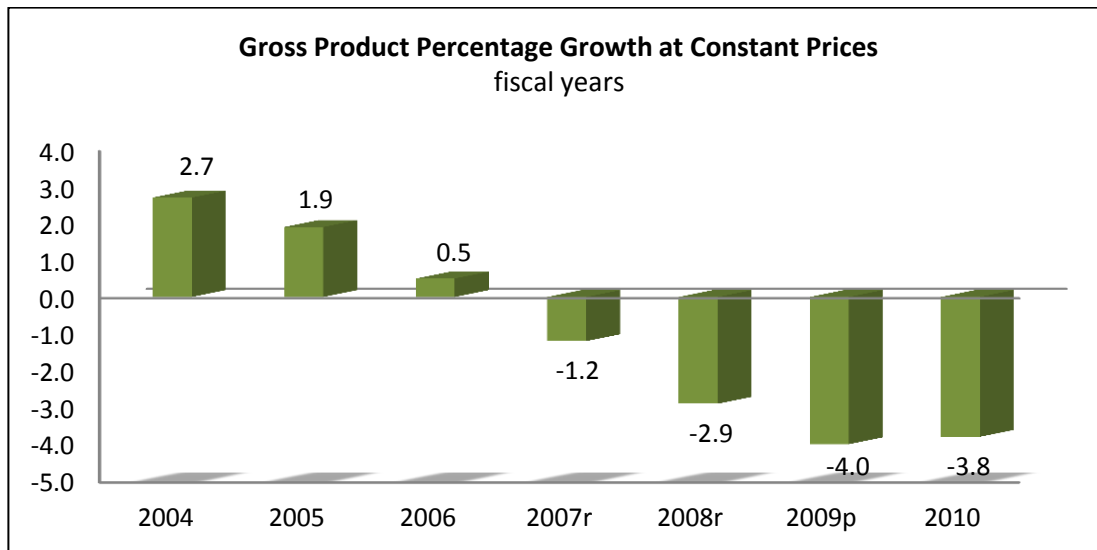


PUERTO RICO'S ECONOMY FOR FISCAL YEAR 2010 AND ECONOMIC PERSPECTIVES FOR FISCAL YEARS 2011 AND 2012

Puerto Rico's Economy Fiscal Year 2010 Preliminary, 2008 and 2009 Revised

During fiscal year 2010, the gross product at constant prices grew –3.8 percent. The years 2008 and 2009 revised, reflected –2.9 and –4.0 percent respectively.



Among the factors causing this reduction, are:

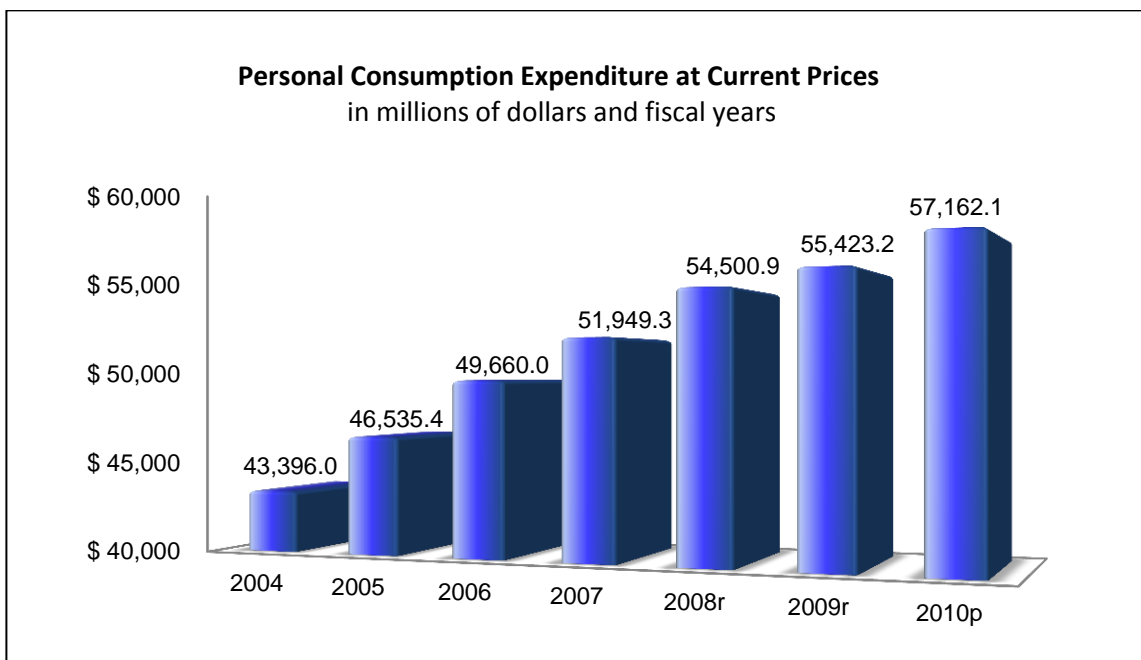
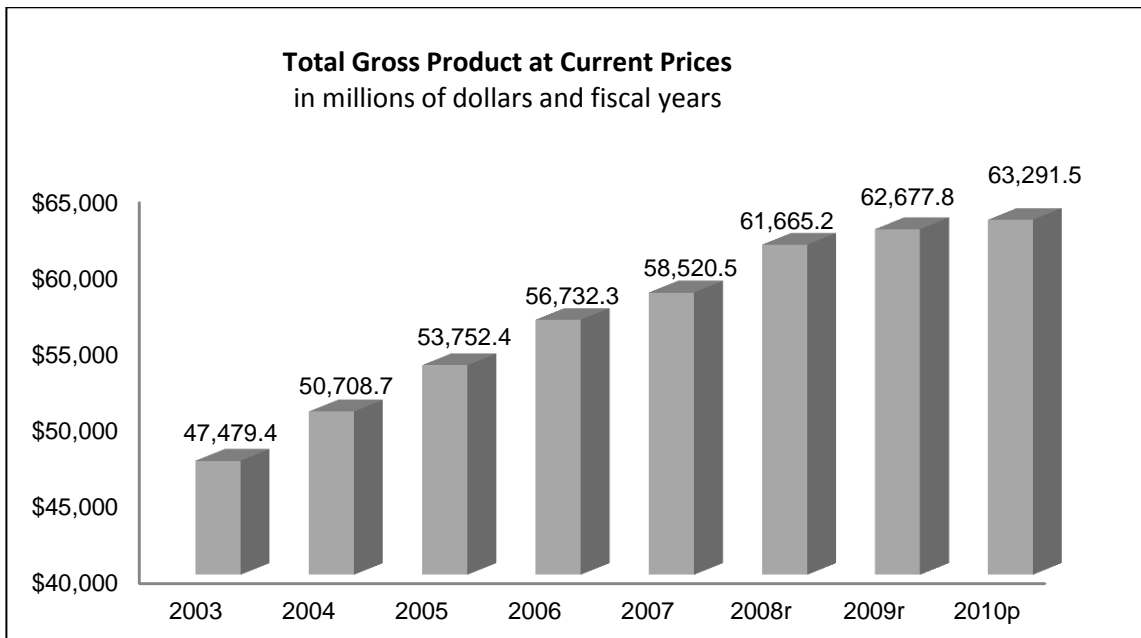
- Decrease in the investment in construction
- Bank sector policy changes
- Level of confidence of the private sector
- Volatile nature of crude oil prices
- High cost of energy in Puerto Rico

At current prices, the gross product for the 2010 fiscal year reached \$63,291.5 millions, or a 1.0% growth over the fiscal year 2009. The revised numbers for the 2009 fiscal year were \$62,677.8 millions, or 1.6% increase compared to the previous year. Likewise, the 2008 revised fiscal year had a 3.6% growth or \$61,665.2 millions.

The increase in the gross product at current prices for the 2010 fiscal year was induced by an increase of 3.1% in personal consumption expenditures and a decrease of 16.8% in construction investment.

