

THE ECONOMY OF PUERTO RICO IN FISCAL YEAR 2013 AND OUTLOOK FOR FISCAL YEARS 2014 AND 2015

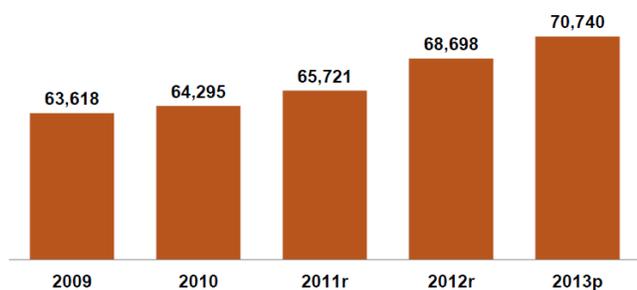
INTRODUCTION

Puerto Rico's economy has faced major challenges in recent years. These challenges have led to a recorded reduced growth of the economy of Puerto Rico during fiscal year 2013. Due to its high degree of openness to foreign trade, Puerto Rico's economy depends mainly on economic conditions in the U.S. and elsewhere. An analysis of the behavior of the economy of Puerto Rico during fiscal year 2013 is presented in the first part of this chapter. Then the behavior of economic indicators in the first months of fiscal 2014. Similarly, the behavior expected of exogenous variables that affect our economy and prospects for the economy of Puerto Rico for fiscal years 2014 and 2015 are analyzed. Finally, a schedule with the selected macroeconomic variables of Puerto Rico is included; the main exogenous variables and economic measures used as assumptions in the economic projections for fiscal years 2014 and 2015.

A. THE ECONOMY OF PUERTO RICO IN FISCAL 2013

The Gross National Product (GNP) represents the market value of economic output produced by residents of the country. For fiscal year 2013, this totaled \$ 70,740.3 million at current prices. At constant or real prices, the value was \$ 6,511.5 million, an increase of 0.3 percent over FY 2012. During fiscal years 2011 and 2012, this same variable recorded a decrease of 1.7 and an increase of 0.9 percent respectively.

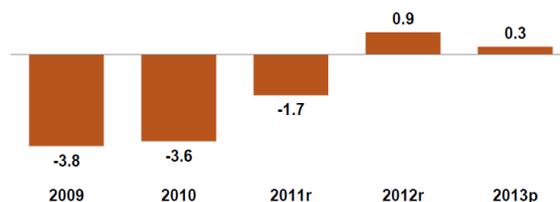
GROSS NATIONAL PRODUCT
(prices current for fiscal years in millions of dollars)



r- Revised numbers. p- Preliminary numbers.

Source: Planning Board, Program for Economic and Social Planning, Economic Analysis Subprogram.

GROSS NATIONAL PRODUCT-ANNUAL GROWTH
(% fiscal year)



r- Revised numbers. p- Preliminary numbers.

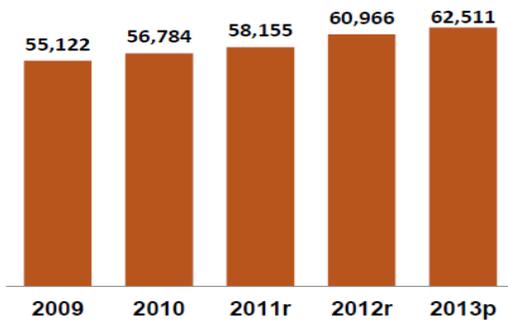
Source: Planning Board, Program for Economic and Social Planning, Economic Analysis Subprogram.

In fiscal 2013, domestic demand that represents the value of all goods and services consumed by the public and private sectors in Puerto Rico grew 1.1 percent at current prices from \$ 82,288.8 million in FY2012 to \$ 83,210.0 million in fiscal year 2013. At constant prices, this rise represented 0.5 percent in fiscal 2013.

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In fiscal year 2013, personal consumption expenditures, the main component of domestic demand, totaled \$62,511.1 million at current prices, surpassing by \$ 1,544.8 million or 2.5 percent, the level of \$60,966.3 million in the previous fiscal year. At constant prices, personal consumption expenditures were recorded at \$10,023.3 million in fiscal 2013, an increase of 2.4 percent over FY 2012. Actual growth achieved by personal consumption expenditures was \$234.1 million. This performance was supported by rises of 6.9 percent in durable consumer expenditure, 2.6 percent in spending on services and 1.4 percent in consumption expenditure of non-durable goods.

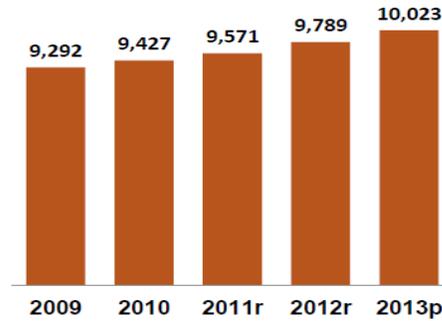
Personal Spending
(prices current for fiscal years in millions of dollars)



r- Revised numbers. p- Preliminary numbers.

Source: Planning Board, Program for Economic and Social Planning, Economic Analysis Subprogram.

Personal Spending
(prices current for fiscal years in millions of dollars)

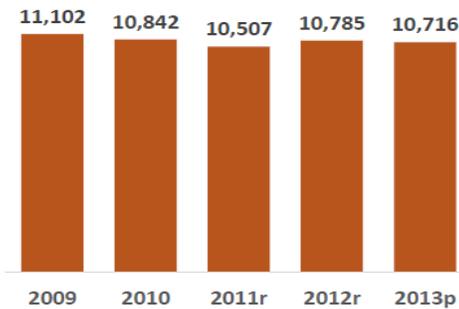


r- Revised numbers. p- Preliminary numbers.

Source: Planning Board, Program for Economic and Social Planning, Economic Analysis Subprogram.

The amount of consumption expenditure of the central government and municipalities in fiscal 2013 was \$10,716.0 million at current prices. In constant terms, this totaled \$1,772.8 million, representing a decrease of 0.7 percent for the year, compared to fiscal year 2012 which reached \$1786.1.

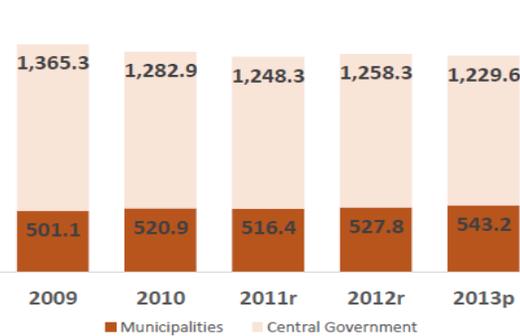
Government Spending
(prices current for fiscal years in millions of dollars)



r- Revised numbers. p- Preliminary numbers.

Source: Planning Board, Program for Economic and Social Planning, Economic Analysis Subprogram.

Government Spending
(constant prices for fiscal years in millions of dollars)

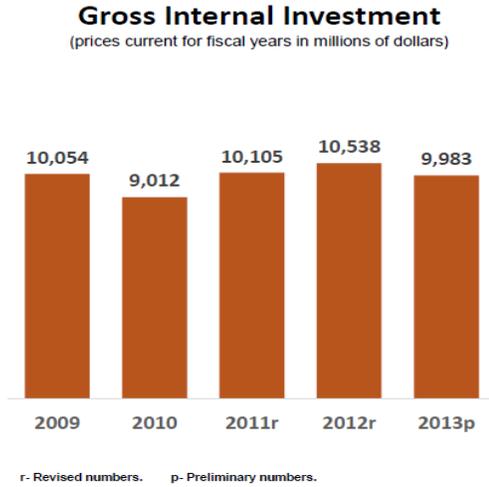


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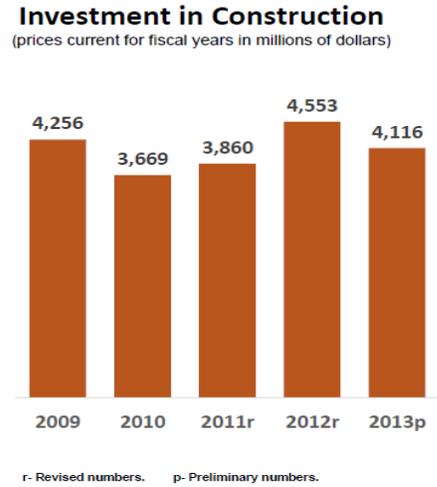
Source: Planning Board, Program for Economic and Social Planning, Economic Analysis Subprogram.

