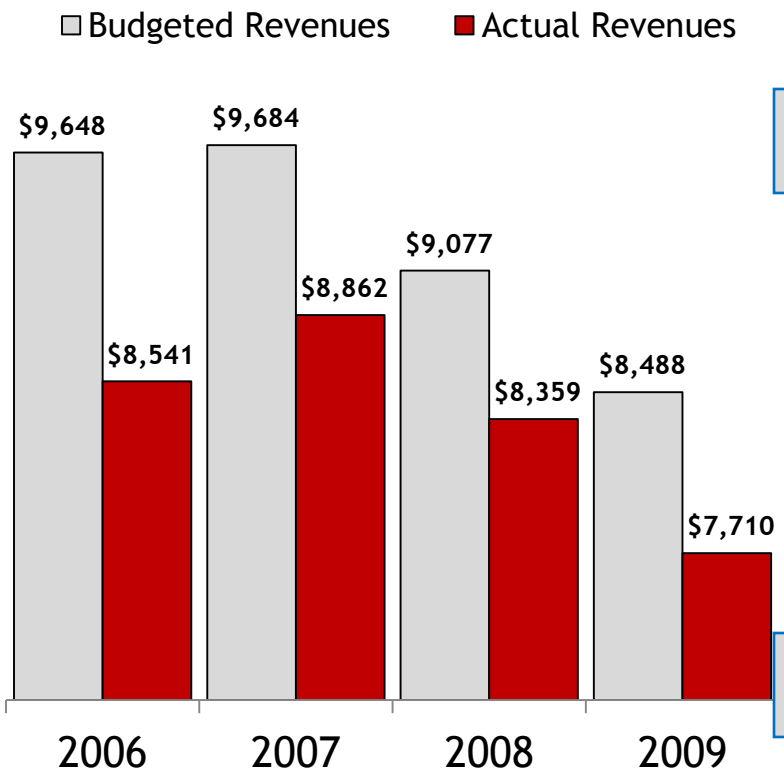
4 FY 2013 Proposed Budget

5 Concluding Remarks

FY 2012 Revenues

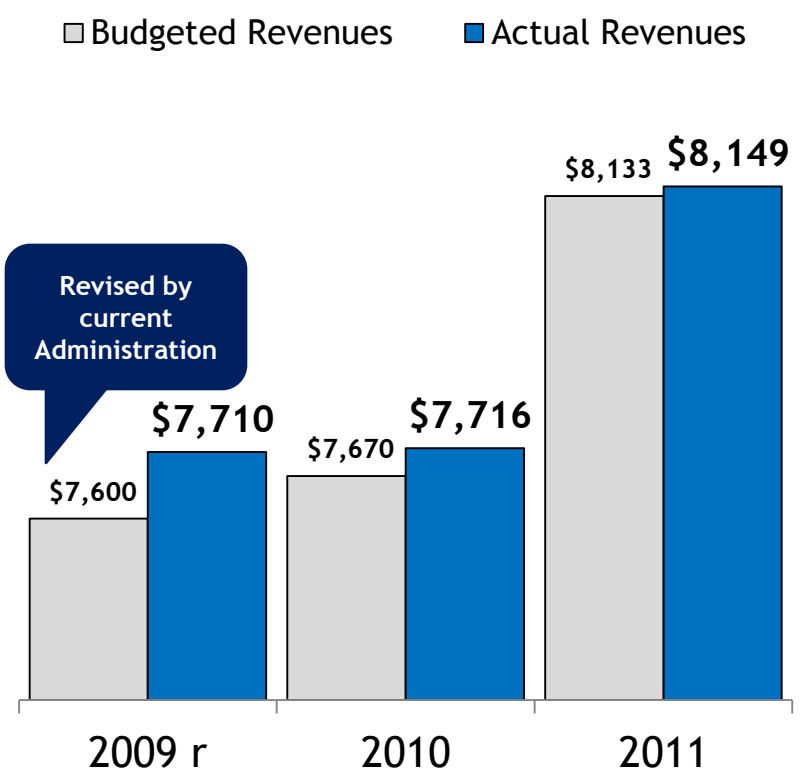
For the past three years Puerto Rico has consistently met budgeted revenues…

Overestimation of Revenues



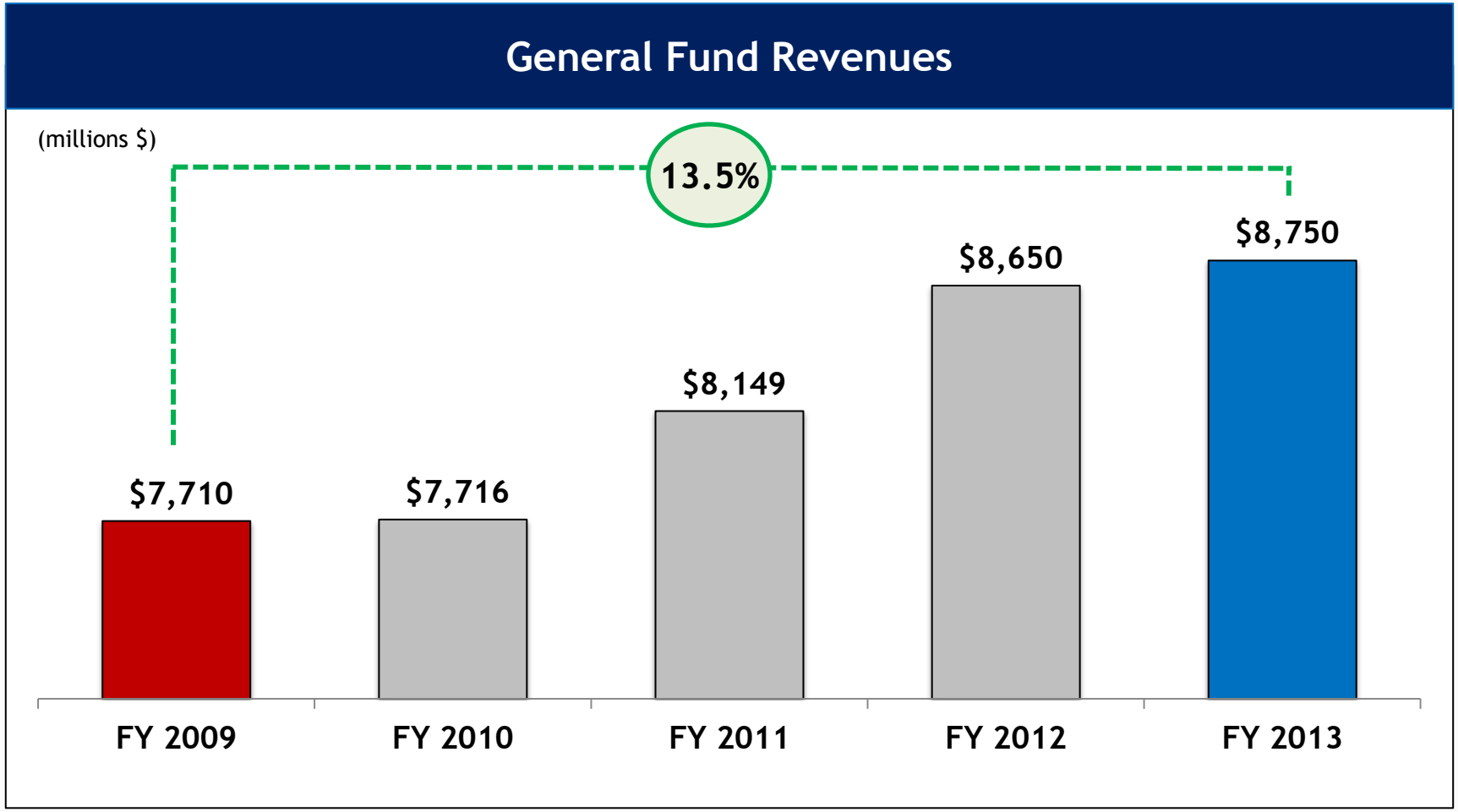
Diff: -$1,107 -$822 -$718 -$778

Responsible Revenue Estimates



Diff: +$110 +$46 +$16

…and we will continue our sound budgeting practices for FY 2013 budget

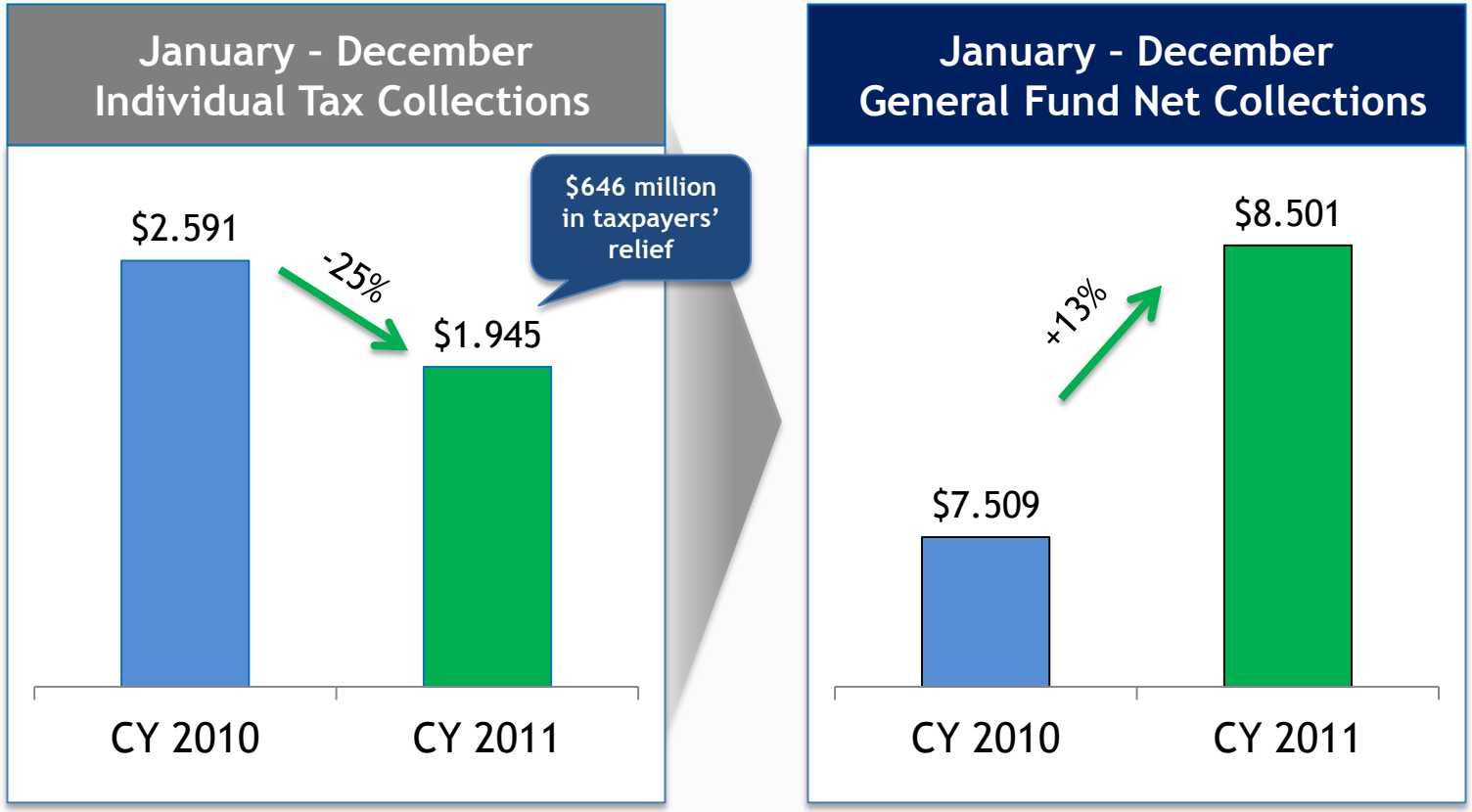


The tax relief expected from the comprehensive reform has materialized while rendering over $650 million over prior year

