

## THIS WEEK



The approval of Cafta-DR by the U.S. Congress marks the beginning of a new era of commerce and globalization. Find out how Puerto Rico stands to benefit from the agreement and some of the concerns of less optimistic sectors.

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The local auto industry overcomes bad weather and skyrocketing gasoline prices in June, racking up a record-setting total 12,143 units sold—6.5% higher than total units sold the same month in 2004.



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### Quote of the Week Proudly sponsored by:

"Soon, it won't be necessary to talk about the digital consumer, but the consumer in general, without the adjective digital."

—Rosalyn Gaztambide,  
co-director of DLC Digital

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## CARIBBEAN BUSINESS

Volume 33, No. 30 • Thursday, August 4, 2005  
PO Box 12138, San Juan PR 00911-0138

CARIBBEAN BUSINESS™ (ISSN 1533-0818) is published weekly, except the first week of January, by CARIBBEAN COMMUNICATIONS INC., 1700 Ave. Fernández Juncos, San Juan, P.R. 00909-2500. Subscriptions: rate \$45 a year, \$97 for two years in U.S., \$50 a year foreign. Customer Service/Subscription telephone: (787) 726-6200. Fax: (787) 726-6195. General telephone: (787) 726-3000. Fax: (787) 266-1425. Periodicals postage paid at San Juan, PR 00926-9998. Postmaster: send address changes to CARIBBEAN BUSINESS, PO Box 12138, San Juan, PR 00911-0138. (ISSN 0194-8225). Info contact: Copyright © 2005 by Caribbean Communications Inc.

## TOP STORY

### Standard & Poor's Reacts to Governor's Budget Veto

Political differences between legislative and executive branches will have to be resolved if Commonwealth seeks to obtain higher credit rating

BY GEORGIANNE OCASIO TEISSONNIERE

Standard & Poor's (S&P) Ratings Services, one of the agencies evaluating the Commonwealth's credit, reacted Monday to Gov. Anibal Acevedo Vila's budget veto and stated it will continue to closely monitor the economic and political situation in Puerto Rico. One of the most critical issues being evaluated by the credit-rating agency is the budget-approval process. The governor's veto of the budget approved by the Legislature and the ensuing political battle haven't been positive factors for the Commonwealth's credit rating. S&P has been closely monitoring events in Puerto Rico since its recent downgrade of the Commonwealth's general obligation bonds to BBB with a negative outlook.

"If the Commonwealth's purpose is to get back into the A-rating category, these political differences will have to be eliminated...there would have to be more harmony between the legislative and executive branches," stated S&P Director Kenneth Gear, adding the agency had anticipated the difficult situation that could arise during the budget-approval process. "At the BBB level, there is less expectation for that harmony and more expectation for financial difficulty, which includes political differences such as passing a budget and reoccurring structural imbalances," explained Gear.

Despite the fact that the Commonwealth's credit isn't yet at risk of being downgraded once again since the present challenges are expected within its rating range, the political atmosphere on the island, according to Gear, will continue to be critical for the future evaluations of credit quality.

"The fact that the governor and the legislative branch are at odds leads to more risk in terms of potential default. Although Puerto Rico isn't on the verge of default, it really reflects lower credit quality. We look at other Latin American and Caribbean countries and, in the past, one of the positive milestones within the Puerto Rico government was that this problem didn't exist; there was more cooperation and consensus," stated Gear, adding that in recent years the distinguishing smoothness of Puerto Rico's governmental structure has become increasingly political.

In terms of the steps the government is currently taking to cut \$1 billion in spending, Gear describes the measures as prudent and necessary. Although measures such as cutting the workweek for government employees may be very difficult, from a conservative financial standpoint these kinds of steps are essential to the Commonwealth's financial health according to Gear. "If you want good sound credit in the capital markets, you have to be able to demonstrate the ability to balance financial operations and maintain sound level of financial reserve," explained the S&P director, who also mentioned that states such as California have had to take similar steps in the past when faced with fiscal deficits.

Gear described the current situation the Commonwealth is facing as an effect of necessary evolution. "This may be reflecting growing pains or a necessary evolution of the way Puerto Rico provides government services, this is typically difficult for any institution, company, or government. It can determine the direction they are going to take for the next 10 to 20 years...it is the evolution of the Commonwealth as it is today," Gear stated. ■