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Gross domestic investment in current terms totaled \$9,982.9 million for fiscal 2013. This represented a decrease of 5.3 percent compared with fiscal 2012. This variable at constant prices represented a decrease of 9.8 percent compared to the amount of the previous fiscal year. Within the total gross domestic investment in fiscal year 2013, investment in construction reached \$4115.9 million.

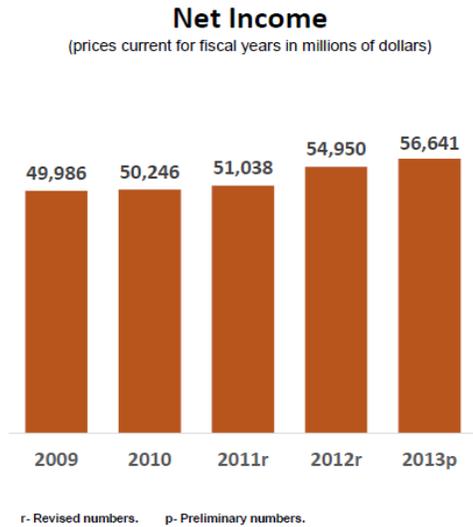


Source: Planning Board, Program for Economic and Social Planning, Economic Analysis Subprogram.

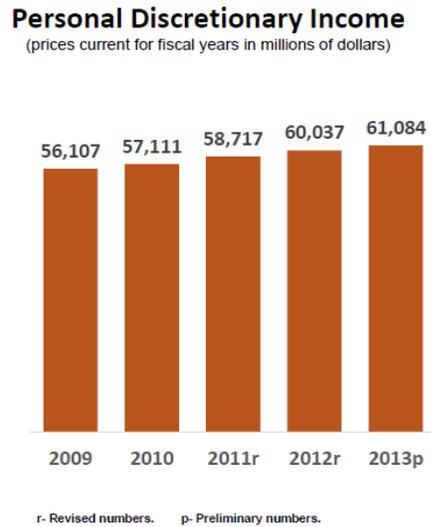


Source: Planning Board, Program for Economic and Social Planning, Economic Analysis Subprogram.

Net income reached \$ 56,641.3 million at current prices during fiscal 2013. Meanwhile, personal income was \$61,084.3 million. The latter variable represents the amount available to persons upon payment of taxes, an increase of 1.7 percent in fiscal 2013 over the previous fiscal year estimates.



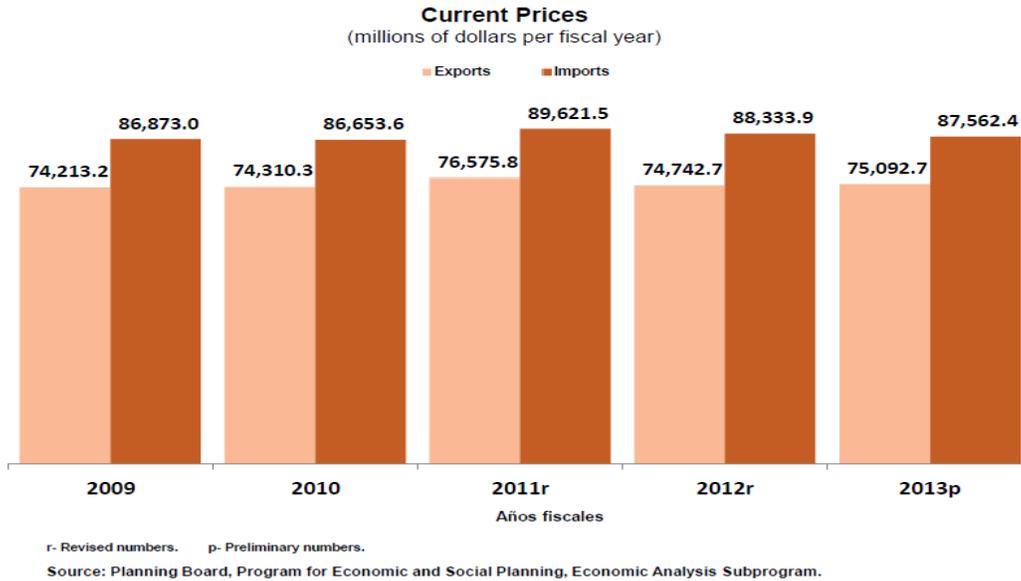
Source: Planning Board, Program for Economic and Social Planning, Economic Analysis Subprogram.



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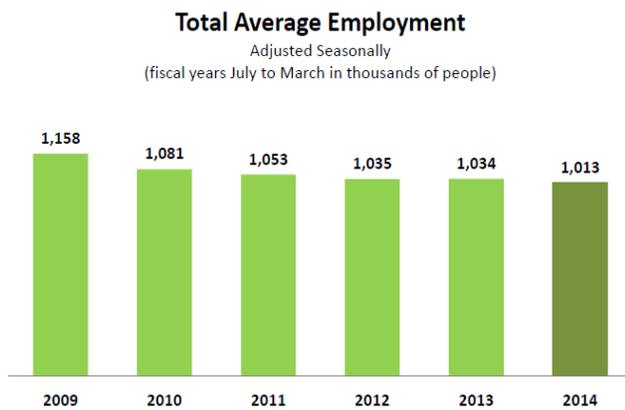
In transactions with the rest of the world, an increase in sales of goods and services abroad for fiscal year 2013 was estimated. For fiscal year 2013 at current prices, sales of goods and services totaled \$75,092.7 million and purchases of goods and services \$87,562.4 million. At constant prices, this represented a decrease of 2.5 percent and 0.9 percent, respectively.



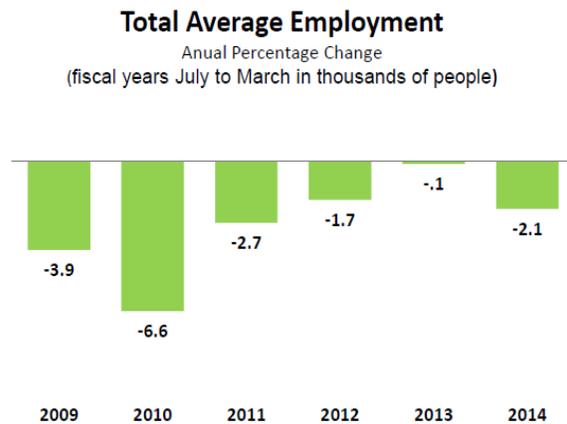
B. THE ECONOMY IN FISCAL YEAR 2014: MONTHLY ECONOMIC INDICATORS

1. Labor Market

According to the Housing Survey of the Department of Labor and Human Resources, the total number of people employed during the period from July to March of fiscal year 2014 averaged 1,013,000 people. This represented a decrease of 2.1 percent compared to the same period of fiscal 2013.