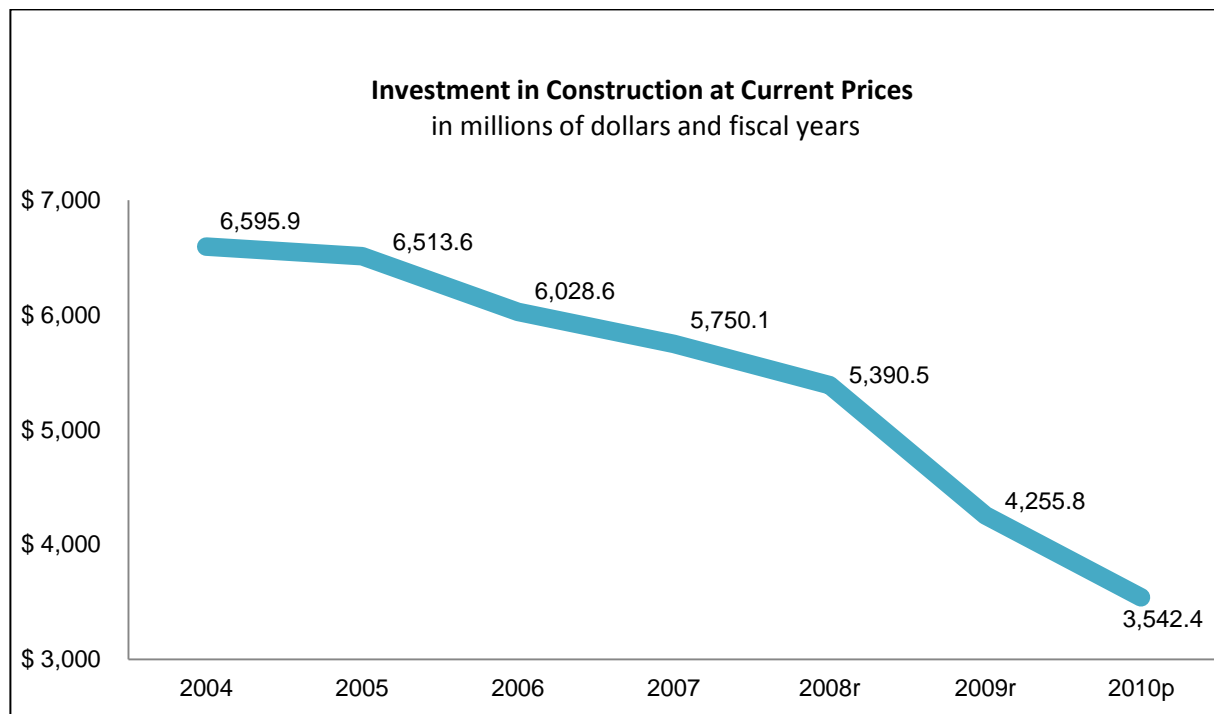
The increase in personal consumption expenditure was a reflection of the increase of its three components: durable goods 3.9%, non-durable goods 3.8% and services 2.5%.

**PUERTO RICO'S ECONOMY FOR FISCAL YEAR
2010 AND ECONOMIC PERSPECTIVES
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The construction investment maintained a decline, dropping from \$4,255.8 millions in 2009 to \$3,542.4 millions in 2010. Percentagewise, this represents a decrease of 16.8%, or \$713.4 millions compared to the previous year. All of the construction investment components had significant reductions: private 6.7% and public 25.1%.

PUERTO RICO'S ECONOMY FOR FISCAL YEAR 2010 AND ECONOMIC PERSPECTIVES FOR FISCAL YEARS 2011 AND 2012



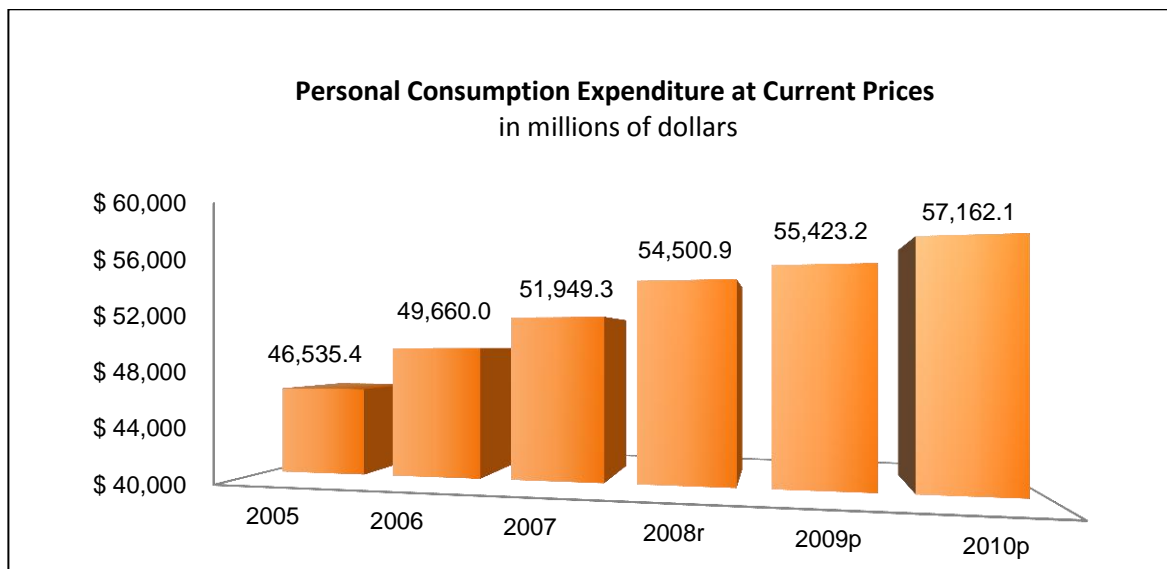
The factors contributing to the drop registered in the private sector's construction activity for the 2010 fiscal year, were: a decrease of \$103.3 millions in construction activity from the private sector's investment in housing and installation projects, reflecting a decline of \$50.8 millions, or 15.3%. Housing projects are the main component of private sector's construction activities.

Additionally, the total value of the public construction works for the 2010 fiscal year reached \$1,747.5 millions. This was due to a drop in the installation projects for \$373.3 millions, or 33.1%, and the Central Government and Municipalities which decrease from \$180.1 millions, or 22.1%, compared to the previous year.

Housing projects are the main component of private sector's construction. The value of these reached \$996.1 millions, which represents a decrease of \$103.3 millions, or 9.4% when compared to \$1,099.4 millions for the previous year. Public housing projects reached \$208.1 millions, representing an increase of \$87.2 millions, or 72.2% in comparison to the previous year's \$120.9 millions.

During fiscal year 2010, the personal consumption expenditure at current prices constituted a 90.3% of the gross product. These increased \$57,162.1 millions, an increase of 3.1% compared to fiscal year 2009.

**PUERTO RICO'S ECONOMY FOR FISCAL YEAR
2010 AND ECONOMIC PERSPECTIVES
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Total personal consumption expenditure at current prices 2010 fiscal year, in millions of dollars

Consumption expenditure	\$57,162.1	(3.1%)
Durable goods	\$ 5,140.7	(3.9%)
Non-durable goods	\$22,910.8	(3.8%)
Services	\$29,110.5	(2.5%)

The percentage of change corresponds to the year 2010 vs. 2009

The personal consumption expenditure in automobiles constitutes 33.8% of the increase in the personal consumption expenditure on durable goods. This increased 23.5%, or \$330.6 millions compared to the previous year.

On the other hand, the personal consumption expenditure of non-durable goods had an increase of 3.8%, or \$833.3 millions, which can be seen in its main components.

Personal consumption expenditure in non-durable goods for the 2010 fiscal year, in millions of dollars

	Millions of \$	% Change	% of composition
Food	8,556.9	1.1	37.3
Gasoline and oil	2,525.0	16.5	11.0
Medical products	3,481.8	6.9	15.2

Regarding the personal consumption expenditure of services, housing had an increase of 2.3%, or \$209.9 millions. However, the personal consumption expenditure on hotel services (which includes restaurants) had an increase of \$52.0 millions, or 1.8%.

Government consumption expenditure for the 2010 fiscal year at current prices was \$10,849.1 millions. It decreased 2.3%, or \$252.6 millions at current prices, when compared to the previous year. Government consumption expenditure is composed of Central Government and Municipalities. At current prices, Central Government consumption expenditure was \$8,042.5 millions, which represents

PUERTO RICO'S ECONOMY FOR FISCAL YEAR 2010 AND ECONOMIC PERSPECTIVES FOR FISCAL YEARS 2011 AND 2012

a contraction of \$494.3 millions, or 5.8%. In turn, Municipal Government consumption expenditure reached the amount of \$2,806.5 millions, an increase of 9.4%, or \$241.6 millions during fiscal year 2010.

Net sales or net exports are calculated by subtracting the imports or payments from the exports. During fiscal year 2010, net sales increased 0.3% from -\$13,890.6 millions in 2009, to -\$13,854.8 millions, or \$35.9 millions.