Revenue	July - March		$
Categories ($ millions)	2011	2012	Change
Individuals	1,622	1,476	(146)
Corporations	787	724	(63)
Property Tax	208	36	(172)
Non-Resident Withholdings	625	548	(77)
Sales and Use Tax	261	257	(4)
Act 154 Excise Tax	235	1,379	1,144
Motor Vehicles	277	285	8
Alcoholic Beverages	208	211	3
Off-Shore Shipments of Rum	252	239	(13)
Other	566	485	(81)
Net Revenues	**$5,040**	**$5,639**	**$600**
Reserve for Tax Refunds	($390)	($441)	($51)
Gross Revenues	**$5,430**	**$6,080**	**$651**

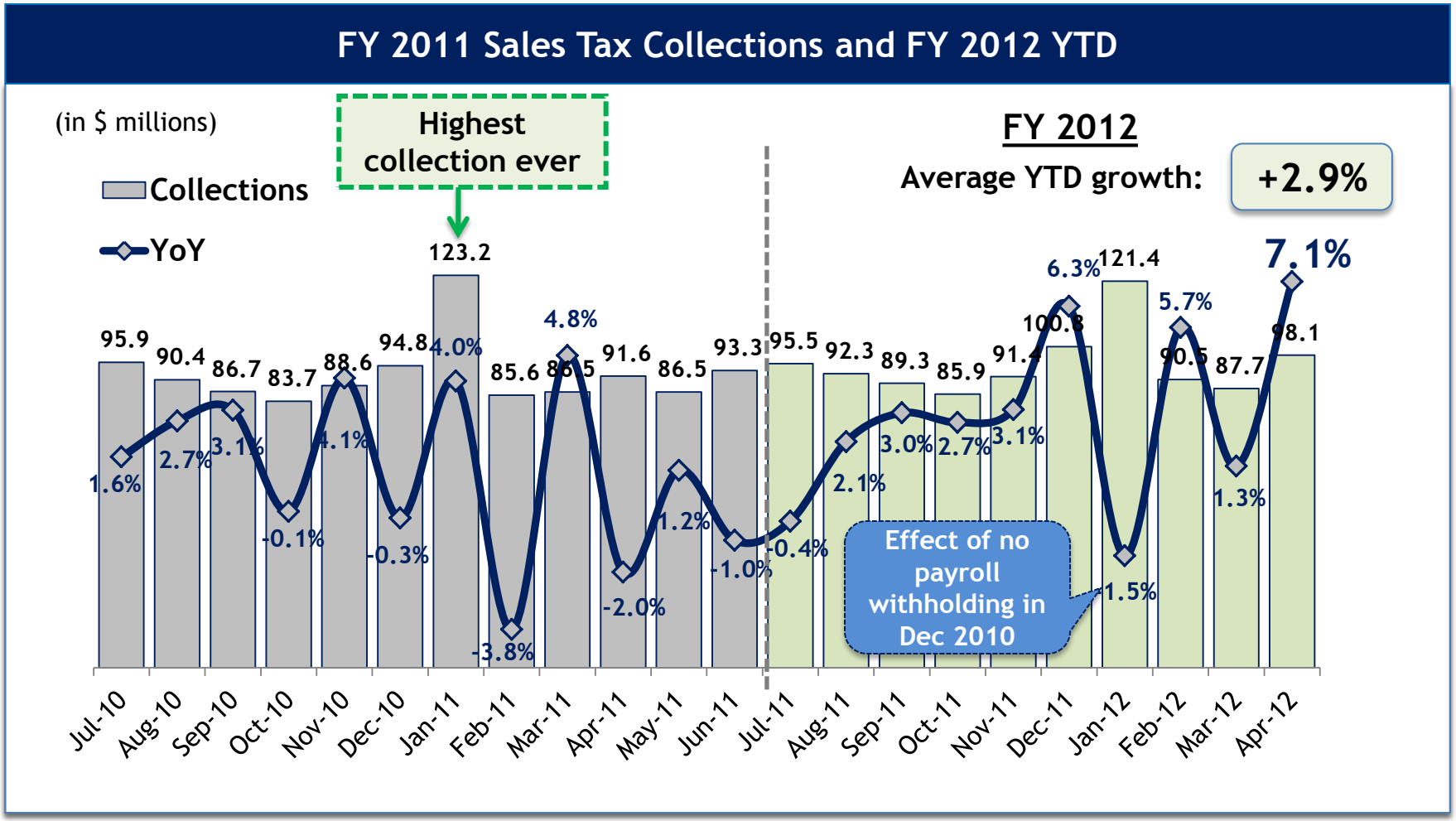
Impact of Tax Reform

Tax Reform has significantly reduced the tax burden on individuals

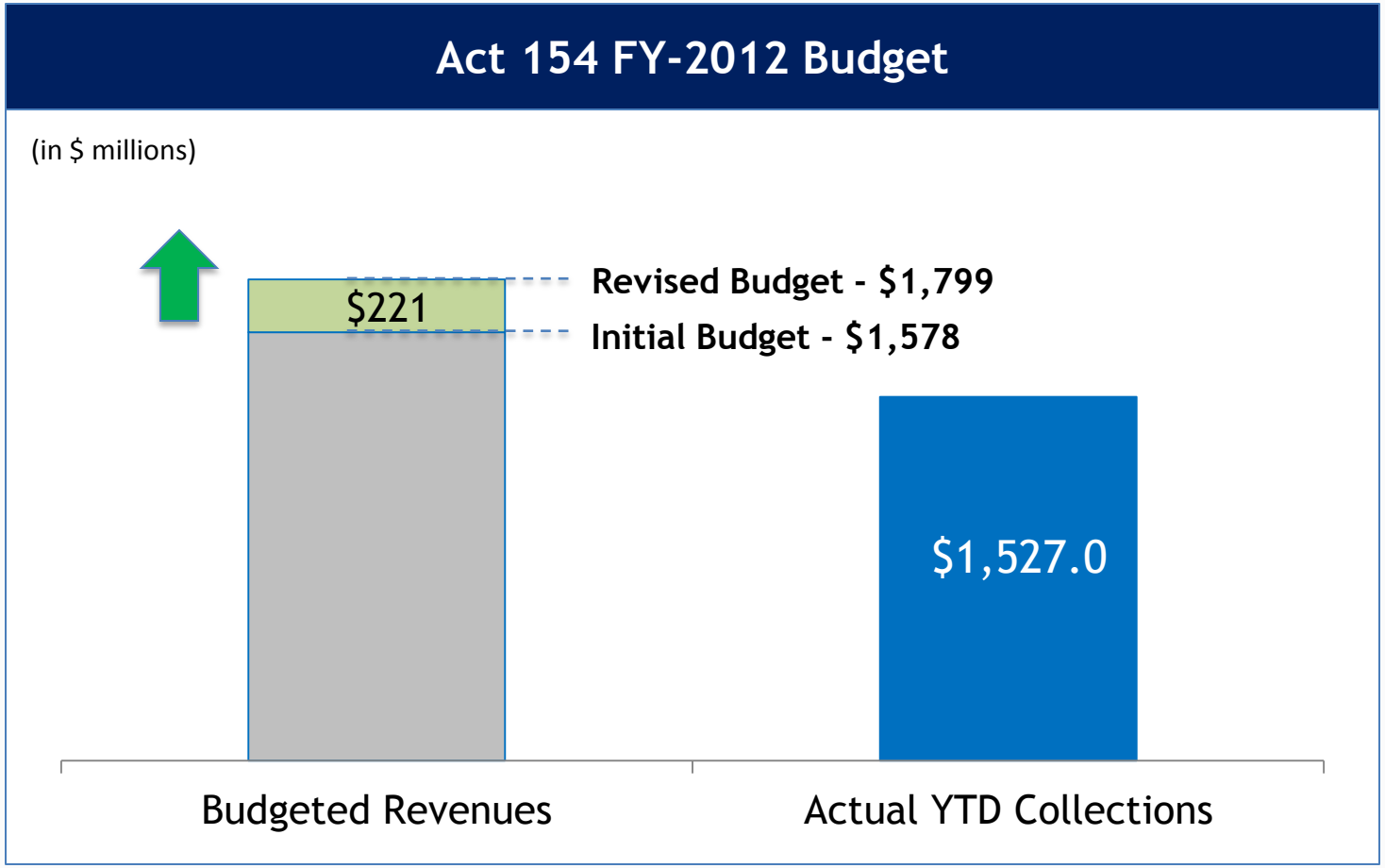


In spite of decreased Individual Tax Collections, General Fund Collections have increased more than **$900 million** during CY 2011, in part due to the "**Revenue Positive**" effects of the Tax Reform

Upward trend in SUT collections continues as a result of increased economic activity and more effective compliance measures



Special excise tax revenues from Act 154 have averaged $157.1 million per month for FY 2012



Initial budgeted collections for FY 2012 were $1.578 billion, an average $131.5 million per month. During the first ten months of FY 2012, actual collections represented 96.8% of initial budgeted amount.

Act 154 is comprised of the temporary excise tax and a permanent Income Source Rule

- Companies that are subject to the Excise Tax through 2016, will become subject to the Income Source Rule starting in 2017
- Income Source Rule provides that, in certain circumstances, taxpayers will be deemed to be engaged in a trade or business in PR and taxable in Puerto Rico with respect to a portion of taxpayer's income
- Income Source Rule apportions the entire net income of the related entity from all source based on four (4) factors that involves:
  (1) property; (2) payroll; (3) sales; and (4) purchases
- The first income tax return under the Source Rule are due on June 30th, 2012

Revenue Enforcement Measures

Treasury has adopted a tangible and assertive compliance approach to assure equitable participation of all taxpayers

1. Complete organizational and operational overhaul of the Treasury Department
2. Addition of tax specialized district attorneys
3. Completion of SUT Lotto program deployment
4. Implementation of SUT collection task force
5. Started imposition of liens on bank accounts

We are presently in the process of overhauling all strategic, operational and technological processes of Treasury