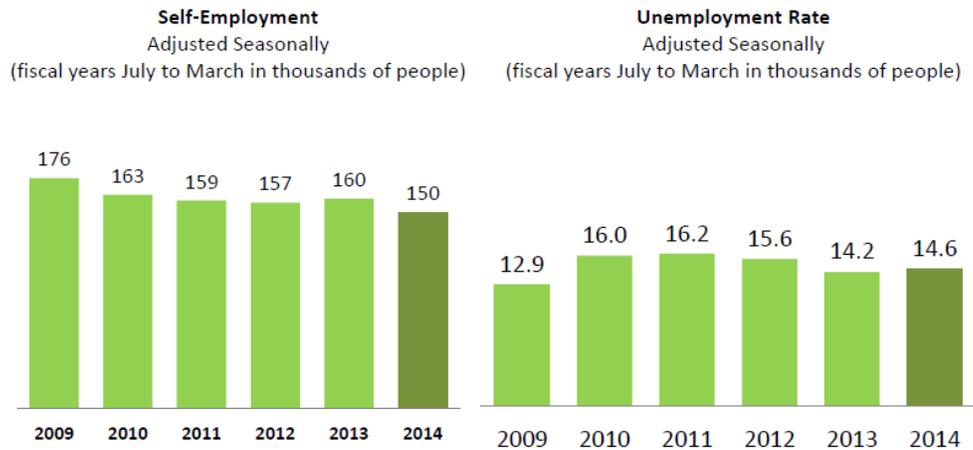
Source: Housing Survey, Department of Labor and Human Resources
Numbers reviewed/revised with 2010 Census



Source: Housing Survey, Department of Labor and Human Resources
Numbers reviewed/revised with 2010 Census

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Meanwhile, the number of people with self-employment declined 5.6 percent, totaling 150,000 persons during the period from July to March of fiscal 2013. During the period July-March FY 2014, the labor force recorded a decrease of 1.6 percent totaling 1,186,000 persons, compared with the same period last fiscal year. The participation rate reached 41.4 percent, representing a decrease of 0.5 percentage points in the first nine months of this fiscal year. Meanwhile, the seasonally adjusted unemployment rate recorded a level of 14.6 percent, an increase of 0.4 percentage points compared to the July to March period of fiscal year 2013.



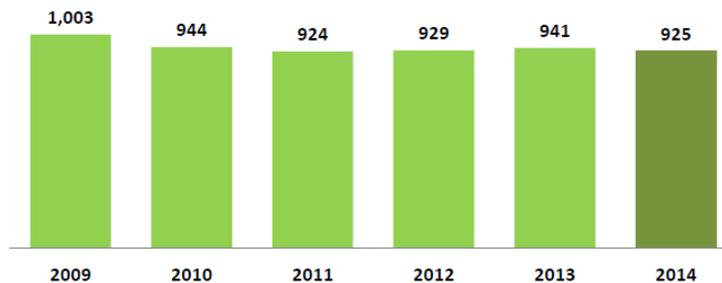
Source: Housing Survey, Department of Labor and Human Resources
Numbers reviewed/ revised with 2010 Census

Source: Housing Survey, Department of Labor and Human Resources
Numbers reviewed/ revised with 2010 Census

Similarly, in the Business Survey, seasonally adjusted non-agricultural wage employment totaled 925,000 persons in the period July-February of fiscal 2014, from a total of 941,000 people employed in the same period of fiscal year 2013. This represented a decrease of 1.6 percent.

Non-Agricultural Wage Employment

Adjusted Seasonally
(fiscal years July to February in thousands of people)



Source: Survey of Businesses, Department of Labor and Human Resources

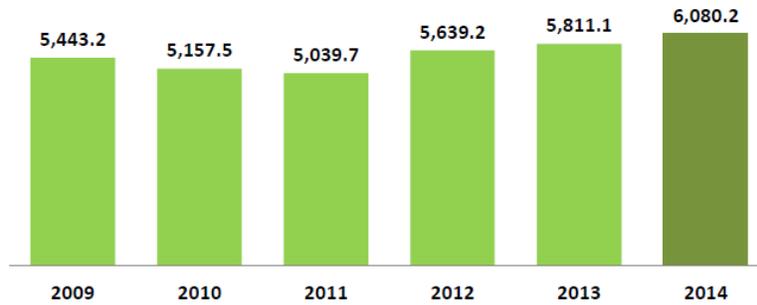
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2. Net Revenues to the General Fund

In the period July-March of fiscal year 2014, net revenues to the General Fund totaled \$6,080.2 million. Meanwhile, in the same period last fiscal year, the revenues were \$5,811.1 million, representing an increase of 4.6 percent.

Net Revenues to the General Fund

(fiscal years July to March in thousands of dollars)

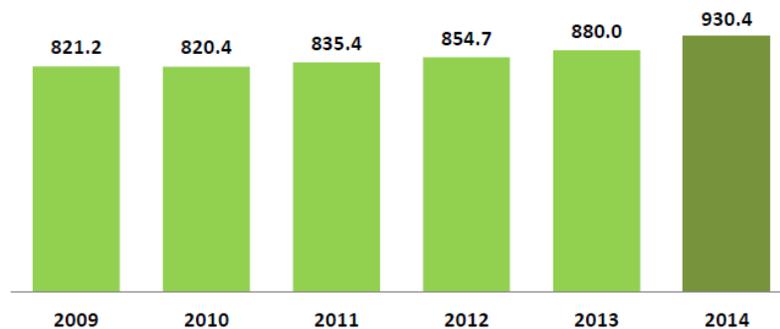


Source: Department of the Treasury

The period July-February of fiscal 2014 recorded an increase in revenues from the state sales and use tax (IVU) of 5.7 percent, when compared to the same period last fiscal year.

Revenues from Sales and Use Tax (IVU)

(fiscal years July to March in thousands of dollars)

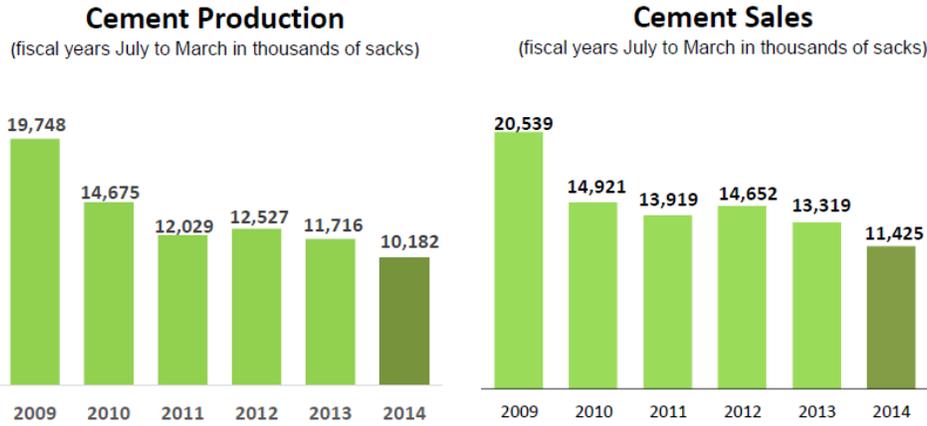


Source: Department of the Treasury

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3. Production and Sales of Cement

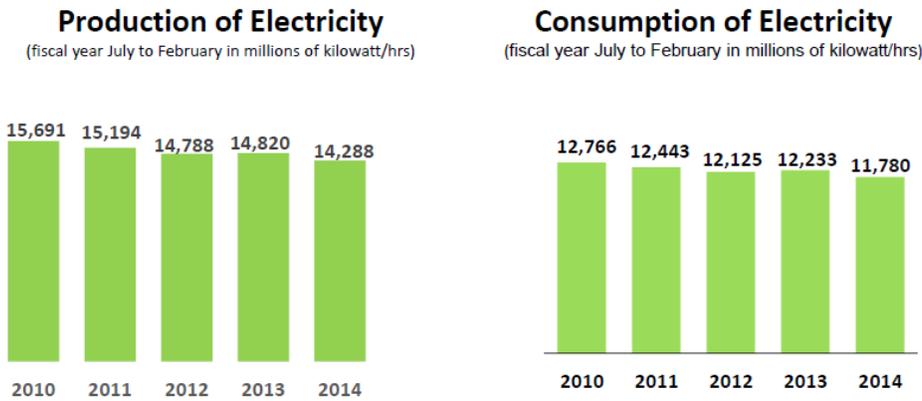
The period July-March FY 2014 reflected contractions of 13.1 percent in cement production and 14.2 percent in its sales, both in comparison to the same period of fiscal 2013.