GROSS PRODUCT AT CURRENT PRICES

(In millions of dollars - Fiscal years)

	2008r	2009r	2010p	CHANGE			
				Absolute		Percentage	
				2009-2010	2010-2009	2009/2008	2010/2009
Gross domestic product	92,605.7	95,211.4	96,260.5	2,605.7	1,049.1	2.8	1.1
Gross Product	61,665.2	62,677.8	63,291.5	1,012.6	613.8	1.6	1.0
Personal consumption expenditure	54,500.9	55,423.2	57,162.1	922.3	1,738.9	1.7	3.1
Durable goods	5,158.1	4,947.0	5,140.7	(211.1)	193.8	(4.1)	3.9
Non durable goods	21,832.8	22,077.6	22,910.8	244.8	833.3	1.1	3.8
Service	27,510.1	28,398.7	29,110.5	888.6	711.8	3.2	2.5
Government consumption expenditure	10,518.1	11,101.7	10,849.1	583.6	(252.6)	5.5	(2.3)
Central (1)	8,204.6	8,536.8	8,042.5	332.2	(494.3)	4.0	(5.8)
Municipios	2,313.5	2,564.9	2,806.5	251.4	241.6	10.9	9.4
Total gross domestic investment	11,373.6	10,043.5	9,135.1	(1,330.1)	(908.3)	(11.7)	(9.0)
Change in inventories	399.3	355.0	356.0	(44.3)	1.1	(11.1)	0.3
Gross domestic fixed investment	10,974.3	9,688.5	8,779.1	(1,285.8)	(909.4)	(11.7)	(9.4)
Construction	5,390.5	4,255.8	3,542.4	(1,134.7)	(713.4)	(21.1)	(16.8)
Private enterprises	2,686.7	1,922.9	1,794.9	(763.8)	(128.0)	(28.4)	(6.7)
Public enterprises	1,669.3	1,519.2	1,113.9	(150.2)	(405.3)	(9.0)	(26.7)
Government	1,034.6	813.7	633.7	(220.8)	(180.1)	(21.3)	(22.1)
Central (1)	498.8	415.6	353.0	(83.2)	(62.6)	(16.7)	(15.1)
Municipios	535.8	398.2	280.7	(137.6)	(117.5)	(25.7)	(29.5)
Machinery and equipment	5,583.8	5,432.7	5,236.7	(151.1)	(196.0)	(2.7)	(3.6)
Private enterprises	5,397.1	5,227.4	5,043.0	(169.7)	(184.5)	(3.1)	(3.5)
Public enterprises	82.7	71.3	79.6	(11.5)	8.3	(13.9)	11.7
Government	103.9	134.0	114.2	30.1	(19.8)	29.0	(14.8)
Central (1)	57.9	85.9	64.2	28.0	(21.7)	48.2	(25.2)
Municipios	46.0	48.1	49.9	2.1	1.8	4.7	3.8
Net sales to the rest of the world	(14,727.4)	(13,890.6)	(13,854.8)	836.8	35.9	(5.7)	(0.3)
Sales to the rest of the world	76,613.1	74,113.2	74,999.1	(2,499.8)	885.8	(3.3)	1.2
Merchandise	67,551.0	66,077.6	67,558.5	(1,473.4)	1,481.0	(2.2)	2.2
Services	9,062.1	8,035.7	7,440.5	(1,026.4)	(595.1)	(11.3)	(7.4)
Purchases from the rest of the world	91,340.5	88,003.8	88,853.8	(3,336.7)	850.0	(3.7)	1.0
Merchandise	52,386.3	48,285.6	49,016.2	(4,100.7)	730.5	(7.8)	1.5
Services	38,954.2	39,718.2	39,837.6	764.1	119.4	2.0	0.3

r- Revised figures.

p- Preliminary figures.

() Negative figures.

(1) Includes agencies, the University of Puerto Rico, the State Insurance Fund Corporation, and the Highway and Transportation Authority.

PUERTO RICO'S ECONOMY FOR FISCAL YEAR 2010 AND ECONOMIC PERSPECTIVES FOR FISCAL YEARS 2011 AND 2012

At constant prices, the personal consumption expenditure registered a rise of 0.6% over fiscal year 2009, when it increased from a revised \$9,266.4 millions to \$9,322.6 millions during fiscal year 2010. Such behavior was supported by a decrease in durable goods consumption expenditure (-0.5%) and an increase in the non-durable goods consumption expenditure (0.2%) and the personal consumption expenditure in services (1.4%).

It is worth noting that personal consumption expenditures at constant prices represented 75.1% of the real domestic demand for fiscal year 2010.

The decrease of durable goods personal consumption expenditure at real prices is sustained by a 5.1%, or \$28.4 millions, decrease in electrical goods expenditures, and 4.7%, or \$21.0 millions in household equipment.

The non-durable goods personal consumption expenditure at constant prices had a significant increase for medical products (4.2%), gasoline and oil (11.0%) and toiletries (24.1%).

On the other hand, the personal consumption expenditure for services at real prices was significantly affected by the 1.5%, or \$18.3 millions, increase in housing.

Government consumption expenditure had a significant drop of 5.3%, or \$98.4 millions. One of the components of government consumption expenditure is the Central Government, which experienced a decrease from \$1,345.7 millions during fiscal year 2009, to \$1,224.2 millions in fiscal year 2010 (a percentage change of -9.0%, or \$121.5 millions) while the second element of government consumption expenditure, Municipalities, increased 4.5%, or \$23.2 millions, while during fiscal year 2010 it registered \$534.2 millions compared to \$511.0 millions during the previous fiscal year.

The activity in the construction sector at real prices had a decrease of 18.8%, registering \$401.4 millions during fiscal year 2010 and \$494.6 millions during 2009. The private construction sector decreased \$20.1 millions, or 9.0%. Likewise, public companies construction decreased by 28.5%, or \$50.3 millions. In turn, Central Government and Municipalities, registered drops in construction of 17.2% and 31.3%, respectively.

Equally, investment in machinery and equipment at constant prices also had an impact of 2.3%, or \$21.3 millions when it registered levels of \$909.5 millions in 2010 and \$930.8 millions in 2009. Investment by the private sector in machinery and equipment decreased by 2.2%, increased by 13.1% for public companies and shrank by 13.1% in total Government, which includes Central Government and Municipalities.

**PUERTO RICO'S ECONOMY FOR FISCAL YEAR
2010 AND ECONOMIC PERSPECTIVES
FOR FISCAL YEARS 2011 AND 2012**

GROSS PRODUCT IN CONSTANT 1954 DOLLARS

(In millions of dollars - Fiscal years)

	2008r	2009r	2010p	CHANGE			
				Absolute		Percentage	
				2009-2010	2010-2009	2009/2008	2010/2009
Gross domestic product	10,601.0	10,359.8	10,145.1	(241.2)	(214.7)	(2.3)	(2.1)
Gross product	6,768.8	6,500.2	6,255.1	(268.6)	(245.1)	(4.0)	(3.8)
Personal consumption expenditure	9,478.4	9,266.4	9,322.6	(212.0)	56.2	(2.2)	0.6
Durable goods	1,600.8	1,584.9	1,576.3	(15.9)	(8.6)	(1.0)	(0.5)
Non durable goods	3,656.4	3,470.1	3,477.9	(186.3)	7.8	(5.1)	0.2
Service	4,221.2	4,211.3	4,268.4	(9.9)	57.1	(0.2)	1.4
Government consumption expenditure	1,820.7	1,856.8	1,758.4	36.1	(98.4)	2.0	(5.3)
Central (1)	1,344.0	1,345.7	1,224.2	1.7	(121.5)	0.1	(9.0)
Municipios	476.7	511.0	534.2	34.3	23.2	7.2	4.5
Total gross domestic investment	1,705.8	1,468.1	1,340.6	(237.7)	(127.5)	(13.9)	(8.7)
Change in inventories	73.6	42.7	29.7	(30.9)	(13.0)	---	---
Gross domestic fixed investment	1,632.3	1,425.4	1,310.9	(206.9)	(114.5)	(12.7)	(8.0)
Construction	636.0	494.6	401.4	(141.4)	(93.2)	(22.2)	(18.8)
Private enterprises	317.0	223.5	203.4	(93.5)	(20.1)	(29.5)	(9.0)
Public enterprises	196.9	176.5	126.2	(20.4)	(50.3)	(10.4)	(28.5)
Government	122.0	94.6	71.8	(27.4)	(22.8)	(22.5)	(24.1)
Central (1)	58.8	48.3	40.0	(10.5)	(8.3)	(17.9)	(17.2)
Municipios	63.2	46.3	31.8	(16.9)	(14.5)	(26.7)	(31.3)
Machinery and equipment	996.3	930.8	909.5	(65.5)	(21.3)	(6.6)	(2.3)
Private enterprises	963.0	895.6	875.8	(67.4)	(19.8)	(7.0)	(2.2)
Public enterprises	14.8	12.2	13.8	(2.6)	1.6	(17.3)	13.1
Government	18.5	22.9	19.9	4.4	(3.0)	23.8	(13.1)
Central (1)	10.3	14.7	11.2	4.4	(3.5)	42.2	(23.8)
Municipios	8.2	8.2	8.7	0.0	0.5	0.0	6.1
Net sales to the rest of the world	(6,236.2)	(6,091.1)	(6,166.5)	145.1	(75.4)	(2.3)	1.2
Sales to the rest of the world	7,243.4	6,635.4	6,489.0	(608.0)	(146.4)	(8.4)	(2.2)
Merchandise	5,925.5	5,578.5	5,616.8	(347.0)	38.3	(5.9)	0.7
Services	1,317.9	1,056.9	872.2	(261.0)	(184.7)	(19.8)	(17.5)
Purchases from the rest of the world	13,479.5	12,726.5	12,655.5	(753.0)	(71.0)	(5.6)	(0.6)
Merchandise	7,346.3	6,687.8	6,691.6	(658.5)	3.8	(9.0)	0.1
Services	6,133.2	6,038.7	5,963.9	(94.5)	(74.8)	(1.5)	(1.2)