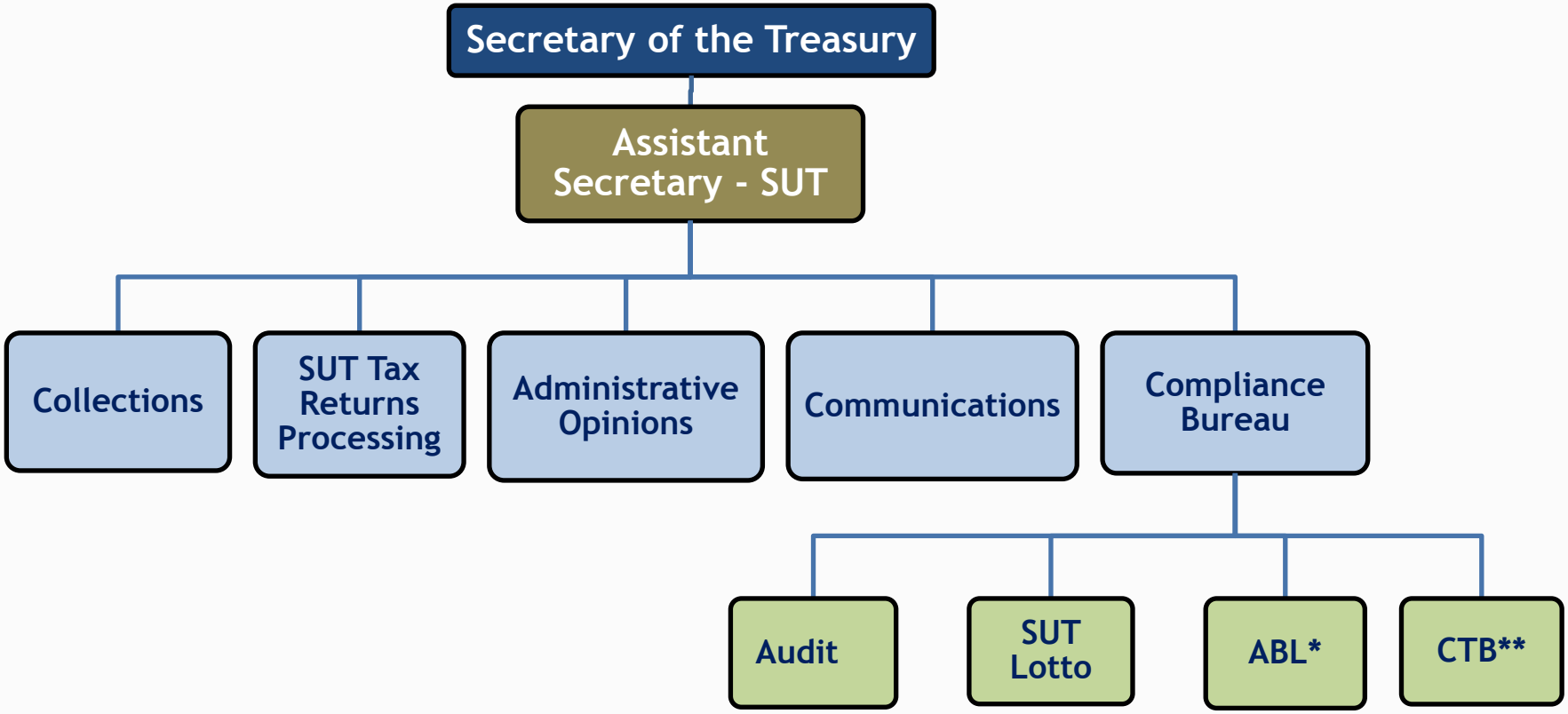
Reorganize administrative structure

Evaluate and upgrade management efficiency measurement tools

Upgrade information technology

Implement new auditing techniques, processes and strategies

The new organizational structure will strengthen SUT compliance and collection efforts



* ABL – Alcoholic Beverages and Licenses
** CTB - Consumer Tax Bureau

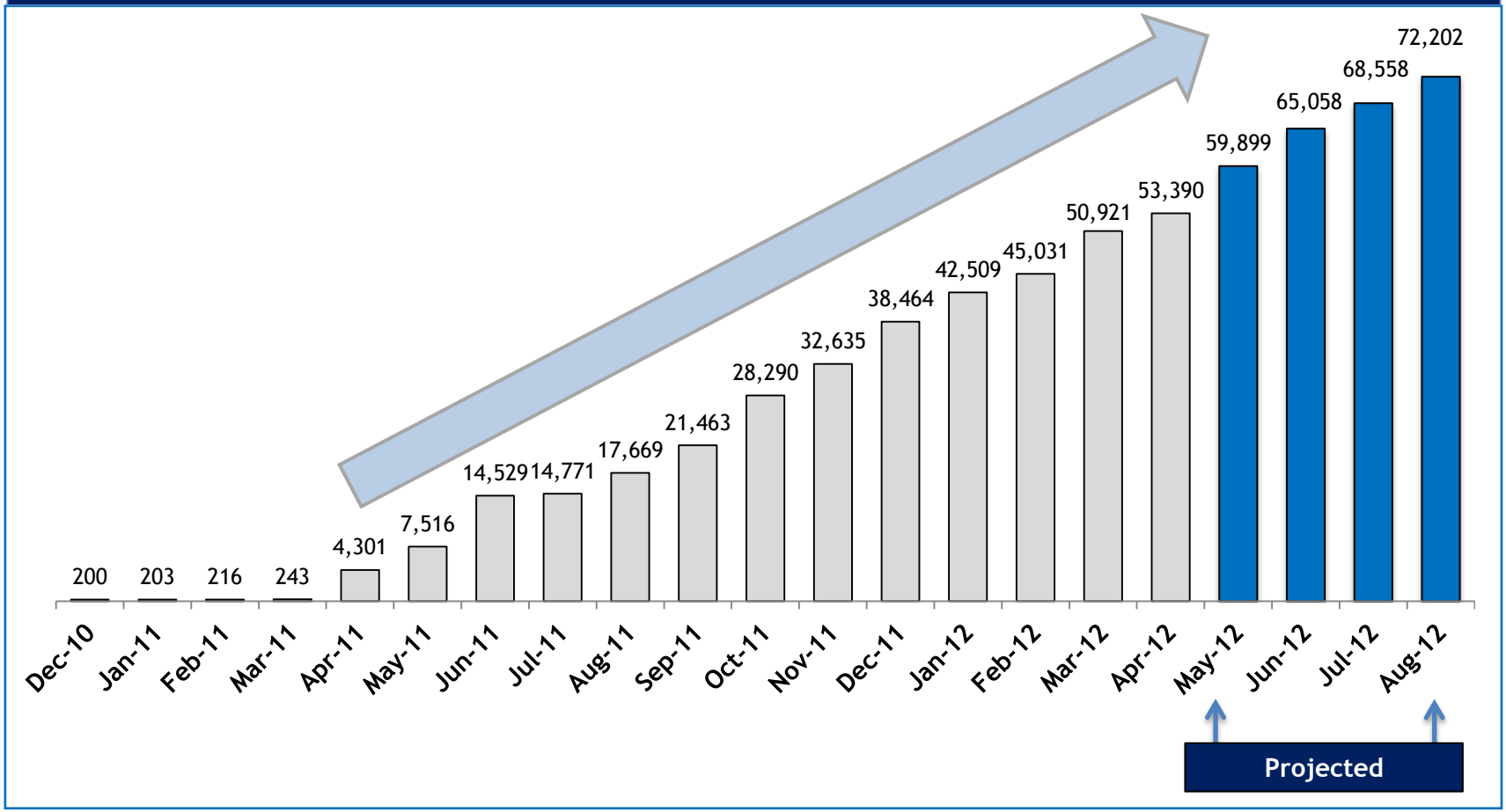
Treasury continues to expand the enforcement framework to expedite fiscal audit and tax evasion investigations…

Tax-Specialized District Attorneys

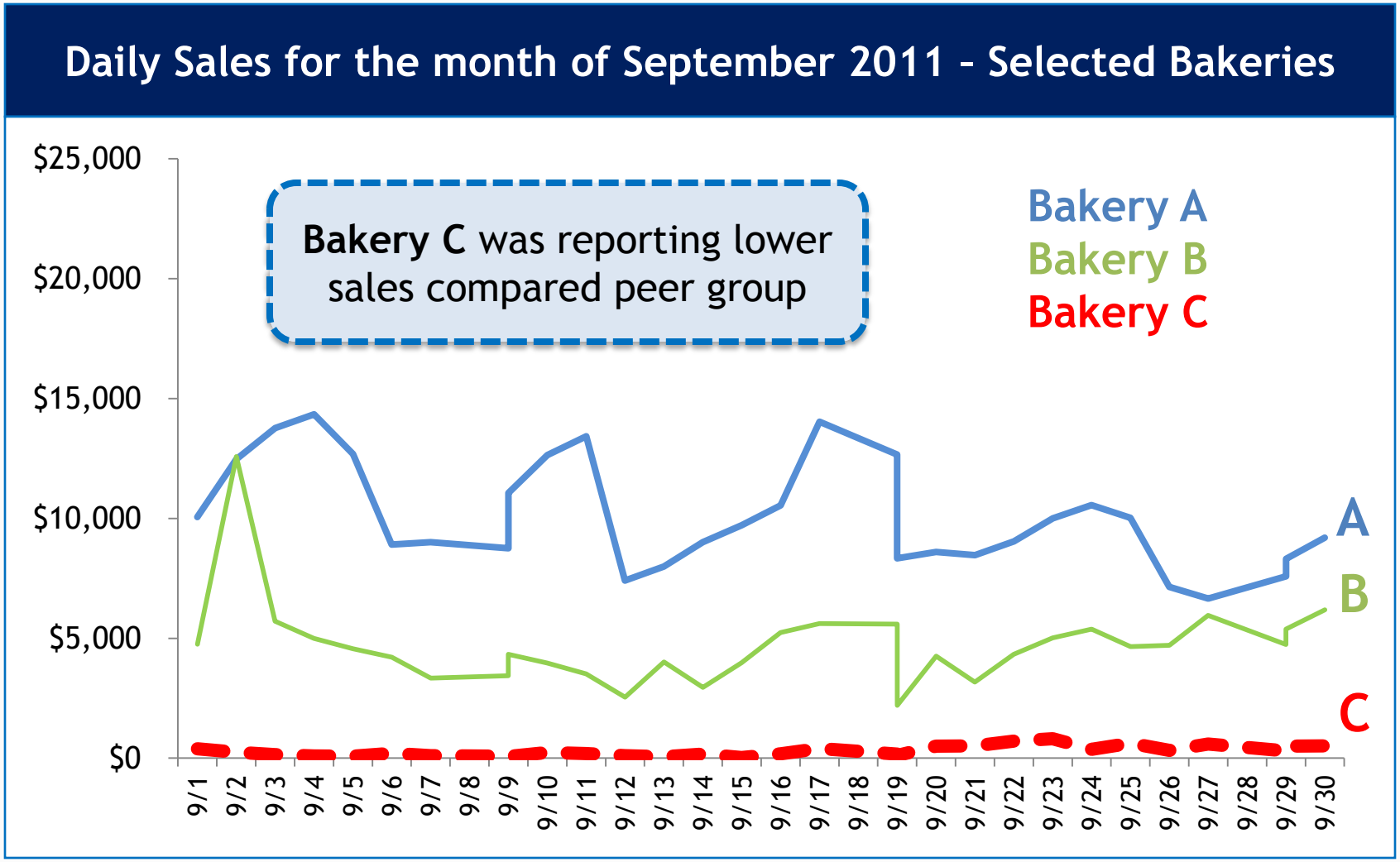
- ✓ MOU between Department of the Treasury and Department of Justice signed in May 2012 designating and deploying two (2) tax specialized district attorneys
- ✓ New initiative designed to expedite the settlement process of selected cases through the Department of the Treasury

SUT Lottery program ("IVU LOTO") provides valuable information, not only to increase SUT collections but also to detect other compliance deviations…