Source: Government Development Bank

4. Electric Power Production

From July-February of fiscal 2014, the production of electric power reflected a decrease of 3.6 percent. For that period, total electric power consumption reached 11,780.0 million kilowatt/hour, representing a reduction of 3.7 percent. Of the total electricity consumed on the island, the consumption of commercial, residential, and industrial electricity decreased 1.0, 8.4, and 5.2 percent, respectively.



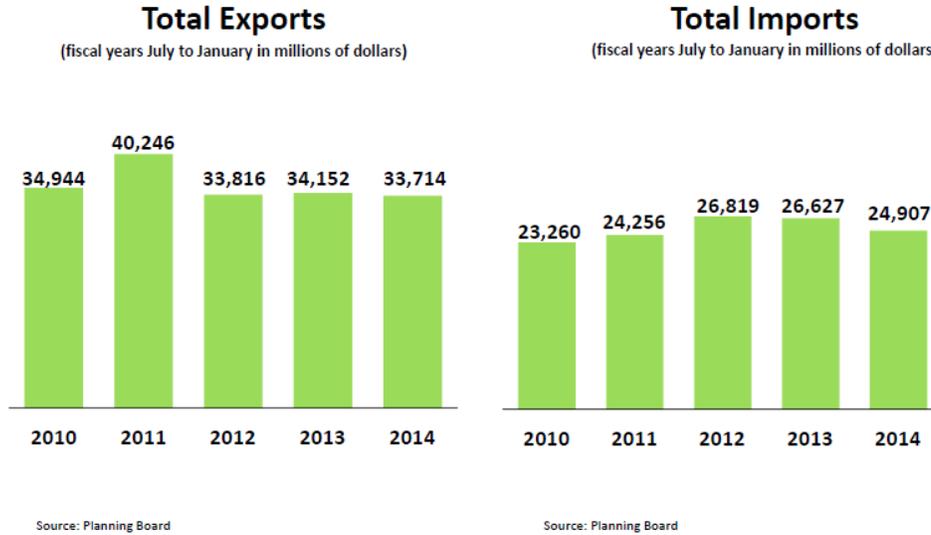
Source: Electric Power Authority

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5. External Trade

Regarding the external sector of the economy, during the months from July to January of fiscal 2014, the value of recorded exports fell 1.3 percent compared with the same period of fiscal 2013. Meanwhile, registered imports fell 6.5 percent.



6. Retail Sales

As for the commercial sector, the figure preliminarily accumulated retail sales during the period from July to December of fiscal year 2014 reached the amount of \$ 18,539.1 million. This represented an increase in sales of 0.1 percent, compared with the same period of fiscal 2013.

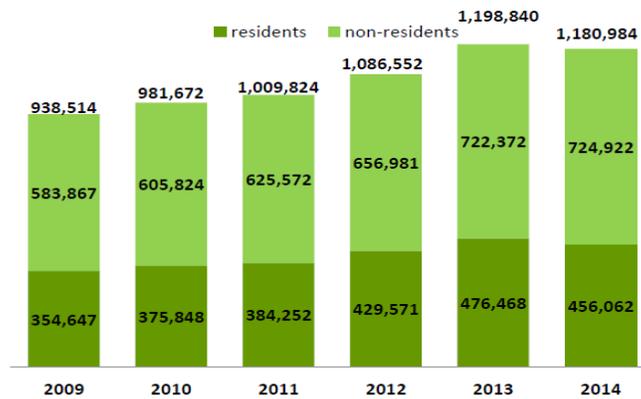


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7. Tourist Registration and Occupancy

The number of people registered in hotels and inns during the July-December period of fiscal 2014 reflected a decrease of 1.5 percent when compared to the same period of fiscal 2013. From a total of 1,198,840 people registered in hotels and inns during the same period of 2013, the number decreased to 1,180,984 people in the current 2014 fiscal year. In the first half of fiscal 2014, the registration of non-residents increased 0.4 percent and registration by residents decreased 4.3 percent, respectively. This for the same period of comparison.

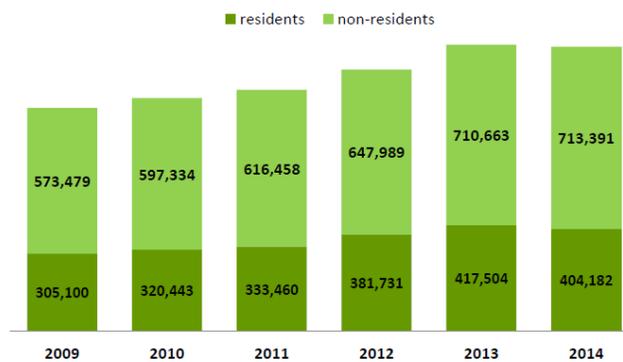
People Registered in Hotels and Inns
(fiscal years July to December)



Source: Trade and Exports Company

People registered in hotels presented a decrease of 0.9 percent. Registration of non-residents in hotels rose 0.4 percent while residents were down by 3.2 percent.

People Registered in Hotels
(fiscal years July to December)



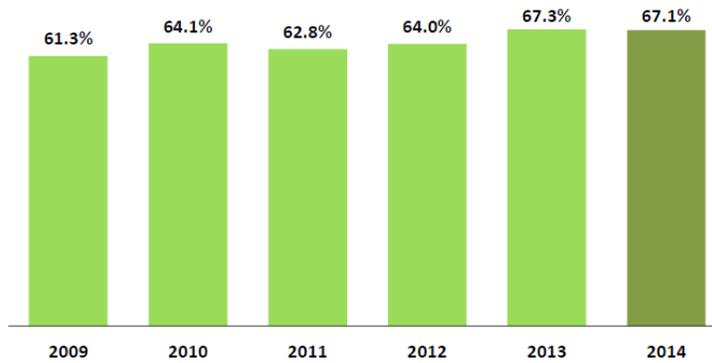
Source: Trade and Exports Company

Registration of persons at inns for the period from July to November of fiscal 2014 decreased 11.8 percent. Both the registration of residents and non-residents showed decreases. These were 12.4 and 8.4 percent, compared with the same period last fiscal year. The occupancy rate in hotels and inns averaged 67.0 percent. This represented 0.1 percentage points lower than the rate in the July-November period of the previous fiscal year.

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Occupancy Rates for Hotels and Inns

(fiscal years July to December)

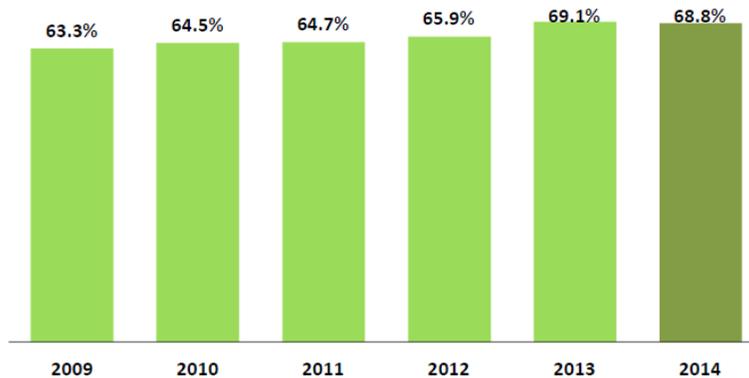


Source: Toursim Company

On the other hand, the occupancy rate in hotels averaged 68.7 percent, representing 0.1 percentage points lower than the rate in the July-November period of the previous fiscal year. Meanwhile, the occupancy rate in hostels averaged 38.5 percent, meaning 1.9 percentage points lower than that recorded in the period from July to November of fiscal 2013.