r- Revised figures.

p- Preliminary figures.

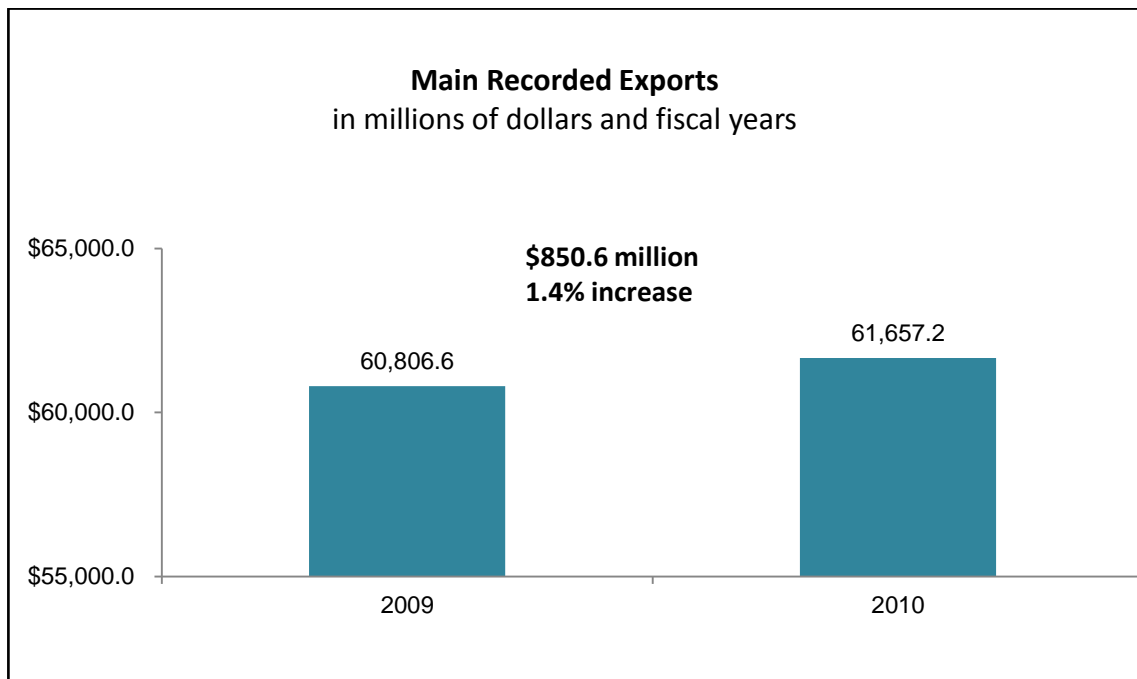
() Negative figures.

(1) Includes agencies, the University of Puerto Rico, the State Insurance Fund Corporation, and the Highway and Transportation Authority.

The adjusted merchandise exports is composed of exports to the United States, foreign countries and Virgin Islands, and a series of adjustments that include returned merchandise, taxes on rum and tobacco shipments, postal packages and others. During fiscal year 2010, exports of adjusted merchandise increased 2.2% reaching the amount of \$67,558.5 millions, which in absolute terms

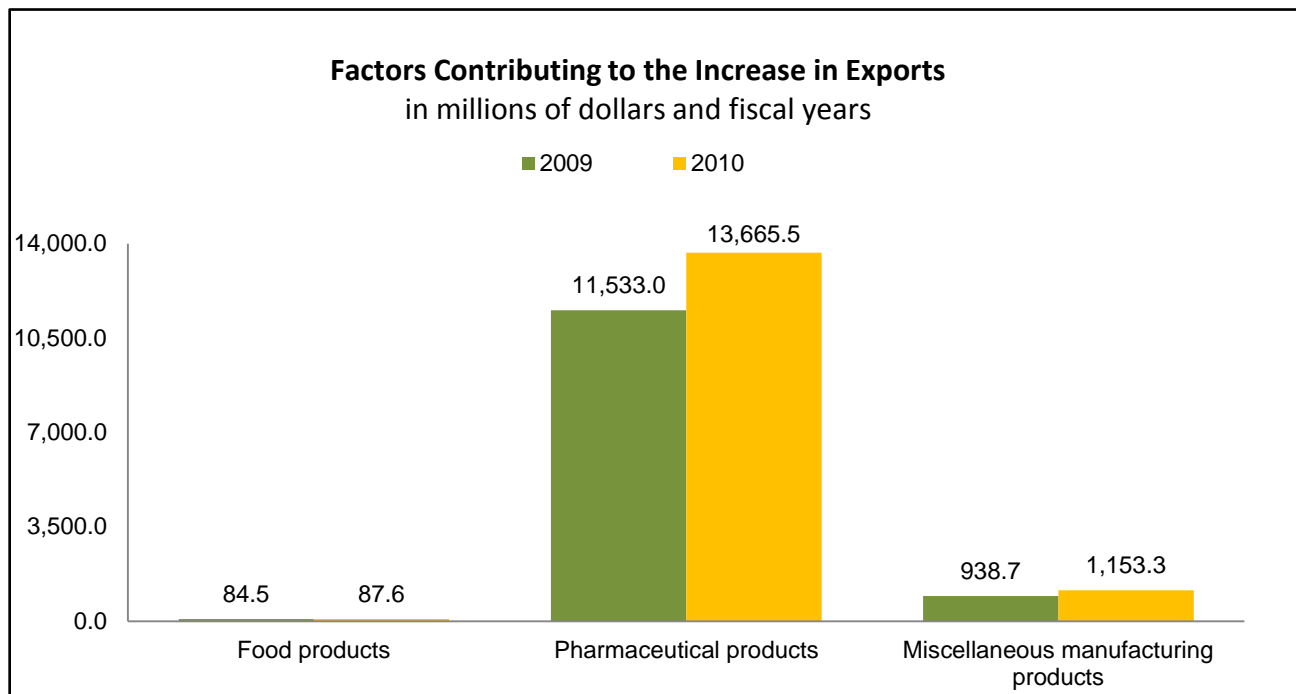
PUERTO RICO'S ECONOMY FOR FISCAL YEAR 2010 AND ECONOMIC PERSPECTIVES FOR FISCAL YEARS 2011 AND 2012

meant an increase of \$1,481 millions. The total of recorded exports for fiscal year 2010 rose to \$61,657.2 millions, while in 2009 it was \$60,806.6 millions, for an increase of \$850.6 millions, or 1.4%.