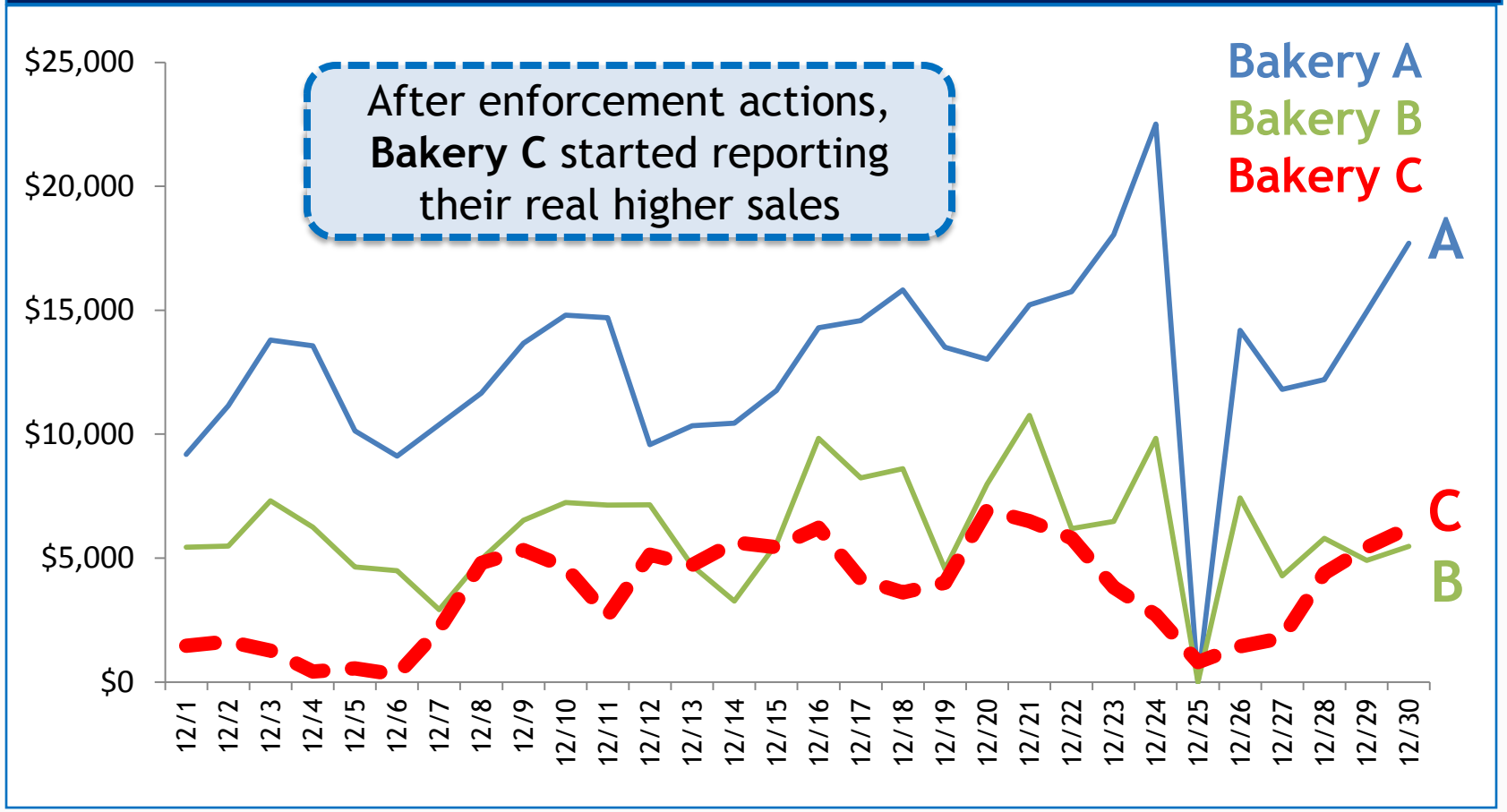
Sales Tax Lottery System – Device Deployment



SUT Lotto fiscal device provides critical information to assist in identifying potential tax evasion of SUT as well as other valuable analytical information…



…as well as provides objective data to measure results of enforcement actions



For the first time since the inception of the SUT in 2006, aggressive collection efforts have been launched to accelerate collections…

New Specialized SUT Collection Unit started operations in April 2012

21,209 notifications to SUT withholding agents have been sent

↓

$95.8 million* tax due from 2006 through 2011

↓

Specialized personnel is proactively conducting collection efforts, including visits to selected tax withholding agents

*Includes interest, surcharges & penalties

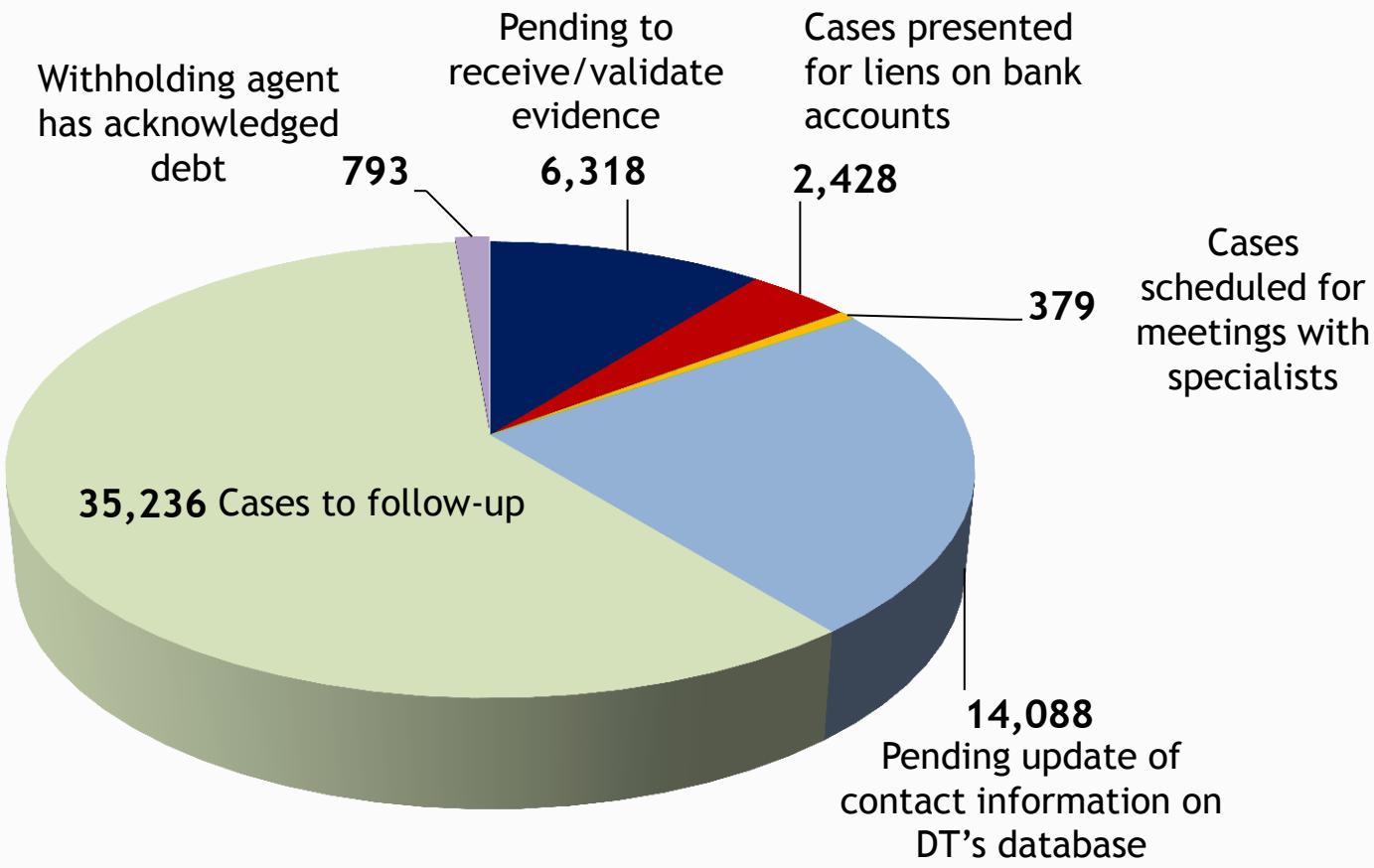
SUT collections task force has implemented a "fast track process" focusing on withholding agents with the largest outstanding debts…

Tax due ranking	Tax due
1-100	$44,753,563
101-200	$9,047,874
201-300	$5,441,534
301-400	$3,842,518
TOTAL	$63,085,489

Represents 66% of SUT self assessed debt of $95.8 millions

*as of April 2012, considering SUT returns filed up to December 2011

Since April 19th, we have contacted over 10,000 delinquent SUT merchants



Proactive SUT collection efforts include Notice of Lien to delinquent withholding agents….

Results From April 19th to May 8th, 2012 analysis	
Witholding Agents	**Total**
Major Restaurant	$318,246
Major Fast Food Restaurant	152,427
Major Fast Food Restaurant	137,773
Major Electronics Retail Store	514,626
Office Furniture Store	556,994
Auto Design Shop	321,887
Major Fast Food Restaurant	150,094
Major Fast Food Restaurant	150,861
Major Fast Food Restaurant	$125,361
Total collections in process	**$2,428,269**

Liens on bank accounts placed during first week of May 2012

FY 2012 Expenses

For the first time Puerto Rico is able to monitor expenses on a daily basis…

During the 2011 Credit Conference, OMB committed to publish a Quarterly Budget Report (QBR)…

We have already published the QBR for the first three quarters of Fiscal Year 2012

OMB's QBR is published on a quarterly basis…

OMB
OFFICE OF MANAGEMENT AND BUDGET
GOVERNMENT OF PUERTO RICO

Quarterly Budget Review
Fiscal Year 2012, Oct-Dec

The General Fund revenue estimates for FY 2012 totaled $9.260 billion, including a one-time allocation of $610 million from the State Stabilization Fund in order to achieve budget balance. Fiscal year to date revenues as of November 2011, totaled $2,766 million, a 5% increase over fiscal year 2011.

GENERAL FUND EXPENDITURES FOR THE SECOND QUARTER ARE 1% BELOW AMOUNTS BUDGETED

Fiscal Year 2011-12
(thousands of dollars)

General Fund	Oct-Dec
Budgeted Expenditures	$ 1,868,121
Actual Expenditures	$ 1,854,147
Variance $	13,974
Variance %	1%

Source: Office of Management and Budget ("OMB")

The following table shows 2nd Quarter actual expenditures by expense category.

ACTUAL RESULTS BY EXPENSE CATEGORY SHOW PAYROLL EXPENSES 2% BELOW PLAN

FY 2012 Budget vs. Actual by Expense Category
(thousands of dollars)

Expense Category	Oct-Dec – Q2		Variance[1]	
	Budget	Actual	$	%
Payroll[2]	$ 726,629	$ 709,940	$ 16,689	2%
Utilities	93,356	88,460	4,896	5%
Purchased Services	45,305	50,888	(5,583)	-12%
Donations & Contributions	49,656	68,168	(18,512)	-37%
Transportation	21,745	21,219	526	2%
Professional Services	23,760	21,549	2,211	9%
Other Expenses	6,650	8,118	(1,468)	-22%
Debt Service	160,445	160,445	-	0%
Materials	16,083	15,520	563	4%
Equipment	2,925	1,638	1,287	44%
Advertising	514	141	373	73%
Incentives and Subsidies to Citizens	1,825	4,999	(3,174)	-174%
Contributions to non-Government Entities	4,559	697	3,862	85%
Non Distributed Appropriations[3]	709,158	696,848	12,310	2%
State Matching Funds	2,768	2,540	228	8%
Previous Year's Payables	2,743	2,977	(234)	-9%
Total	$1,868,121	$1,854,147	$13,974	1%

Source: OMB, preliminary and unaudited

[1] Positive operating results are believed to be timing related and do not provide a basis for revising annual estimates.
[2] Positive variance due to deferred overtime payments and hiring delays.
[3] Excludes DOE Schoolwide Program.

Positive operating results are believed to be timing related and do not provide a basis for revising annual estimates of disbursements at this time.

Payroll related costs continue to be under OMB's strict monitoring through monthly reporting of new hires and terminations and preauthorization of new hires. The positive variance in the payroll expense category is related to deferred overtime payments and hiring delays in various security agencies. The negative variance of 37% in the Donations and Contributions expense category is caused by budget transfers between expenses categories not included in the initial projections. These funds are mainly used by the agencies comprising the welfare sector to pay for supplementary services provided by non for profit organizations. Most of these funds were initially allocated in the Non Distributed Appropriations expense category and were transferred in later months, as needs aroused. During the month of January 2012, OMB will be revising the projections with the agencies to account for the changes or budget transfers between expense categories in the adopted budget.

Other operational expenses are at levels consistent with expectations, with variance due mainly to the timing of disbursements as several payments originally anticipated in the second quarter of the fiscal year will occur in later months.

OMB continues to use the BvA application and monthly expense control meetings to monitor those agencies that historically have represented a budget risk. The following table shows Budget vs. Actual expenses by programmatic sectors.