Hotel Occupancy Rates

(fiscal years July to December)



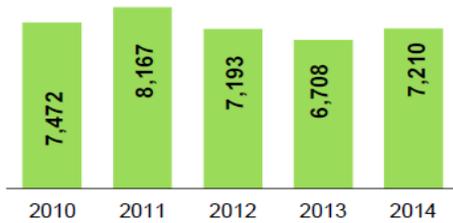
Source: Tourism Company

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8. Bankruptcies

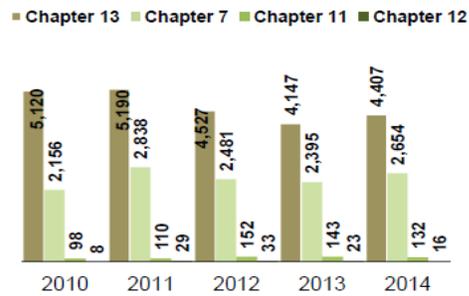
During July-February of fiscal 2014, bankruptcies in Puerto Rico increased 7.5 percent over the same period of fiscal 2013. The behavior of bankruptcies by chapter was as follows: Chapter 11 (reorganization) and Chapter 12 (farmers and fishermen) decreased 7.7 and 30.3 percent respectively. Meanwhile, Chapter 7 (total liquidation) and Chapter 13 (individual debt adjustment) increased by 10.8 and 6.3 percent, respectively, compared with the same period last fiscal year.

Number of Bankruptcies in Puerto Rico
(fiscal years July to February)



Source: Federal Bankruptcy Court for the District of Puerto Rico

Number of Bankruptcies
(fiscal years July to February)

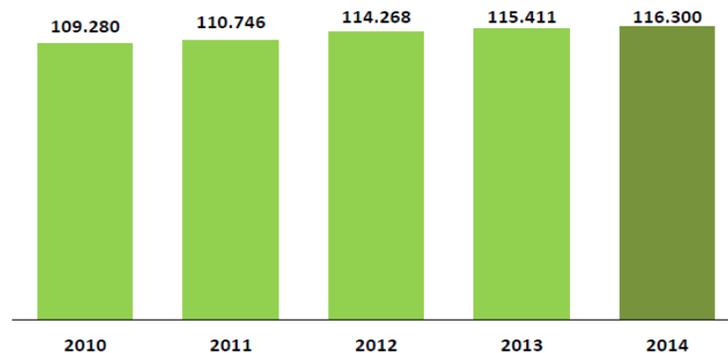


Source: Federal Bankruptcy Court for the District of Puerto Rico

9. Consumer Price Index

During the period July-February of fiscal 2014, the consumer price index prepared by the Department of Labor and Human Resources recorded a price level of 116.3 points. This represented an increase of 0.8 percent over the same period of fiscal 2013.

Consumer Price Index
(fiscal years July to February)



Base 2006

Source: Department of Labor and Human Resources

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C. MACROECONOMIC PROJECTIONS FOR FISCAL YEARS 2014-2015

Economic projections for Puerto Rico for fiscal years 2014 and 2015 according to results estimated by the econometric models of the Planning Board are presented in this section. They take into account the short-term elements that could affect the performance of the economy of the island. Puerto Rico is susceptible to changes occurring in the world economy because its economy is considerably open and integrated to the U.S. economy.

Primary Assumptions

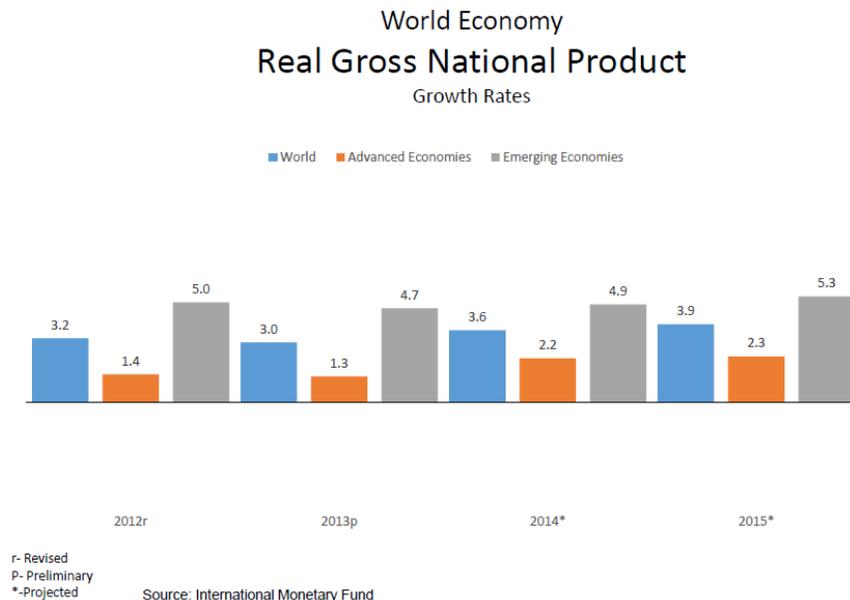
Among the primary assumptions of the projections performed, those factors whose current and prospective movements can somehow affect economic activity in Puerto Rico were considered. The main assumptions are:

- World Economy
- The economy of the United States
- Cost of petroleum
- Exports of adjusted goods
- Spending by visitors
- Investment in construction
- Investment in equipment and machinery
- Federal transfers to individuals
- Reduction in government consumption expenditure

World Economy

The global economy strengthened during the second half of 2013, registering a growth of 3.0 percent, as anticipated in the October 2013 edition of prospects for the world economy of the World Economic Outlook (WEO) report of the International Monetary Fund. Similarly, it is expected that the global economy continue to improve in 2014 and 2015, this largely due to the recovery of advanced economies. The current projection estimates a global growth of 3.6 percent for 2014, something slightly higher than the previous forecast of 3.9 percent for 2015. Then, in broad terms, this panorama remains mostly unchanged since the WEO October 2013 report. Nevertheless, the downward revisions in the exchange rates of some economies in the world are risk factors that could place such a projection in negative territory.

THE ECONOMY OF PUERTO RICO IN FISCAL YEAR 2013 AND OUTLOOK FOR FISCAL YEARS 2014 AND 2015



The U.S. economy will continue the positive trend shown at the end of the year when it recorded its highest growth. It is projected that the U.S. economy will record growth of 2.8 percent for 2014. A growth of 3.0 percent is projected for 2015.

The Eurozone, as well as emerging countries, will be registering a positive rate. It should be noted that emerging countries are expected that continue to present the highest growth, but not to the levels prevailing before the financial crisis that began in 2008. Thus, the Eurozone will move from recession to recovery, growing 1.2 percent in 2014, after a decline of -0.5 percent in 2013. Though there are positive factors, some countries like Greece, Italy, and Spain, will continue struggling to get out of negative rates of return. Meanwhile, Germany and the UK will have a positive performance this 2014 year. According to the projection, Germany will grow 1.7 percent in 2014 and 1.6 percent in 2015. Meanwhile, the UK will achieve increases of 2.9 and 2.5 percent for the years 2014 and 2015, respectively.

China's growth accelerated in the second half of 2013 due to government stimulus and increased investment. However, it is estimated that this growth will last for a short period of time. China is projected to achieve a growth in its economy of 7.5 percent in 2014. While for 2015, an increase of 7.3 percent was estimated.

1. United States

a. General Trends

The positive performance observed in 2013 occurred despite several events that affected the American economy, most significant, in general terms, the atmosphere of fiscal policy, including arguments for adopting the budget and debt limit; sequestration of the fiscal budget adopted by Congress in March; and the partial shutdown of the federal government for 16 days. According to data from the Bureau of Economic Analysis (BEA), the U.S. economy ended 2013 with a stronger growth than that recorded earlier this year. While during the first quarter of 2013 the gross domestic product (GDP) showed a real growth of 1.1 percent, in the fourth quarter the increase was 3.2 percent.¹ The

¹ The BEA estimated a reduction of about 0.3 percentage point in the fourth quarter of 2013 due to the partial shutdown of the federal government in October 2013. Estimates by the BEA took into account a decrease in the number of hours worked by federal employees, which decreased government compensations in the last quarter of last year.

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data recorded for GDP for the last quarter of 2013 reflects the slowdown in inventories, and spending by state and local government; a significant decrease in federal government spending; and a decrease in residential fixed investment. There was a decrease in imports, and an increase of 3.3 percent in real consumer spending, which represent two-thirds of the U.S. economy . Meanwhile, real disposable personal income rose 0.8 percent after increasing 3.0 percent in the previous quarter.