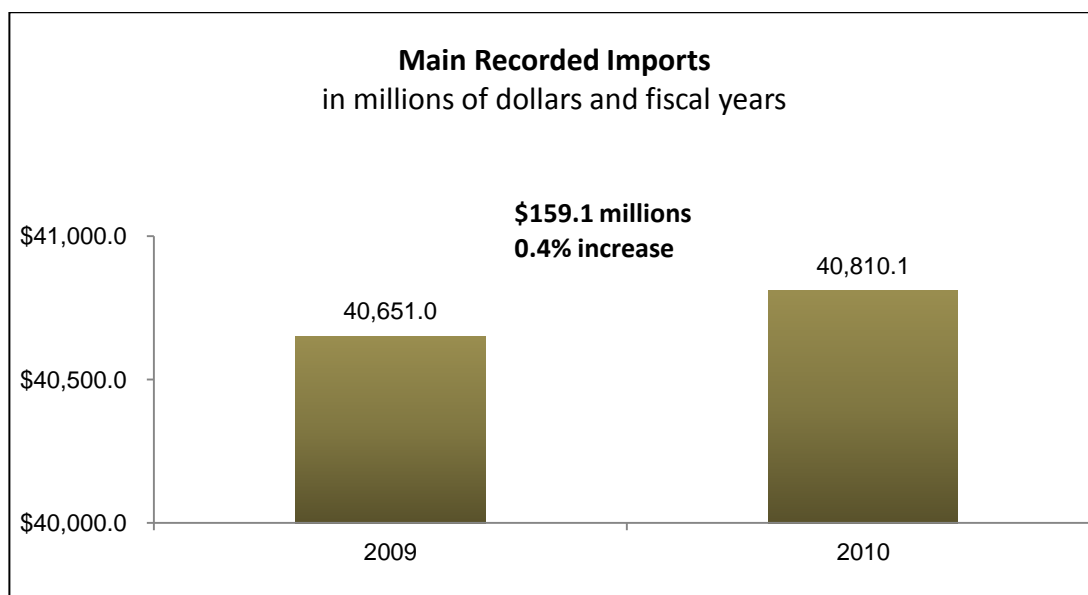


The biggest increase occurred in exports to foreign countries, improving from \$17,140.9 millions in 2009, to \$19,526.0 millions in 2010, for an increase of \$2,385.1 millions, or 13.9%. The factors that contributed to this situation were: increase in food products, increase in pharmaceutical products and increase in miscellaneous manufacture.

**PUERTO RICO'S ECONOMY FOR FISCAL YEAR
2010 AND ECONOMIC PERSPECTIVES
FOR FISCAL YEARS 2011 AND 2012**

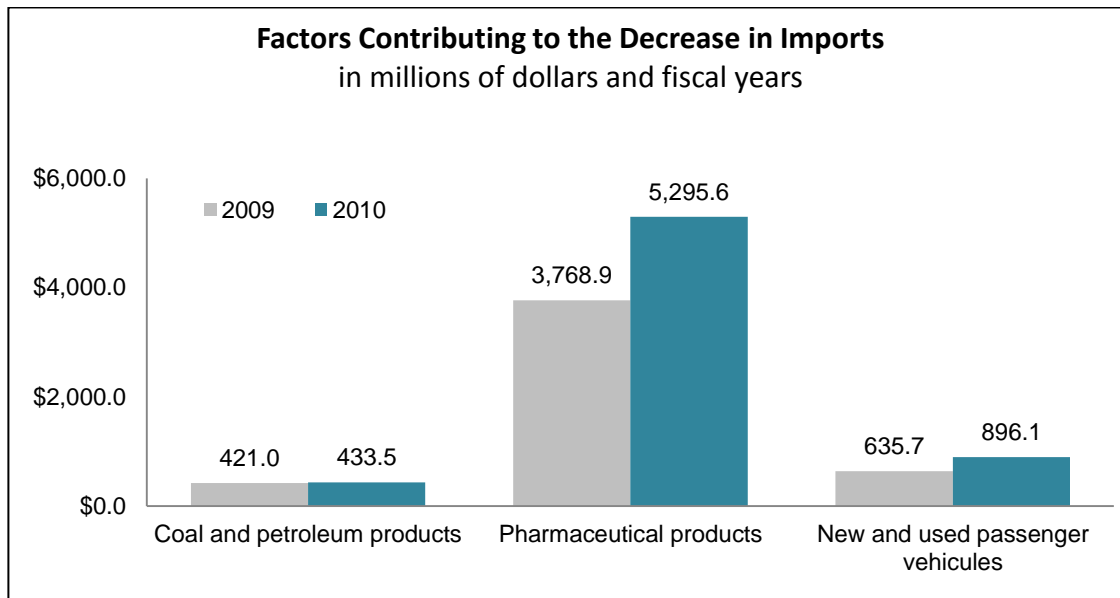


The imports of adjusted merchandise during fiscal year 2010, registered an increase of \$730.6 millions reaching the amount of \$49,016.2 millions. The total recorded imports for fiscal year 2010 rose to \$40,810.1 millions, while in 2009 it was \$40,651.0 millions, for an increase of \$159.1 millions, or 0.4%.



PUERTO RICO'S ECONOMY FOR FISCAL YEAR 2010 AND ECONOMIC PERSPECTIVES FOR FISCAL YEARS 2011 AND 2012

The factors that contributed to this situation were: increase in crude oil and related products, pharmaceutical products, and imports of new and old passenger vehicles.



SELECTED SERIES OF INCOME AND PRODUCT, TOTAL AND PER CAPITA: FISCAL YEARS

	2008r	2009r	2010p		2008r	2009r	2010p
Total in current dollars in millions of dollars				Total at constant 1954 dollars in millions			
Gross product	61,665.2	62,677.8	63,291.5	Gross product	6,768.8	6,500.2	6,255.1
Net income	48,992.8	49,989.2	49,547.1	Personal income (1)	9,760.7	9,791.4	9,850.1
Personal income	56,124.1	58,562.3	60,400.9	Disposable personal income (1)	9,230.4	9,302.6	9,384.8
Disposable personal income	53,074.7	55,639.0	57,547.4	Personal consumption expenditures	9,478.4	9,266.4	9,322.6
Personal consumption expenditures	54,500.9	55,423.2	57,162.1	Gross domestic product	10,601.0	10,359.8	10,145.1
Gross domestic product	92,605.7	95,211.4	96,260.5	Gross domestic fixed investment	1,632.3	1,425.4	1,310.9
Gross domestic fixed investment	10,974.3	9,688.5	8,779.1				
Per capita in current dollars				Per capita constant 1954 dollars			
Gross product	15,620	15,825	15,930	Gross product	1,715	1,641	1,574
Net income	12,410	12,621	12,471	Personal income	2,472	2,472	2,479
Personal income	14,217	14,786	15,203	Disposable personal income	2,338	2,349	2,362
Disposable personal income	13,444	14,048	14,485	Personal consumption expenditures	2,401	2,340	2,346
Personal consumption expenditures	13,806	13,993	14,388	Gross domestic product	2,685	2,616	2,554
Gross domestic product	23,458	24,039	24,229				
Increase in gross product (%)				Average number of persons per family			
In current prices	3.6	1.6	1.0		3.2	3.2	3.1
In constant prices	(2.9)	(4.0)	(3.8)	Salaries and wages in millions of dollars	26,700.2	26,509.9	25,807.2
Average family income (2)				Employment, total in thousands of persons (3)	1,218	1,168	1,103
(In dollars)				Productivity in dollars (4)	8,704	8,870	9,198
In current dollars	45,494	47,315	47,129	Consumer's price index			
In constant 1954 dollars	7,926	7,911	7,700	for all families (5)	104.7	107.6	109.8
				Inflation Rate	4.5	2.8	2.0
				Population in thousands of persons (6)	3,948	3,961	3,973

r- Revised figures.

p- Preliminary figures.

(1) Deflated by implicit price deflators for personal consumption expenditures.

(2) The number of families used here represents the division of the total population by the average number of persons per family. For the purpose of the population census, a family consists of a householder and one or more other persons living in the same household who are related to the householder by birth, marriage or adoption.

(3) Department of Labor and Human Resources, Bureau of Statistics, Household Survey.

(4) Obtained from the division of gross domestic product at constant prices by total employment.

(5) Dec. 2006=100.

(6) Average of population estimates at the beginning and end of the fiscal year.

PUERTO RICO'S ECONOMY FOR FISCAL YEAR 2010 AND ECONOMIC PERSPECTIVES FOR FISCAL YEARS 2011 AND 2012

Macroeconomic Projections for Fiscal Years 2011-2012

This section presents Puerto Rico's economic projections for fiscal years 2011 and 2012, in accordance with the results estimated by the econometric models of the Planning Board. It takes into consideration the short-term elements that could affect the execution of the Island's economy. Puerto Rico's economy is very prone to changes coming not only from the United States, but also from other countries because it is relatively small and considerably open.