FY 2012 Budget vs. Actual by Programmatic Sector
(thousands of dollars)

Sector	Oct-Dec Q2		Variance[4]	
	Budget	Actual	$	%
Special Pension Contributions	$ 17,552	$ 17,552	$ 0	0%
Contributions to Municipalities	113,089	109,630	3,459	3%
Welfare	94,616	113,105	(18,489)	-20%
Economic Development	53,061	51,711	1,350	3%
Education[5]	399,824	405,292	(5,467)	-1%
General Government	360,746	344,954	15,792	4%
Safety & Protection	375,076	359,553	15,523	4%
Health	416,497	410,234	6,263	2%
Transportation & Communications	32,600	37,474	(4,874)	-15%
Housing	5,060	4,642	418	8%
Total	$ 1,868,121	$1,854,147	$ 13,974	1%

Source: OMB, preliminary and unaudited

[4] Positive operating results are believed to be timing related and do not provide a basis for revising annual estimates.
[5] Excludes DOE Schoolwide Program.

This Quarterly Budget Review is available at www.omb.pr.gov

By programmatic sector, expenses are within budgeted levels for this second quarter of fiscal year 2012, with the exception of Welfare and Transportation & Communications. The negative variance in the welfare sector is related to the timing of disbursement, with several large payments originally anticipated in the third and fourth quarter of fiscal year 2012. Higher spending in the Transportation sector is due to the transfer of funds for the Cruise Lines Incentives Program from the Economic Development sector, after the budget was adopted.

Safety & Protection and the Health sectors are still under close evaluation to minimize any budget impact resulting from their respective operational reforms. The Police Department already identified excess funds in various expense categories to cover unanticipated disbursements associated with their undergoing reform. We continue working with the Puerto Rico Health Insurance Administration to implement cost control initiatives to offset and minimize additional expenditures resulting from changes in the risk allocation model.

The FY 2012 budget provides for total expenditures of $9.260 billion, which are 1% higher than budgeted total expenditures of $9.150 billion for fiscal year 2011. Accumulated year to date expenditures add up to $3,775,984. This amount does not include an estimated $542.7 million from the Department of Education Schoolwide Program since these expenses are not yet registered in the central government accounting system. General Fund expenses from the Schoolwide Program must be allocated by school before they are reflected in the accounting system, according to a matching formula approved by the federal government. Including the Schoolwide Program, accumulated expenses represent approximately 47% of the adopted budget.

Estimated expenditures show total expenses within the FY 2012 budget. The areas of education, health, and public safety are being closely monitored by special Budget Control Groups designated to develop and implement efficiency measures and examine all operating expenses in order to ensure sustained budget stability. Changes in federal funds receipts must also be monitored, especially as they are related to Medicaid and other health sector grants.

FY 2012 Budget vs. Estimated Expenditures* by Expense Category
(thousands of dollars)

Expense Category	Adopted Budget	YTD Expenses	Total Estimated Expenses
Payroll	$3,005,648	1,560,950	$ 3,005,648
Utilities	422,005	178,969	422,005
Purchased Services	191,964	77,517	191,964
Donations & Contributions	144,889	96,794	144,889
Transportation	54,366	26,072	54,366
Professional services	103,098	29,606	103,098
Other expenses	27,719	11,813	27,719
Debt Payment	840,645	283,085	840,645
Materials	67,796	20,007	67,796
Equipment	25,759	6,200	25,759
Advertising	1,886	409	1,886
Incentives and Subsidies to Citizens	19,081	11,587	19,081
Contributions to non-government entities	16,484	1,280	16,484
Non distributed appropriations**	4,316,425	1,459,886	4,316,425
State Matching Funds	15,240	3,300	15,240
Previous year payables	6,995	8,509	6,995
Total	$9,260,000	$3,775,984	$ 9,260,000

**Source: OMB; preliminary and unaudited. Does not include any possible additional expenses that may be incurred by the Police Department and the Puerto Rico Health Insurance Administration.*

*** YTD Expenses do not include an estimated $542.7 million from the Department of Education Schoolwide Program. Funds for this program were included in the adopted budget, but expenses are not yet reflected in the accounting system.*

FORWARD LOOKING STATEMENT: Information contained in this report includes certain statements not historical in nature. These statements are based on the Government of Puerto Rico and OMB'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 Office of Management and Budget and its agencies. This report has been prepared solely for information purposes, and should not be construed as a recommendation to buy or sell any securities or to participate in any particular trading.

r additional information regarding this report please contact Josianne Rosselló at (787) 725-1375 (OMB) or Ana Gregorio at (787) 722-2525 (GDB)

This Quarterly Budget Review is available at www.omb.pr.gov

Third Quarterly Budget Review shows evidence that Fiscal Year 2012 is in line with budget

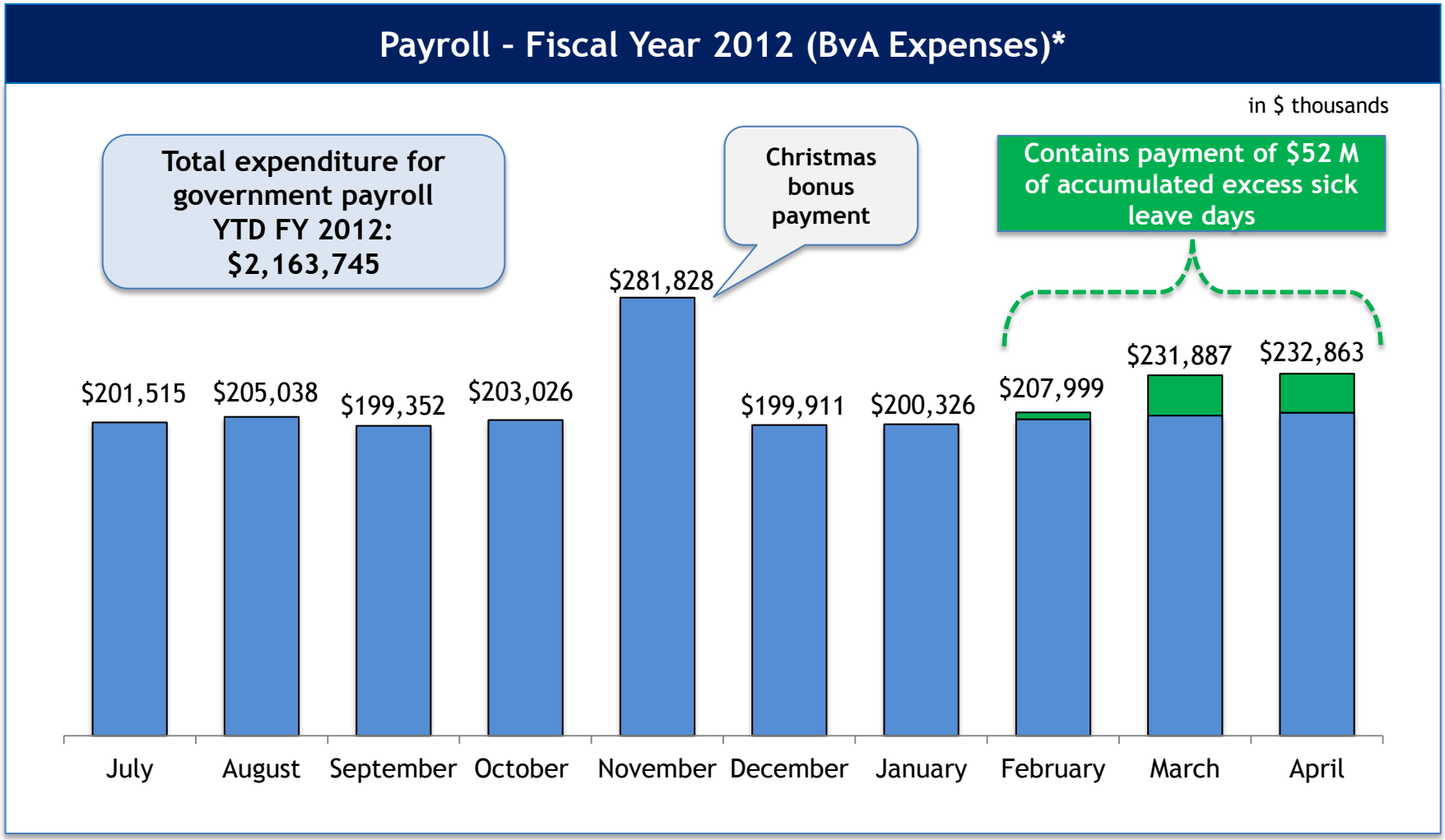
Fiscal Year 2012 Budget vs. Actual Expenses- YTD			
Expense Category *($ in thousands)*	Projected	Actual	Variance
Payroll	2,252,836	2,244,275	8,561
Utilities	290,759	276,549	14,210
Purchased Services	139,906	122,219	17,687
Donations and Contributions	124,925	115,008	9,917
Transportation	47,373	57,680	(10,307)
Professional Services	57,296	51,872	5,424
Other Expenses	22,401	18,722	3,679
Debt Service	288,105	288,105	-
Materials	39,084	30,595	8,489
Equipment	13,374	8,212	5,162
Advertising	937	1,169	(232)
Incentives and Subsidies to Citizens	20,104	20,495	(391)
Contributions to non-Government Entities	5,277	8,718	(3,441)
Non Distributed Appropriations	2,914,077	2,932,166	(18,089)
State Matching Funds	6,086	5,126	960
Previous Year's Payable	8,859	9,673	(814)
Total	**6,231,499**	**6,190,584**	**40,915**

*as of March 31, 2012

Fiscal Year 2012 Budget vs. Actual Expenses YTD main variances

(in $ thousands)	Projected	Actual	Variance	
Payroll	$2,252,836	$2,244,275	$8,561	OMB's strict monitoring through monthly reporting of new hires and terminations, and pre-authorization of new hires
Purchased Services	$139,906	$122,219	$17,307	Mainly due to Department of Correction's Diversion Program and Out of State Program invoices that will be paid during the 4th quarter of FY 2012
Transportation	$47,373	$57,680	-$10,307	Ongoing matter directly related to changes in Special Education enrollment and gas prices

With our new payroll monitoring system, we have been able to control and stabilize such spending



- Joint Resolution payroll expenses

Expense control meetings with agencies have paid off…

Cost Control Group	Monthly	Bi-Weekly	Quarterly
OMB	Health		
	Health Insurance		
	Mental Health	Dept. Correction	
	Police	Juvenile Inst.	ADT
Treasury, Commonwealth of Puerto Rico	Education	Justice Dept.	AAFET
	Family	Enviornmental	Treasury Dept.
	OGPe	Natural Res.	
	OIGPe		
GDB	Planning Board		
	JRP		
	Dept. Transportation		

OMB is confident that all budget risks have been mitigated at this time

OMB is the final decision-maker in all personnel and financial matters of the Central Government

Cost Control Initiatives	Budget vs. Actual
	Cost Control Group
	OMB approval of ALL personnel transactions
	OMB approval of ALL collective bargaining agreements

Commitment to Transparency	Quarterly Budget Reviews
	Budget available online – www.presupuesto.pr.gov
	FY 2013 Budget in English – June 15