In 2013, the GDP grew 1.9 percent. In terms of the fiscal period for Puerto Rico, this results in an increase of 2.0 percent. The 2013 estimate is the result of the slowdown in the behavior of key macroeconomic variables. Gross domestic investment reached an increase of 5.4 percent in 2013 after growing 9.5 percent in 2012. Personal consumption expenditure rose 2.0 percent, from 2.2 percent in 2012. Federal government spending was more negative in 2013 (-5.1 percent) compared with the percent change for 2012 which was -1.4 percent. Meanwhile, exports rose 2.8 percent after increasing 3.5 percent in 2012. Imports reported a somewhat more positive record of 1.4 percent increase in 2013, compared with 2.2 percent in 2012.

As for the labor market, after unemployment reached a record double digit of 10.0 percent in October 2009, there has been a gradual improvement in recent years. The 2013 year began with an unemployment rate of 7.9 percent, while in the last month of the same year it stood at 6.7 percent. The average in 2013 was 7.4 percent, representing a 0.7 percentage point lower when compared with 2012 (8.1 percent). Nonagricultural wage employment (Business Survey), seasonally adjusted, showed that in 2013 there was an increase of 113,000 jobs averaging 136.4 million. This represents an increase of 1.7 percent when compared with 2012 when it reached 134.1 million jobs.

The housing market has experienced a healthy recovery in the past two years supported by improved employment, and low interest rate mortgage loans. Data from the sale of existing homes reflect that 2013 has been the strongest in the last seven years, registering an increase of 9.1 percent (5.09 million in sales) surpassing the level reached in 2012. Meanwhile, in 2013, 428,000 units were bought, which represents an increase of 16.4 percent over total sales for 2012. Finally, residential fixed investment in 2013 saw an increase of 12.0 percent after a growth of 12.9 percent in 2012.

b. Outlook for 2013 and 2014

Overall, the outlook for the U.S. economy is one of moderate growth. According to IHS Global Insight (GI), it is expected that real GDP in the United States record an increase of 1.9 percent in the first quarter of 2014 and end the year with an average increase of 3.2 percent in the last quarter. As for the 2015 year, estimates are that the economy will grow 3.5 percent in the period from January to March and 3.4 percent between October and December 2015. Projections for the years 2014 and 2015 estimate increases of 2.7 percent in 2014 and 3.3 percent in 2015. In terms of Puerto Rico's fiscal period, GI projections of GDP growth are 2.6 and 2.8 percent in 2014 and 2015, respectively.

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Assumptions of the outlook for U.S. economy:

- In terms of fiscal policy:

A level of discretionary spending based on the Bipartisan Budget Act, passed late last year as part of the approval process of the 2014 federal budget. This ensures no budget sequestration or other government shutdown this year.

The extension of unemployment insurance benefits that ended in December 2013 will not be renewed.

There will be no significant changes in the level of public spending after having reached the debt ceiling.

- In terms of monetary policy:

The Federal Reserve (RF) has no intentions to raise interest rates until mid-2015 pending further improvement in the labor market.

The RF adjusted bond purchases again at its meeting in January 2014.

In addition, buying Treasury securities and mortgage reduced by \$5.0 billion.

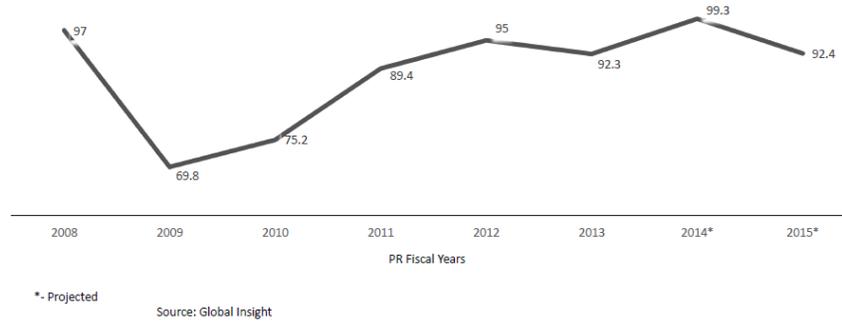
A moderate growth in consumer spending of 2.7 and 3.1 percent is expected in the respective years. The estimated Consumer Price Index increases for this and the next year are 1.3 and 1.6 percent, respectively. Finally, the housing market will continue to improve and more than 1.25 million new home projects are expected to begin by the end of 2014. This market should remain steady pending the effect of changes in credit requirements for the purchase of properties that began in January 2014.

c. Cost of Petroleum

The price of a barrel of oil rose 4.0 percent in 2013, after falling -0.9 percent in 2012. The average estimated price of a barrel of oil imported in FY 2013 was \$ 98.00. According to GI, the average price of oil will reach an average cost of \$96.00 for fiscal year 2014 and \$89.00 in FY 2015. Referring to the Puerto Rico fiscal year, the price of a barrel of oil averaged \$92.30 in FY 2013. The forecast of this variable for fiscal years 2014 and 2015 shows average prices of \$99.30 and \$92.40, respectively. Both figures represent an increase of 7.7 percent for FY 2014 and a reduction of -7.0 percent for the next fiscal year, 2015.

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Average Price of Barrel of Petroleum West Texas Intermediate (WTI)



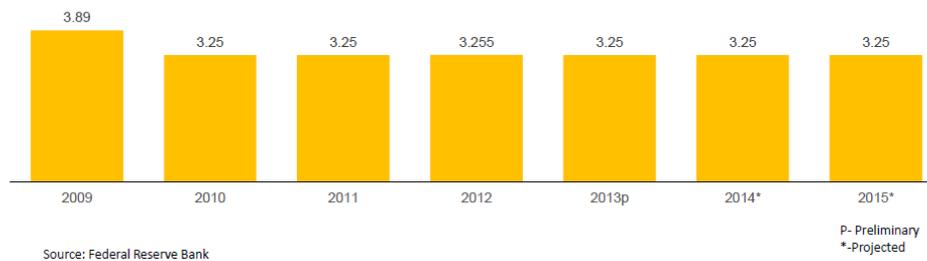
d. Prime Rate

Interest rates have remained at historically low levels for almost seven years in which the accommodative monetary policy of the Open Market Committee of the Federal Reserve has supported the growth of the U.S. economy by stimulating spending. However, as the labor market continues to strengthen, and inflation is kept in check, the FR will start tightening monetary policy and therefore interest rates. As of February 2014, the average mortgage rate at 30 year stood at 4.3 percent, i. e. 0.77-percentage point of the level reached in February 2013.

According to GI, the primary preferential rate at commercial banks in fiscal 2013 was 3.25 percent, which represented no change when compared with 2012. Referring to the Puerto Rico fiscal year, it is projected that in fiscal 2014 and 2015, this rate will remain at 3.25 percent.