Main Assumptions

Among the main assumptions of the projections made, those actual and prospective factors whose movements could influence Puerto Rico's economy in any manner were taken in consideration. The main assumptions are:

- World economy
- United States economy
- Oil prices
- Adjusted merchandise exports
- Guests expenditures
- Construction investment
- Machinery and equipment investment
- Federal transfers to persons
- The Puerto Rican Economic Stimulus Plan (*Plan de Estímulo Criollo – PEC*)
- Private/Public alliances (APP)
- Fiscal adjustment (according to Law #7 from March 2009)
- Fiscal measures
- The American Recovery Reinvestment Act 2009 (ARRA)
- Tax reform
- Decrease in the contribution to Social Security

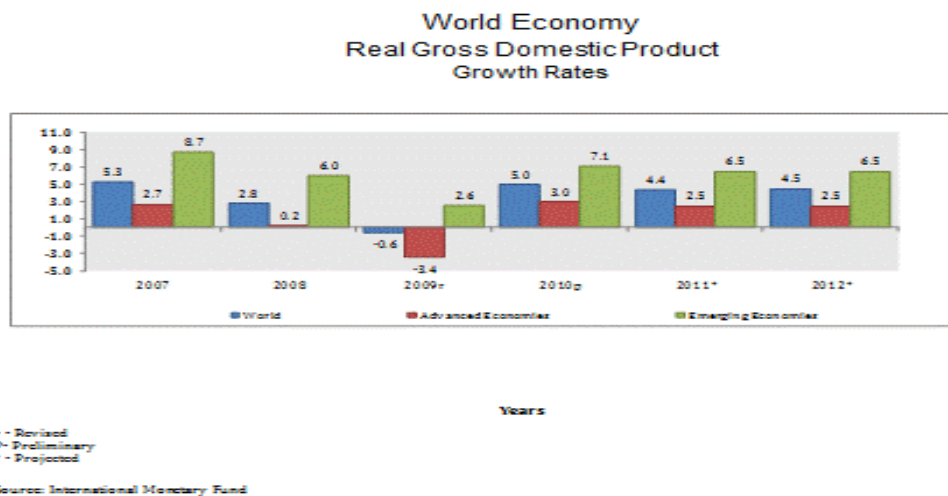
World Economy

The economic recovery is evolving, although the risks of a fall are still high. Most of the advanced economies and some of the emerging economies are still facing important adjustments. The recovery in these economies is slow and the high level of unemployment pose considerable social challenges. In contrast, many emerging and evolving economies are once again registering vigorous growth because they did not experience great financial excesses just before the Great Recession. In order to achieve a solid and sustained recovery, two actions need to take place simultaneously: on one hand, an internal balance aimed to strengthen private demand in advanced economies, which allows to bring about fiscal consolidation, and; on the other hand, an external balance centered on the increase of net exports in countries with deficits such as the United States, and the reduction of net imports in

PUERTO RICO'S ECONOMY FOR FISCAL YEAR 2010 AND ECONOMIC PERSPECTIVES FOR FISCAL YEARS 2011 AND 2012

countries with surplus, particularly emergent Asia. In addition, the principal emergent economies have to keep on developing new domestic growth sources backed up by more flexibility in exchange rates.

According to the projections, the world activity will expand approximately 4.4% in 2011 and a growth of 4.5% is projected for 2012. It is expected that advanced economies will experience a growth of 2.5% in 2011 and 2012. In emerging economies, the real GDP growth is foreseen to be 6.5% for both years.

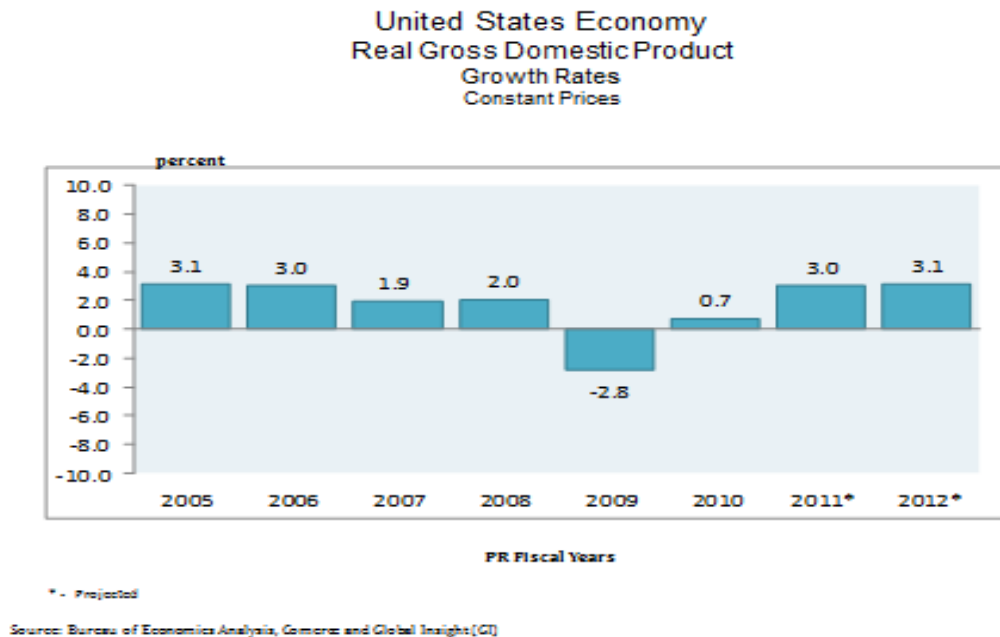


United States Economy

United States' economy in 2010 closed with a slight increase of 0.7% of the Gross Domestic Product (GDP) in terms of Puerto Rico's fiscal year. During fiscal year 2009, it decreased 2.8%. According to Global Insight (GI) projections, the perspectives for the real GDP indicate a growth of 3.0% for 2011, while the growth for 2012 will be 3.1%.

On the other hand, the last report published by the Bureau of Economic Analysis of the Federal Department of Commerce, corresponding to the United States Gross Domestic Product (GDP) second estimate, revealed a 2.8% growth for 2010 fourth quarter compared to 2010 third quarter, which showed a growth of 2.6%.

PUERTO RICO'S ECONOMY FOR FISCAL YEAR 2010 AND ECONOMIC PERSPECTIVES FOR FISCAL YEARS 2011 AND 2012



The second estimate result for the 2010 fourth quarter places the growth for the calendar year of 2010 in 2.8% after registering a drop of 2.6% for calendar year 2009. This data strengthens the perception that the United States GDP has been recuperating and that in 2011 it will exceed the growth registered in 2010. It is important to point out that the registered level of 13,370.1 million dollars at constant prices in the fourth trimester of 2010 surpassed the maximum level observed of 13,363.5 millions of dollars during the fourth trimester of 2007, the date on which the recession started. The recession occurred from December 2007 until June 2009.

The GDP data since the third trimester of 2009 started to show positive signs with a growth of 1.6% after having suffered a contraction of 0.7% during the second trimester of 2009, although at a slower pace than the ones previously registered. The signs of recuperation were evident with a 5.0% growth for the fourth trimester of 2009, continuing to show signs of improvement in the following semesters. During the first trimester of 2010 it showed an increase of 3.7% and it grew 1.7% in the second trimester, creating a slight uncertainty at the end of the year. However, both the third and fourth trimesters kept their positive indicators.

According to the second estimate report, the factors that contributed to the GDP recuperation during the fourth trimester of 2010 were a consequence of the increases registered in the personal consumption expenditures, which represent two thirds of the United States economy. These increased 4.1% compared to the previous trimester, which showed a 2.4% growth. Private investment showed a significant drop of 22.1% after the 15.0% increase from the previous trimester. Exports registered an increase of 9.6% during the fourth trimester of 2010. However, imports reflected their first negative sign since the third trimester of 2009, decreasing 12.4%. The federal government consumption expenditures decreased by 0.2% compared to the third trimester of 2010. Within these, there was a 3.7% increase in expenditures not related to national defense. However, the expenses related to national defense decreased 2.1% after growing 8.5% the previous trimester.

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Interest Rate

In its January 26, 2011 report, the Open Market Committee of the United States Federal Reserve Bank (FOMC) decided to maintain the federal funds rate, from 0 to 0.25%, the level to which it had dropped since December 2008. The Committee still anticipates that the economic conditions will guarantee exceptionally low levels for federal funds for some time.

According to the January 2011 report, the information received since the Committee met in December confirms that the economic recovery continues, although at a pace that has been insufficient to generate a significant improvement in labor market conditions. Families' expenditures gradually increase, but are still restricted due to the high level of unemployment, the modest growth of income, the drop in households' wealth and the limited credit. Business expenditure in equipment and computer software is increasing, although at a slower pace than at the beginning of the year, while the investment in non-residential structures is still weak. The housing sector is still depressed. Although raw material prices have risen, long-term inflation expectations have remained stable and the underlying inflation measures have been tending to decrease.