Agenda

1 Restoring Growth Through Fiscal Responsibility

2 Puerto Rico's Public Debt

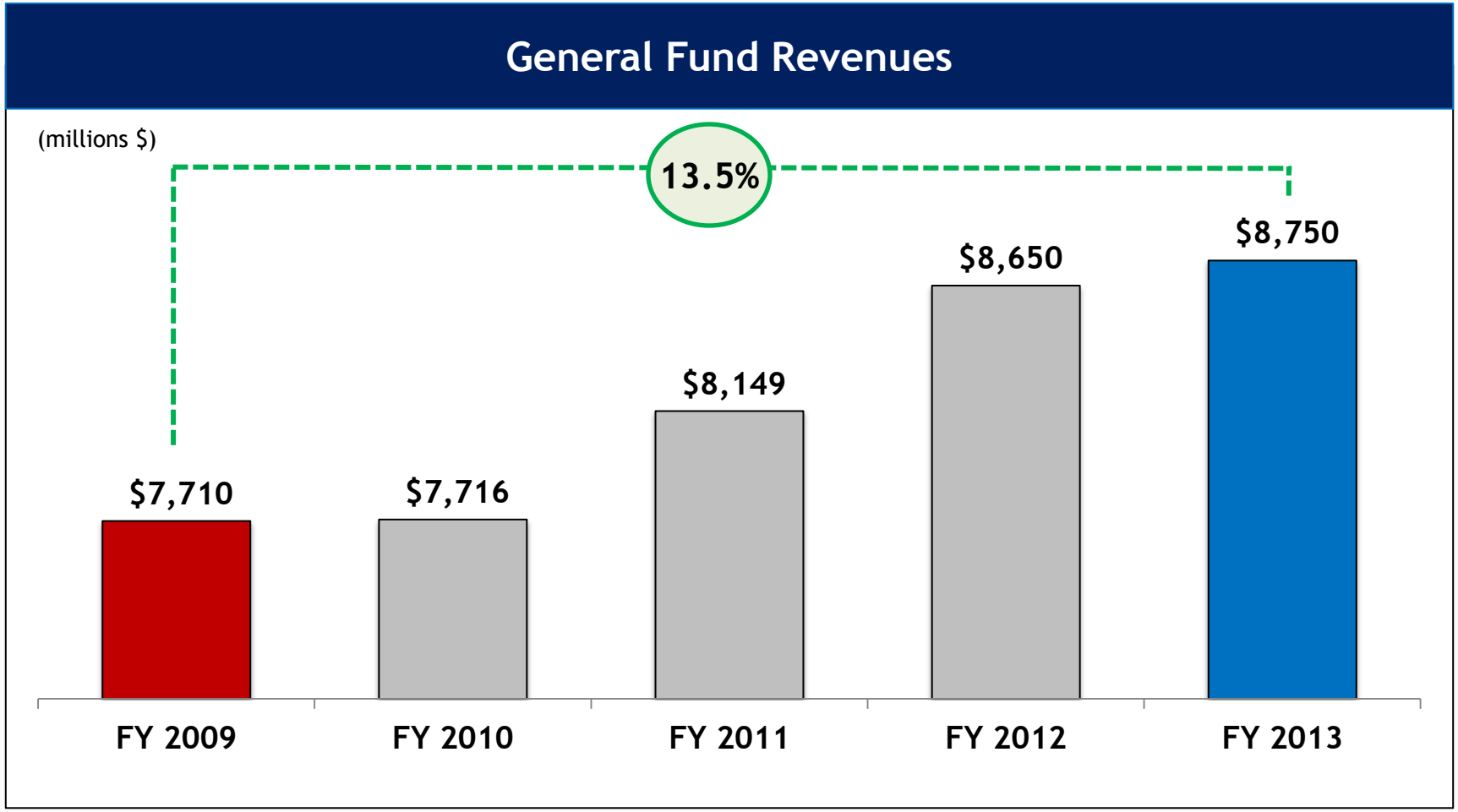
3 Revenues, Enforcement Measures and Expenses

4 **FY 2013 Proposed Budget**

5 Concluding Remarks

Fiscal Year 2013 Proposed Budget reduces the deficit by 90% from $3.306 billion in FY 2009 to $333 million

We have increased general fund revenues while implementing the most comprehensive tax reform…



FY 2013 General Fund Budget is $9.08 billion

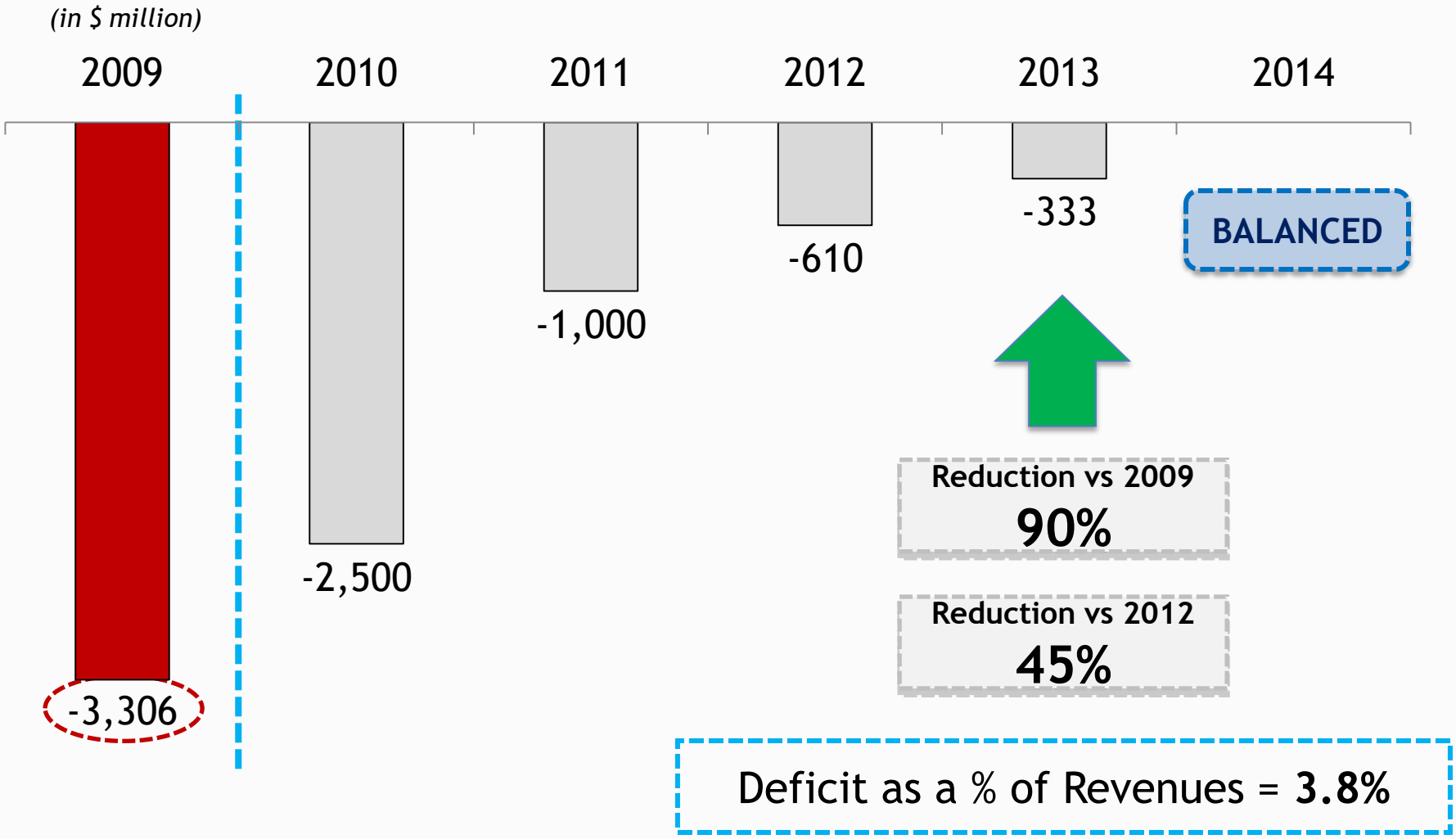
($ billion)	FY 2012	FY 2013
Revenues		
Revenues	$8.65	$8.75
Stabilization Fund	$.610	$.33
Total Revenues	$9.26	$9.08
Expenses		
Joint Resolution	$5.23	$5.11
Special Assignments	$3.42	$3.64
Stabilization Fund	$.610	$.333
Total Expenses	$9.26	$9.08

-45%

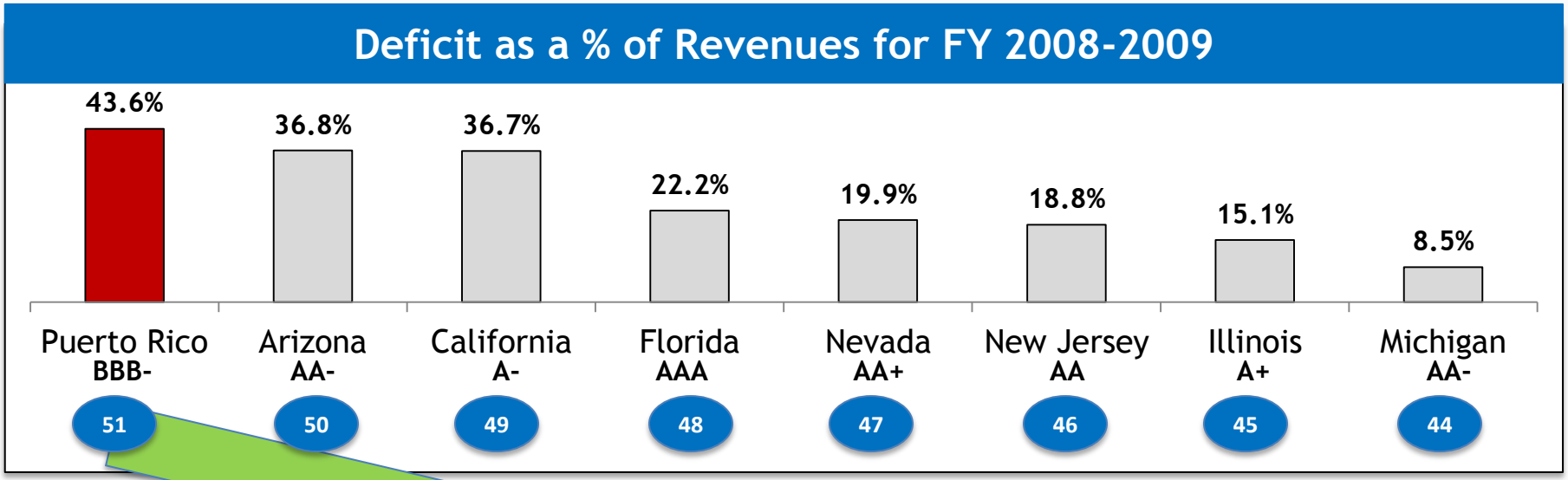
While the Consolidated Budget is $28.5 billion …

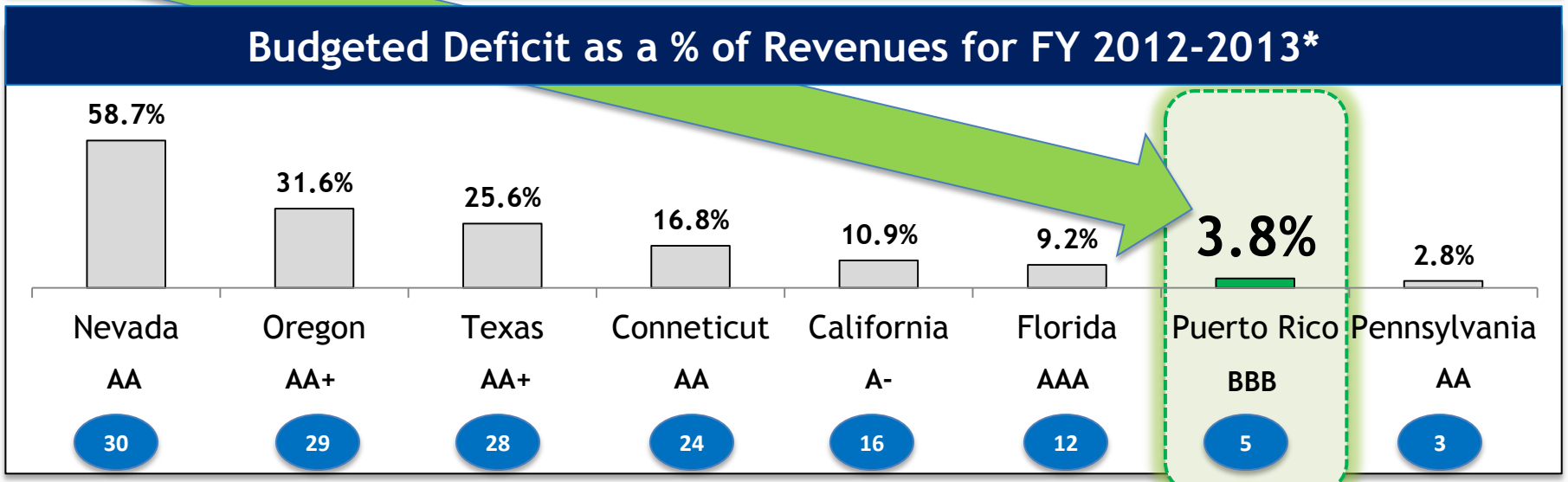
($ billion)	FY 2012	FY 2013
Consolidated Budget		
General Fund	$9.26	$9.08
Federal Funds	$6.92	$6.79
Other Income	$.755	$.680
Revenues	$9.36	$9.07
Special State Fund	$1.27	$1.23
Public Improvement Fund	$.290	$0
Loans and Bond Issues	$2.02	$1.72
TOTAL	$29.88	$28.57