Economy of the United States

Prime Rate



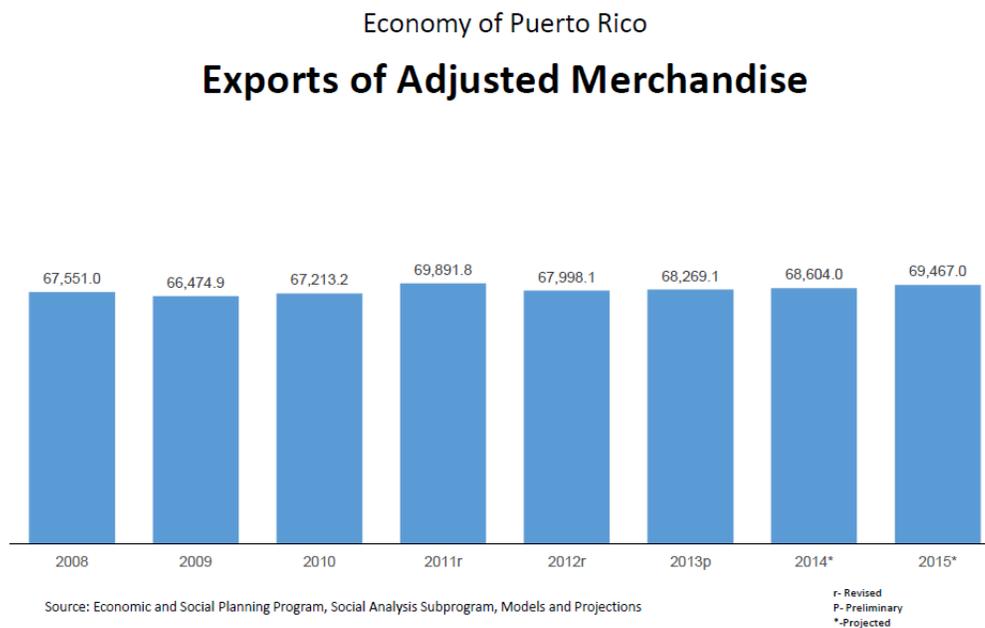
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2. Exogenous Variables

a. Adjusted Merchandise Exports

In Puerto Rico, the value of adjusted goods exported in fiscal year 2013 was \$68,269.1 million, representing an increase of 0.4 percent over FY 2012. In absolute terms, this represented an increase of \$271.0 million. Industries that contributed most were chemicals and food products.

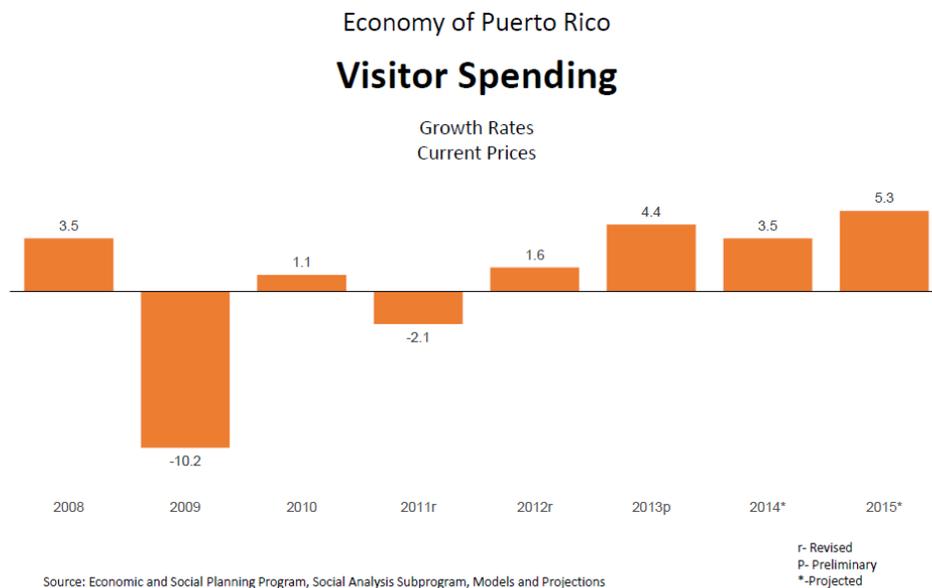
Exports are estimated according to the projected trend of U.S. economic growth, considering the demand for goods that it is expected to generate. In fiscal year 2014. Exports of goods adjusted are expected to reach \$68,604.0 in 2014 and \$69,467.0 million for fiscal year 2015. These numbers represent increases of 0.5 and 1.3 percent, respectively.



b. Visitor Expenditures

Spending by non-resident visitors in Puerto Rico totaled \$ 3333.5 million during fiscal 2013, an increase of 4.4 percent over the previous fiscal year which reached \$ 3192.9 million. This increase was driven by tourists staying in hotels and inns, a total of 3,199,672 tourists; 130.582 tourists more than in fiscal 2012.

THE ECONOMY OF PUERTO RICO IN FISCAL YEAR 2013 AND OUTLOOK FOR FISCAL YEARS 2014 AND 2015



It is projected that visitor spending for fiscal year 2014 will be \$ 3,450.0 million, an increase of 3.5 percent over FY 2013. During fiscal year 2015, it is expected to reach \$ 3633.0 million, representing an increase of 5.3 percent.

c. Construction

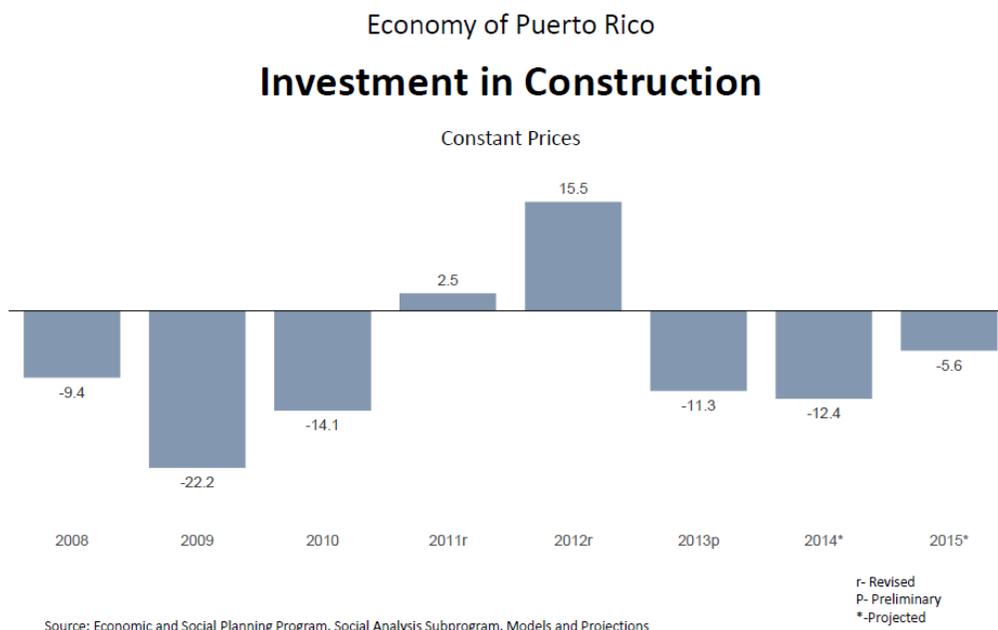
Construction is one of the key sectors of the Puerto Rican economy. Construction investment, which refers to new construction by private companies and state and local government, is an extremely important component in the economic development of any country component, short and long term.

Construction activity includes the building, expansion, repair, and remodeling of buildings or structures such as residences, commercial and industrial buildings, roads, bridges, ports and other works carried out by construction companies. Therefore, this sector it is vital to healthy economic development in any country.

Construction activity plays a key role in the economy of Puerto Rico, in the creation of jobs and the development of the island's infrastructure. In FY 2013, construction investment at current prices reached \$4115.9 million and \$446.5 million in real terms.

The projection indicates that for fiscal year 2014, investment in actual construction will reach \$391.0 million, a decrease of 12.4 percent. Also in fiscal 2015, it is expected to decrease at a pace slower than 5.6 percent, with a value of \$369.0 million. In current terms, for fiscal years 2014 and 2015, the projected figures are \$3675.0 and \$3527.0 million, presenting decreases of 10.7 and 4.0 percent, respectively.

THE ECONOMY OF PUERTO RICO IN FISCAL YEAR 2013 AND OUTLOOK FOR FISCAL YEARS 2014 AND 2015



d. Machinery and Equipment

In real terms, in fiscal year 2013, investment in machinery and equipment in Puerto Rico totaled \$994.4 million, reflecting a decrease of 4.3 percent. Similarly, at current prices, a decrease of 1.9 percent was recorded for a total value of \$5694.7 million.