Consistent with its regulatory mandate, the Committee seeks to encourage the maximum employment rate and price stability. At present, unemployment rate is high and the underlying inflation measures are somewhat low with regards to the levels that the Committee judges to be consistent, in the long run, with its double mandate. Although the Committee anticipates a gradual comeback to higher levels of utilization of resources within a context of price stability, the progress towards its objectives has been regrettably slow.

The Committee will keep monitoring the economic perspectives and the financial development, and it is ready to provide additional measures, if necessary, to promote economic recovery, job creation and return inflation, through time, to levels consistent with its mandate.

On the other hand, the primary interest rate in commercial banks remained at 3.25% during Puerto Rico's fiscal year. According to Global Insight, it is estimated that this rate will stay at 3.25% during fiscal year 2011 and then increase to 3.38% for fiscal year 2012.

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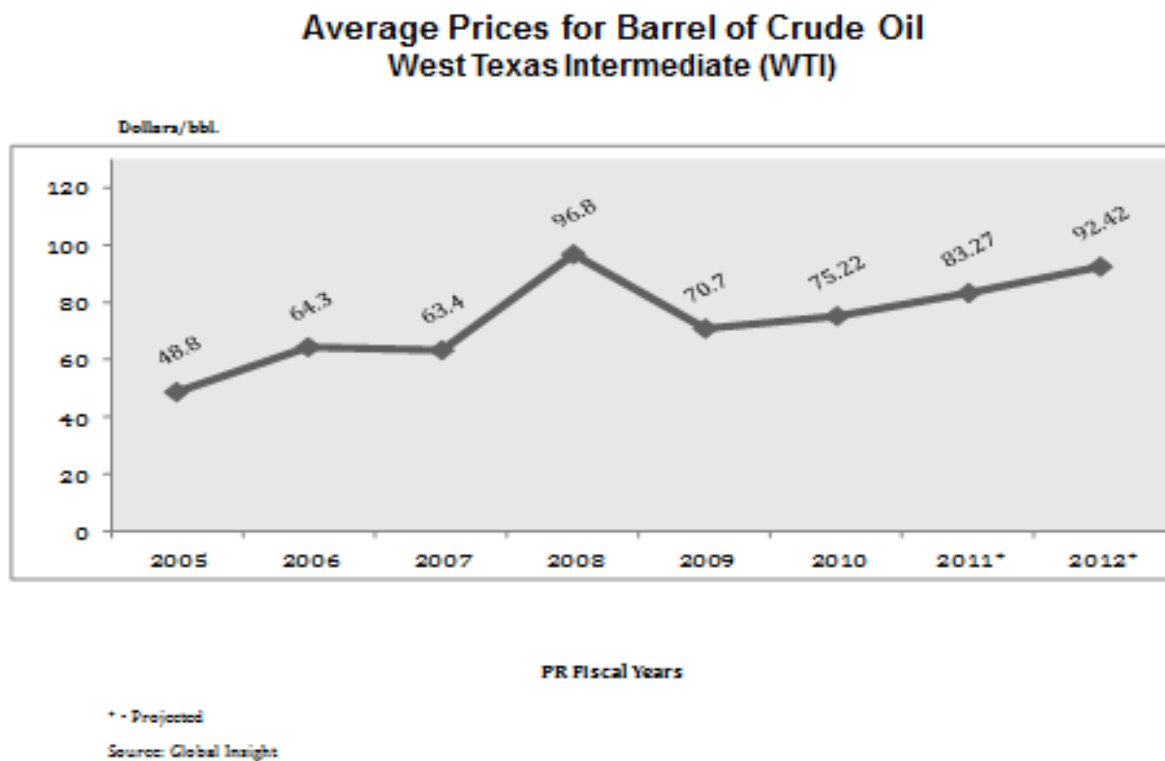
Oil Prices

The conflict in the Middle East and the north of Africa, places that produce a great amount of crude oil, induce to variations in the actual and future prices of the barrel of oil. The consequences of a severe interruption of oil supply place the world's economic recovery in jeopardy. Historically, oil prices have had a negative impact in the world's economy and, even more so, in those countries that are not producers and that do not have alternate sources to generate energy.

Our island does not produce oil and has an energy consumption economy less diversified than that of the United States, which makes us more vulnerable to changes in oil prices and to any conflict in which oil producing countries are involved. Puerto Rico's economy has been affected by significant increases in oil prices and its derivatives, which in turn have created periods of economic recession. Also, an increase in oil prices causes changes in the level of prices in general, affecting the production process costs due to consistently higher prices for raw materials, food, electric energy and oil-derived products, which, as consequence, increases inflation.

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The main types of crude oil that set the reference prices in the world's markets are the Brent and the West Texas Intermediate (WTI). The Brent is used as a reference in European markets, while the West Texas Intermediate is the reference for oil prices in the United States. According to Global Insight, the projected average prices per WTI's barrel of oil in terms of Puerto Rico's fiscal years 2011 and 2012 are \$83.27 and \$92.42, respectively. These figures represent an increase of 10.7% for 2011 and a growth of 11.0% for fiscal year 2012. It is important to note that this is the average price in terms of Puerto Rico's fiscal years. During the calendar year the daily price can reach or exceed \$100, but for estimated economic projections, only Puerto Rico's fiscal year average is taken into consideration. Any other change related to the political situation, either in the Middle East or the north of Africa, has the potential to rise oil prices and negatively affect these projections.

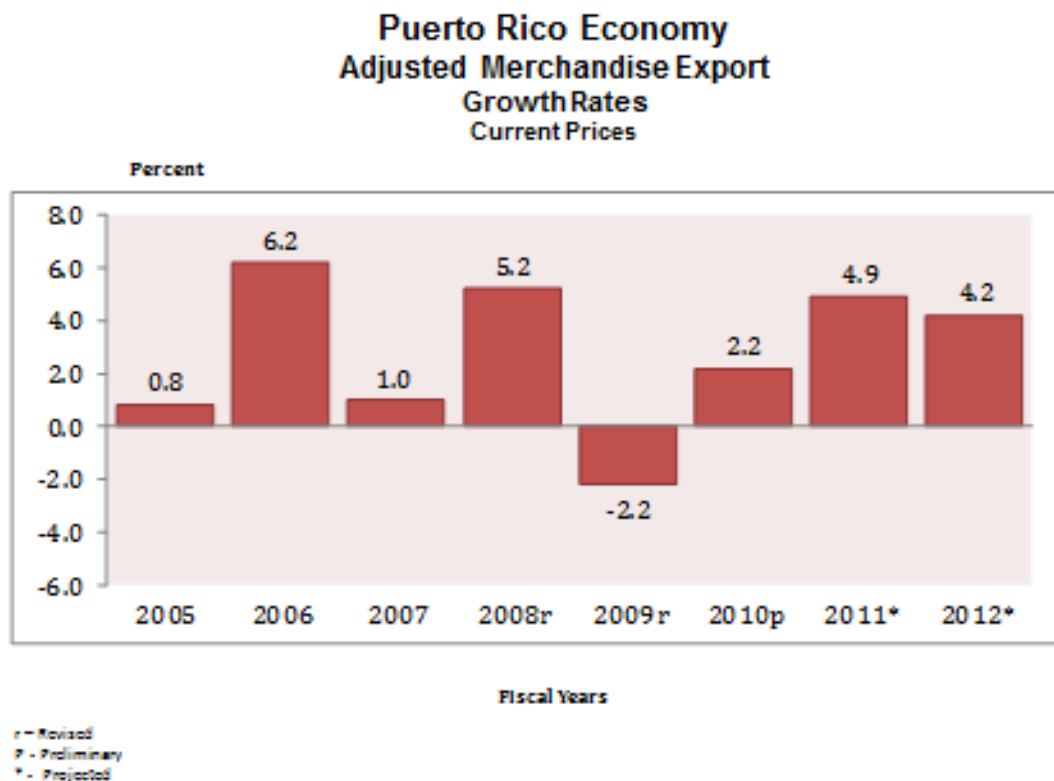


Adjusted Merchandise Exports

The value of adjusted merchandise exports during fiscal year 2010, was \$67,558.5 millions, an increment of 2.2% compared to fiscal year 2009. In absolute terms, this means an increase of \$1,480.9 millions.