Proposed Budget for Fiscal Year 2013 further reduces the deficit by 90% when compared to 2009…



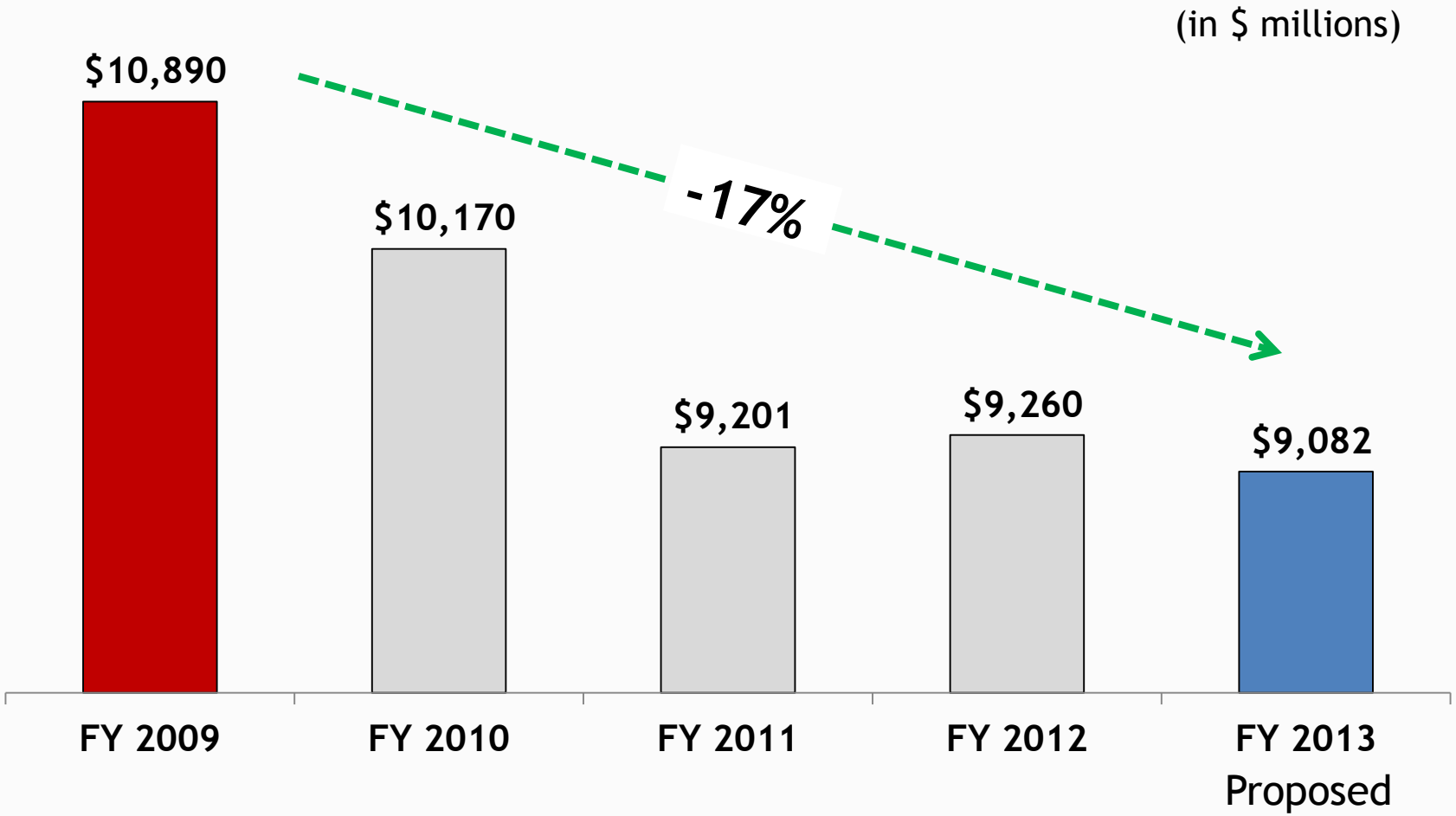
…evidencing the unparalleled fiscal improvement we have made in less than 4 years





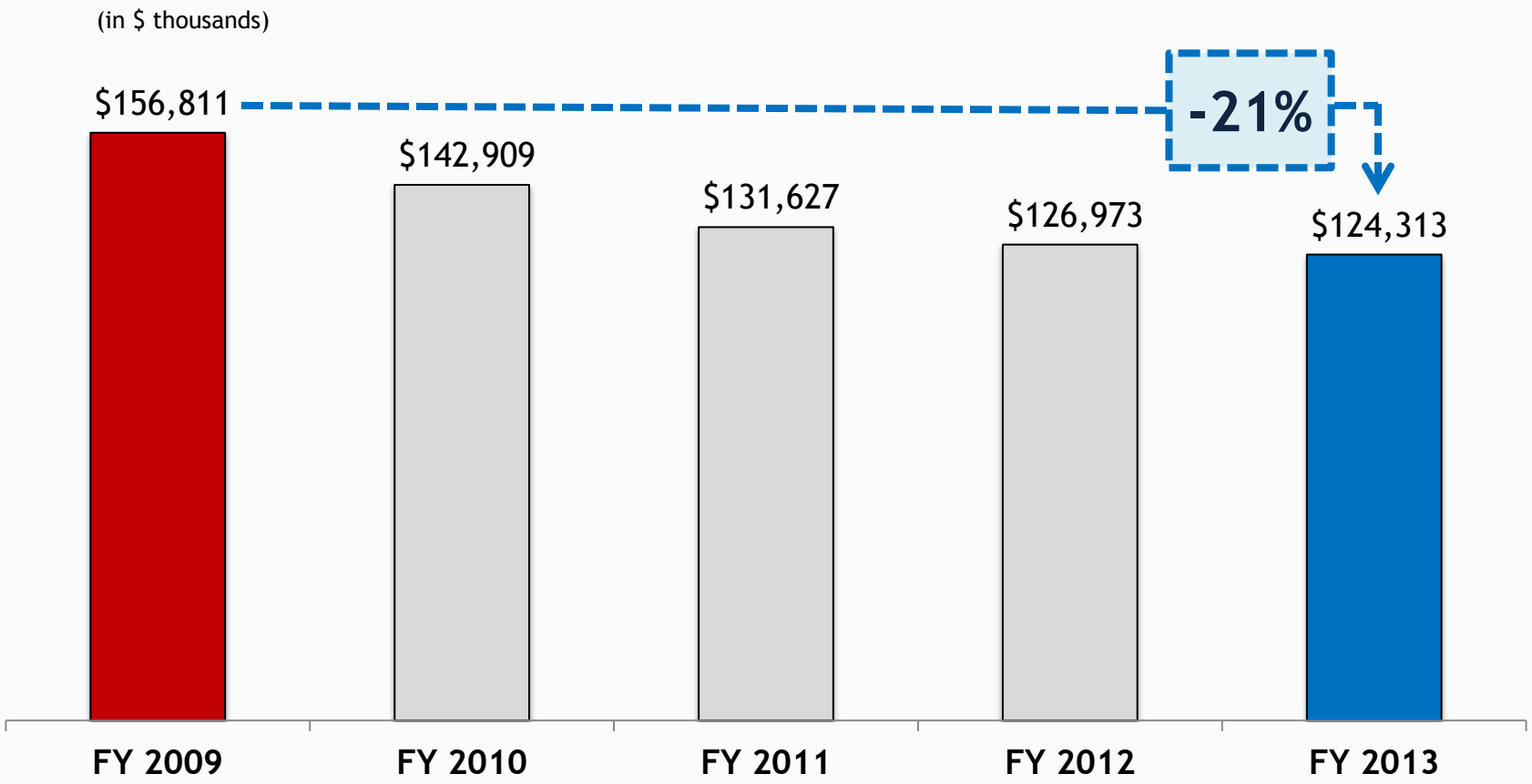
*Source: Center on Budget and Policy Priorities. *Based on 30 states with reported shortfalls for FY 2013. Preliminary and subject to change.*

We have reduced expenses in the General Fund by 17% in comparison to FY 2009…



We have significantly reduced the cost of Government Professional Services by 21% compared to FY 2009…

Professional Services – General Fund Budget FY 2009 – FY 2013



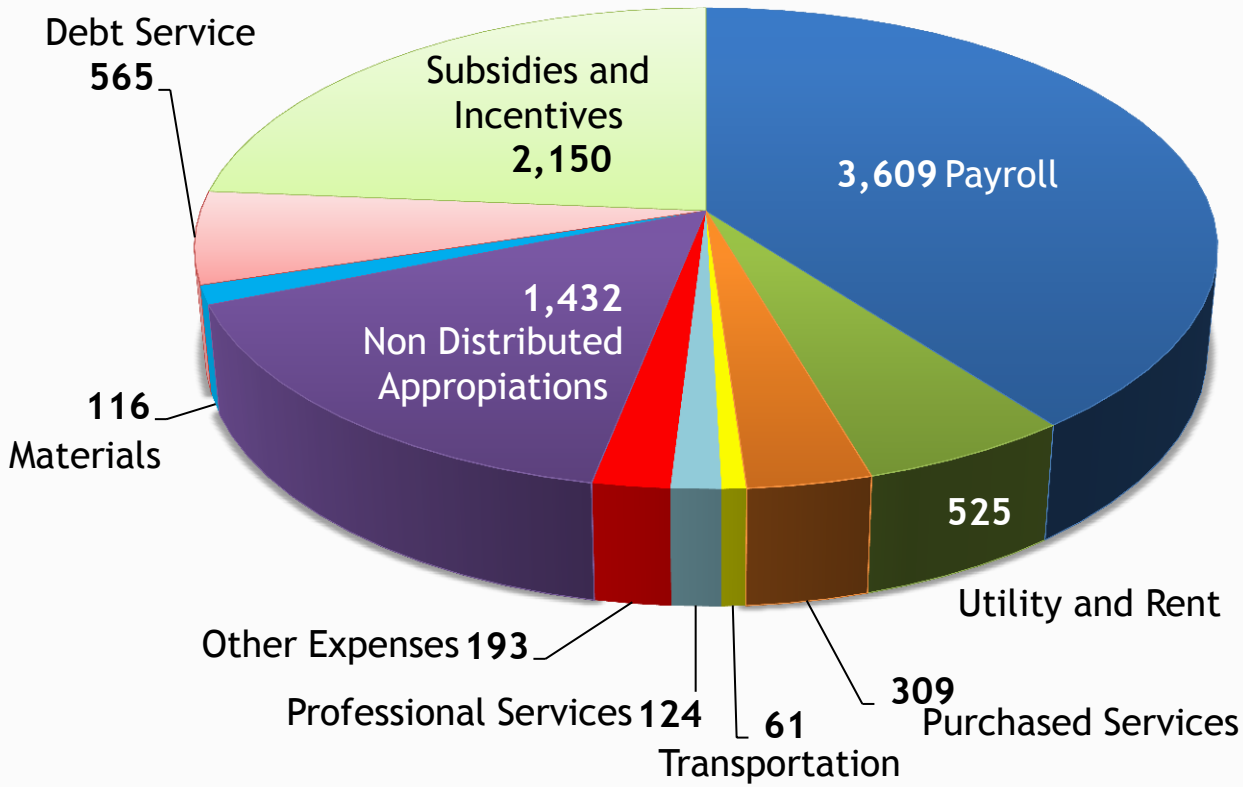
Source: Office of Management and Budget of Puerto Rico

Distribution of FY 2013 General Fund Budget by Expenditures

$9,082 million

Payroll	40%
Grants and Donations	24%
Non Distributed Appropriations	16%
Debt Service	6%
Utility and Rent	3%
Purchased Services	2%

($ millions)



* Numbers may not add up due to rounding

Reductions in expenditures are a result of effective fiscal management.