The projection for real investment in machinery and equipment indicates a value of \$945.0 million in fiscal 2014 and \$893.0 million in fiscal 2015. Prospects, in current terms, are \$5,573.0 million for fiscal year 2014 and \$5491.0 million in FY2015.

e. Federal Transfers

Due to their nature and magnitude, federal transfers play an important role in the economy of the island. Their impact is channeled through funds for better services, infrastructure development, and improvements in education levels and the quality of life in general. These are an important flow of foreign funds into the economic system of Puerto Rico. In fiscal year 2013, federal transfers to individuals in Puerto Rico reported a total of \$15,170.7 million, a decrease of 0.6 percent and an absolute decrease of \$ 87.5 million.

The projections for federal transfers to individuals are \$15,278.0 million for fiscal year 2014 and \$15,422.0 million for fiscal 2015, representing a growth of 0.7 and 0.9 percent, respectively.

THE ECONOMY OF PUERTO RICO IN FISCAL YEAR 2013 AND OUTLOOK FOR FISCAL YEARS 2014 AND 2015

Economy of Puerto Rico Federal Transfers to Individuals



3. ECONOMIC OUTLOOK FOR FISCAL YEARS 2014-2015 IN THE CONTEXT OF ITS HISTORICAL TREND

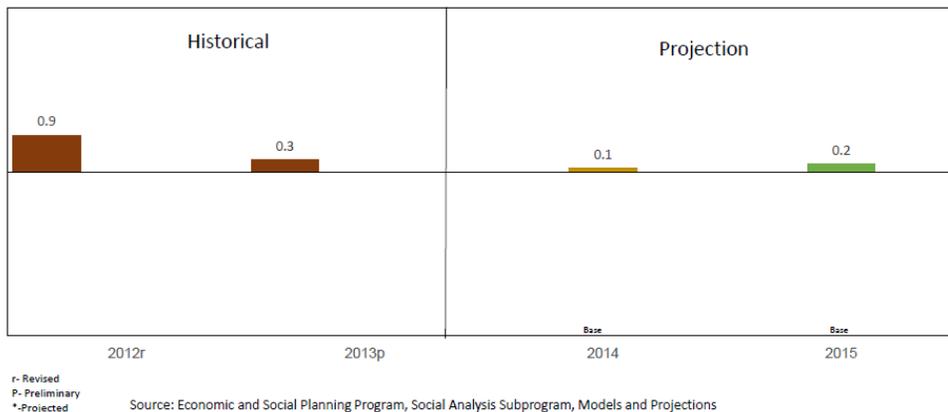
a. Gross Domestic Product

Puerto Rico's economy in fiscal year 2013 reached a real growth of 0.3 percent, compared to fiscal 2012. At current prices, the GDP reached \$70,740.3 million, and increased 3.0 percent as compared to FY 2012.

According to the projection of Real Gross Product of Puerto Rico, a value of \$ 6,517.0 million for fiscal year 2014 was estimated. This would represent a negligible increase of 0.1 percent compared to fiscal 2013. During fiscal 2015, we expect Gross Product reach the figure of \$6,530.0 million, a 0.2 percent increase. At current prices, the Gross Domestic Product is projected to be \$72,821.0 million and \$ 74,684.0 million for fiscal years 2014 and 2015, respectively. This represents a growth of 2.8 percent for fiscal year 2014 and 2.6 percent in fiscal 2015.

Economy of Puerto Rico Gross Product

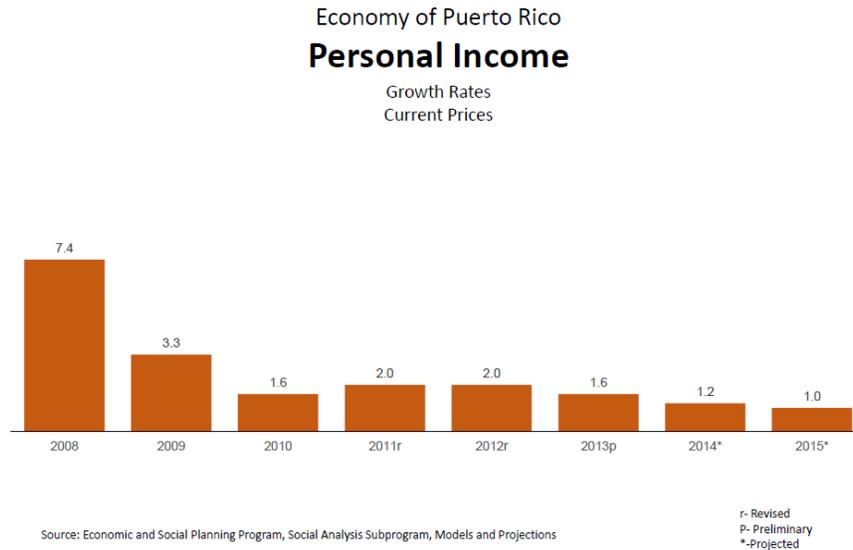
Growth Rates
Constant Prices



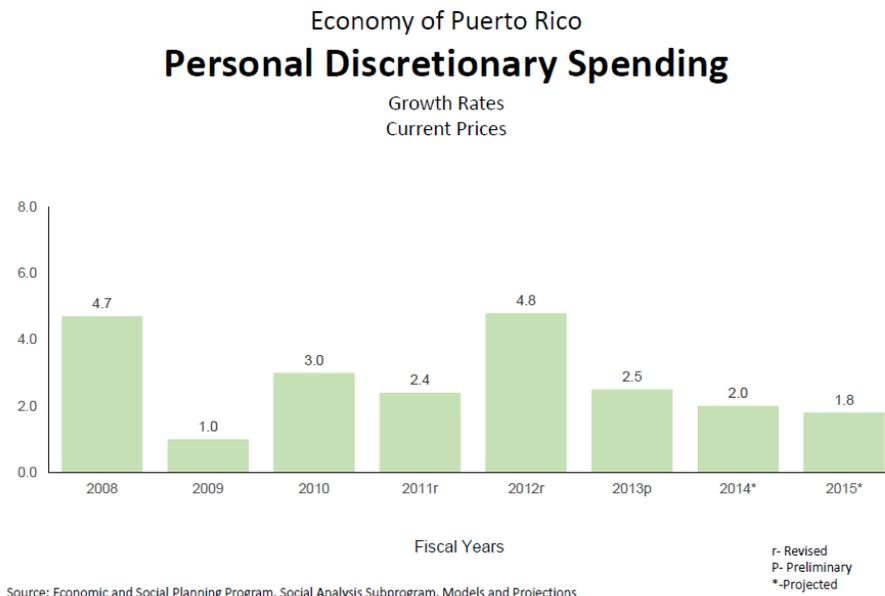
THE ECONOMY OF PUERTO RICO IN FISCAL YEAR 2013 AND OUTLOOK FOR FISCAL YEARS 2014 AND 2015

b. Individual Income and Consumerism

Real personal income in fiscal 2013 reflected an increase of 1.6 percent over the previous fiscal year, registering a figure of \$10,180.2 million. It is projected that in fiscal year 2014 it reach \$10,215.0 million and in fiscal year 2015 it total \$10,252.0 million, an increase of 0.3 in FY 2014. A decrease of 0.4 percent is expected for fiscal year 2015. At current prices, the values for these fiscal years are \$64,162.0 and \$64,804.0 million, an increase of 1.2 and of 1.0 percent for these fiscal years, respectively.



Real personal spending, the main component of the Gross Domestic Product, totaled \$10,023.6 million in fiscal year 2013. This represents an increase of 2.4 percent when compared to FY 2012. The estimated value of this variable for the fiscal year 2014 is \$10,156.0 million, representing a growth of 1.3 percent, and for FY 2015 it is \$10,273.0 million, up 1.2 percent. At current prices, estimates for these years are \$63,789.0 and \$64,934.0 million, resulting in increases of 2.0 and 1.8 percent, respectively.



THE ECONOMY OF PUERTO RICO IN FISCAL YEAR 2013 AND OUTLOOK FOR FISCAL YEARS 2014 AND 2015

Finally, it is important to note that the accuracy of economic forecasts is a function of the prospective movement of exogenous factors inherent as a basis for them. So, any economic projection is subject to assessment in line with the changes occurring in these various factors and the assumptions used in the projection.