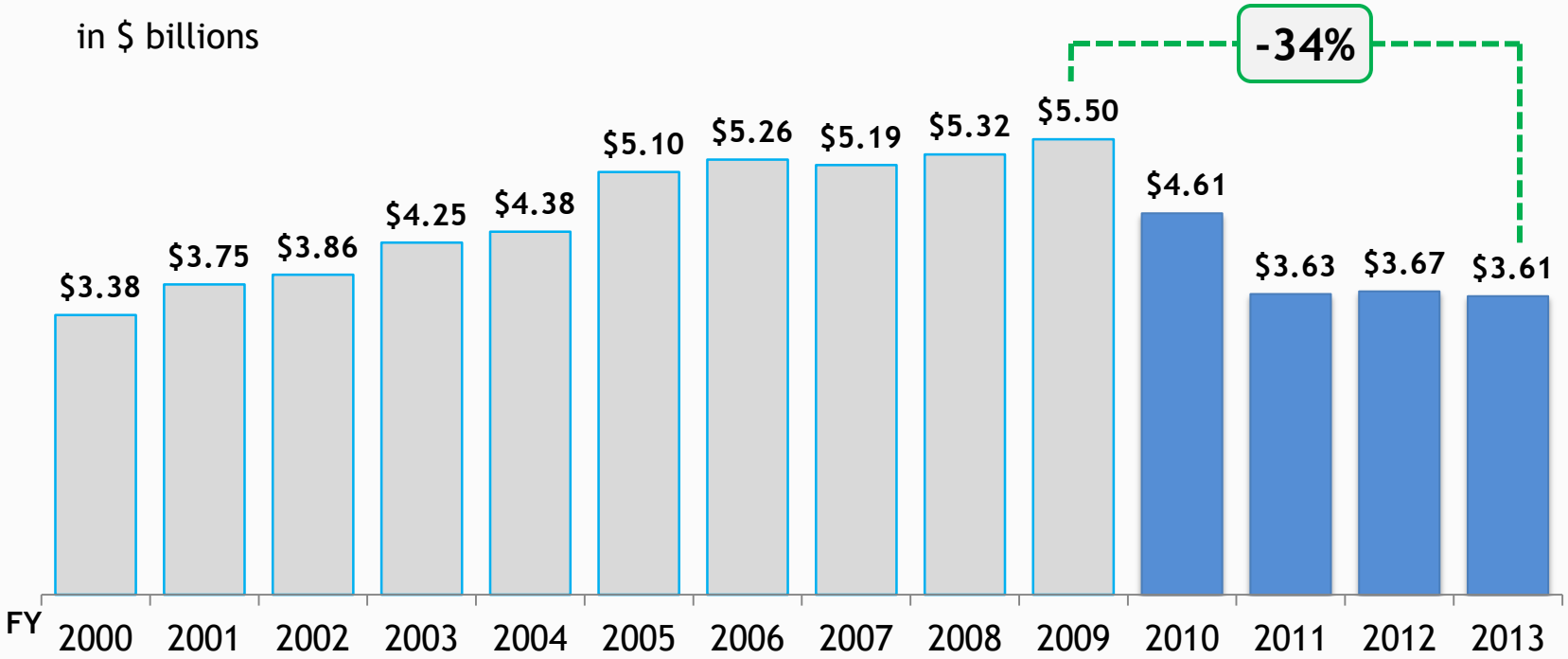
Expense Category	FY 2012	FY 2013	Change %
Payroll	3,667	3,608	-2%
Utility and Rent*	484	525	8%
Purchased Services	287	309	8%
Grants and Donations	2,029	2,149	6%
Transportation	58	61	5%
Profesional Services	127	124	-2%
Other Operating Expenses	266	100	-62%
Non-Distributed Appropriations	1,462	1,432	-2%
Previous Years' Debt	21	17	-21%
Equipment Purchase	57	56	-1%
Federal Funds matching	15	17	11%

* Increment is mainly due to the increase in utility consumption estimates (PREPA, PRASA, and PBA)

Reduction in payroll expenses has been the cornerstone of our expense reduction plan as it represents over 50% of our expenses…

- The government payroll expenses rose at an average of 6% from FY 2000 to FY 2009

Government payroll during the last decade *



Source: Office of Management and Budget PR, presentation of Transition by the Planning Board.
** Excludes Executive Branch allowances or Formula Act, pension payment and debt service.*

Proactive measures have reflected a 20% reduction in human resources when compared to FY 2008...

Month/Year	Mar. 2008	Feb. 2010	Feb. 2011	Feb. 2012	Feb. 2013 (Projection)
Executive Branch					
Central Government	157,258	143,035	129,407	127,013	124,881
Public Corporations	35,351	32,622	30,258	30,020	29,774
Total - Executive Branch	192,609	175,657	159,665	157,033	154,623

Reduction 37,986 or 20% vs FY 2008

* As reported by agencies to OMB by 4/4/2012
** Out of this total only 12,505 were involuntary separated, the balance is due to attrition and voluntary retirement programs (Act 70)

Act 70 voluntary retirement program has yielded excellent results…

Economic Impact of Act 70 (March 2012 - Third Period)

($ thousands)	Agencies (General Fund and Others)
Total Impact on Payroll	$116,152
Cost of Annuity	$37,287
Annual Savings*	**$78,865**
First 2 Periods	$ 67,225
Act 70 Total Savings	$146,090

*Annual savings based 100 % on applicants that will participate on Act 70 Early Retirement & Incentive Program

Over 79% of budgeted expenses are unavoidable...

(in $ millions)	2009	2010	2011	2012[1]	2013[2]
Unavoidable Expenses					
Budget Formulas:					
Contribution to Municipalities	368	335	355	380	388
UPR	835	729	691	704	757
Judicial Branch	348	348	348	328	343
Rent Payment to the Public Building Authority [1] [3]	206	299	216	218	208
Debt Payments	393	663	578	670	565
Total Unavoidable Expenses	**2,150**	**2,374**	**2,188**	**2,300**	**2,261**
% of General Fund and Stabilization Fund	**20%**	**23%**	**24%**	**25%**	**25%**
Discretionary Expenses	**7,334**	**7,796**	**6,874**	**6,960**	**6,822**
Payroll and Related Costs[3]	5,968	4,725	3,695	3,784	3,677
Payroll as a % of Discretionary Expenses	**81%**	**61%**	**54%**	**54%**	**54%**
Total Expenses – General Fund and Stabilization Fund	**9,484**	**10,170**	**9,062**	**9,260**	**9,083**
Total Expedintures not considered in Budget	1,406[4]	0	0	0	0
TOTAL Expenses	**10,890**	**10,170**	**9,062**	**9,260**	**9,083**

(1) Preliminary
(2) Estimate
(3) Excludes the UPR, and the Judicial Branch. Includes School Wide Program payroll expense
(4) Identified non budgeted costs that were paid with funds proceeding from Bond Issuance – COFINA

Source: Office of Management and Budget

Formula allocations increase by $76.8 million for the Fiscal Year 2013 Budget…

(in $ thousands)	FY 2012	FY 2013	Change
UPR	704,526	756,803	52,227
Judicial Branch	327,944	342,763	14,819
Municipalities			
Municipal Fund	204,825	210,145	5,320
Exemption from property taxes not collected	148,491	153,008	4,517
Total	**$1,385,792**	**$1,462,719**	**$76,883**

57% of the General Fund Budget for FY 2013 is distributed in the following agencies…

24%
$2,163 M
EDUCATION

10%
$894 M
ASES

9%
$798 M
POLICE

3%
$282 M
HEALTH

5%
$413 M
CORRECTION

4%
$320 M
FAMILY

2%
$138 M
JUSTICE

Puerto Rico will have a balanced budget for Fiscal Year 2014

Agenda

1 Restoring Growth Through Fiscal Responsibility

2 Puerto Rico's Public Debt

3 Revenues, Enforcement Measures and Expenses

4 FY 2013 Proposed Budget

5 **Concluding Remarks**

In early 2009, the Administration developed a comprehensive plan to tackle our immediate challenges…

1st Credit Conference - March 12, 2009
(Fiscal Reconstruction Plan Presentation):

GDB

We are ready to start the implementation phase and meet the goals of the Plan

Plan Goals	Specific actions and components of the Plan
Stabilize the fiscal situation	• Approval of Legislative package to implement the Plan • Implement Expense and Revenue Measures • Implement Financial Measures
Strengthen PR's credit	• Formulate and implement a multi-year plan • Re-establish transparency and investor relation programs
Re-build the economy	• Establish organizational framework for Federal Stimulus Plan • Design a Local and Supplementary Stimulus Plans • Implement Public-Private Partnerships

9

2009 Commitment

1) Stabilize the fiscal situation
2) Strengthen Puerto Rico's credit
3) Rebuild the economy

Three years later we can say that we have delivered on our initial plan to stabilize our finances and return Puerto Rico to a path of economic growth…

FISCAL	We have reduced government expenses by $1.8 billion and the General Fund deficit by 90% since 2009
CREDIT	We have improved our overall rating profile and restored confidence with bondholders and capital markets
ECONOMY	For the first time in six years, our economy is showing positive growth

While we are very excited and encouraged by the results of our fiscal stabilization plan and the beginning of economic recovery, we clearly understand the challenges we still face…

1	Pension system	We are focusing on balancing outflows and inflows to minimize impact on general fund, securing benefit payments and avoiding pay-go scenario
2	Fiscal consolidation	We continue to evaluate reducing government spending while investing in key infrastructure projects
3	Labor participation rate	Focusing on small and medium-sized businesses to promote entrepreneurship and economic reforms
4	Economy	Diversifying our current economic model by implementing a comprehensive plan to promote growth in several key areas

We have a long way to go, but we have come a long way…

Fiscal Year	2009	2010	2011	2012	2013
Deficit	$3.3 B	$2.5 B	$1.0 B	$610 M	$333 M
GF Revenues	$7.710 B	$7.716 B	$8.165 B	$8.650 B	$8.750 B
GDP Growth	-3.8%	-3.4%	-1.5%	+0.9%	+1.1%
Unemployment	14.7%	15.9%	16.8%	14.9%	-
ERS Asset Life	2014	2014	2021	2021	-
Debt as % of GDP*	56%	58%	60%	62%	-

* Real Gross Domestic Product vs. Total Debt

PUERTORICO CREDIT CONFERENCE 2 • 0 • 1 • 2

Puerto Rico: Restoring Growth Through Fiscal Responsibility

Juan Carlos Batlle
President
Government Development Bank for Puerto Rico

Juan Carlos Pavía
Director
Office of Management and Budget

Jesús F. Méndez
Secretary
Department of Treasury