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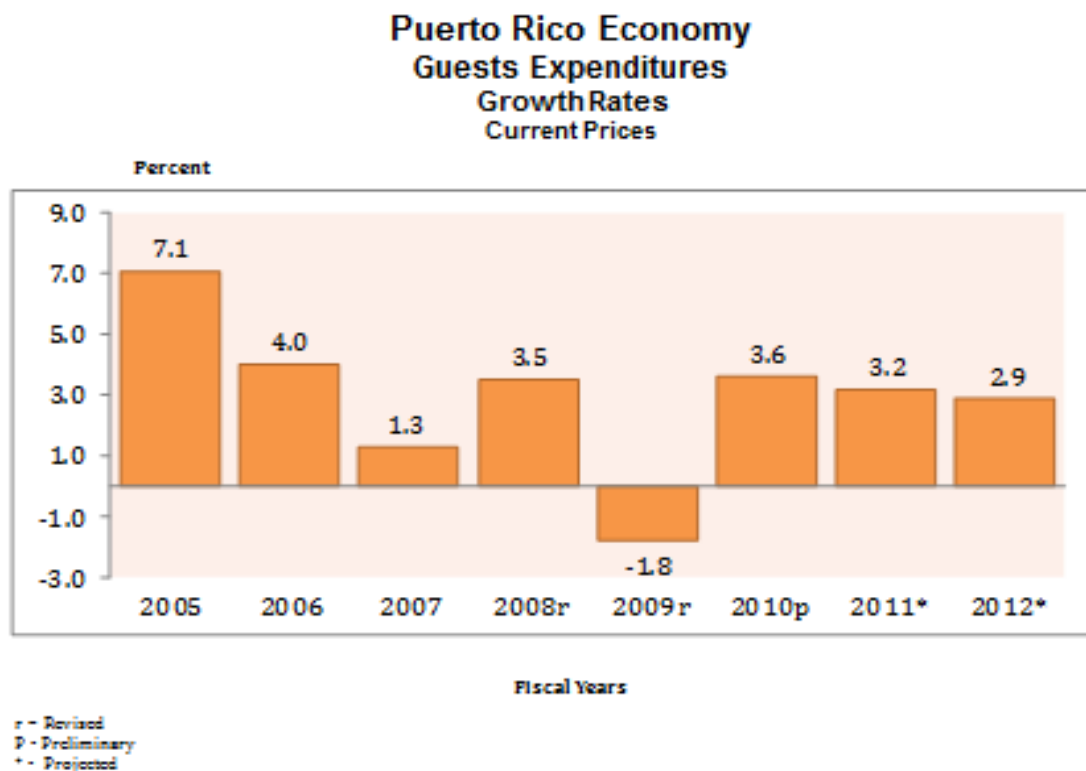
Exports are estimated in accordance with the United States economy projected growth tendency, considering the demand for goods that it is expected to generate. For fiscal year 2011, the projection for adjusted merchandise exports was \$70,869.0 millions and \$73,865.0 millions for fiscal year 2012, figures that represent 4.9% and 4.2% growth, respectively.



Guests Expenditures

Tourism as an industry is fundamental in Puerto Rico's economy since it is one of the sectors with higher growth, even though it still represents a relatively small activity. Tourism in our country has important tourist developments/resorts, hotel chains and beautiful country inns around the island. Tourist activity develops within some commercial and service sectors, particularly in the lodging facilities operation. Regarding non-resident guests expenditures in Puerto Rico, it totaled \$3,598.2 millions during fiscal year 2010, registering an increase of 3.6% compared to the previous fiscal year, which was \$3,472.8 millions. The guests expenditures for fiscal year 2011 was estimated to be \$3,713.0 millions, or a growth of 3.2% compared to fiscal year 2010. For fiscal year 2012, it is projected to be \$3,821.0 millions and a growth of 2.9%.

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Construction

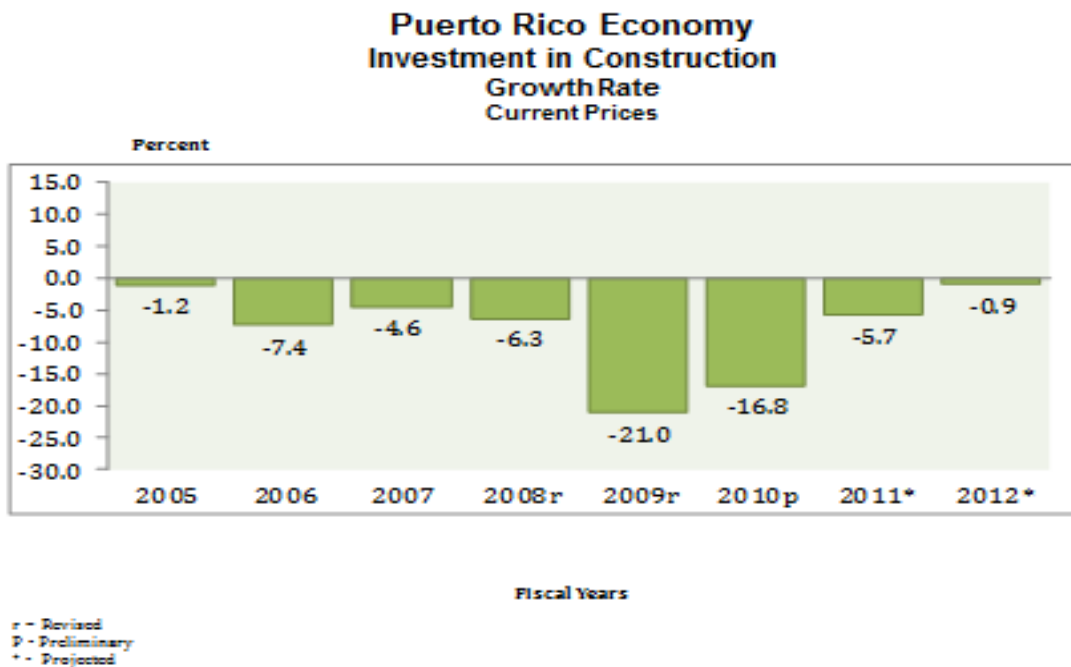
Construction is one of the fundamental sectors in the Puerto Rican economy. The investment in construction, which refers to the new construction made by private companies and the local and municipal government, is a highly important element in the economic development of any country, both in the short and long term. In real terms, during fiscal year 2010, the activity in the construction sector experimented a decrease of 18.8% and of \$93.2 millions compared to the prior fiscal year, totaling \$401.4 millions. In current terms, total investment reached \$3,542.4 millions and a decrease of 16.8%

During the previous decade, we experience a peak in the construction sector; however, during the recent years this sector has shown a weak performance and the investment in real terms has presented negative exchange rates. Some of the factors that have affected the development of construction in Puerto Rico are the mortgage crisis and the excess of supply over demand of built housing, among others. The recession that Puerto Rico has endured is reflected in the poor performance of the construction index, complicating the projection of estimates for this sector.

It is estimated that the investment for fiscal year 2011 in real terms will be of \$370.0 millions, or a reduction of 7.8%. At current prices, a value of \$3,340.0 millions was projected with a decrease of 5.7%. The investment in construction for fiscal year 2012 was estimated at \$362.0 millions in real

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terms and a drop of 2.2%. At current prices, a total of \$3,310.0 millions was projected and a decrease of 0.9%.



Machinery and Equipment

The purchases of machinery and equipment made by private companies, the State and the Municipal Government, that are meant to be used in the production of capital is what is defined as investment in machinery and equipment. Private companies make most of the investments in machinery. During fiscal year 2010, this variable, in real terms, totaled \$909.5 millions, with a decrease of 2.3%. At current prices, it reached \$5,236.7 millions and a drop of 3.6%.

In nominal terms, the perspectives for this variable are \$5,213.0 millions and a decrease of 0.5% for fiscal year 2011 and \$5,400.0 millions and an increase of 3.6% for fiscal year 2012. At constant prices, the values reach a total of \$905.0 millions with a drop of 0.5% for fiscal year 2011 and it is estimated to reach \$903.0 millions and a drop of 0.2% for fiscal year 2012.

Federal Transfers to Persons

Due to their magnitude, federal transfers play an important role in the Island's economy. Its impact is channeled through funds intended for better services, infrastructure development and improvement in education levels and quality of life in general. These represent an important flow of funds from outside into Puerto Rico's economic system. During fiscal year 2010, federal transfers to persons in

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Puerto Rico registered a total of \$15,633.0 millions, representing an increase of 15.5% and an absolute growth of \$2,096.0 millions.

The perspectives for fiscal years 2011 and 2012 are \$16,710.0 and \$17,146.0 millions, with increases of 6.9% and 2.6% respectively.

Economic Perspectives for Fiscal Years 2011 and 2012 in the Context of their Historical Tendency

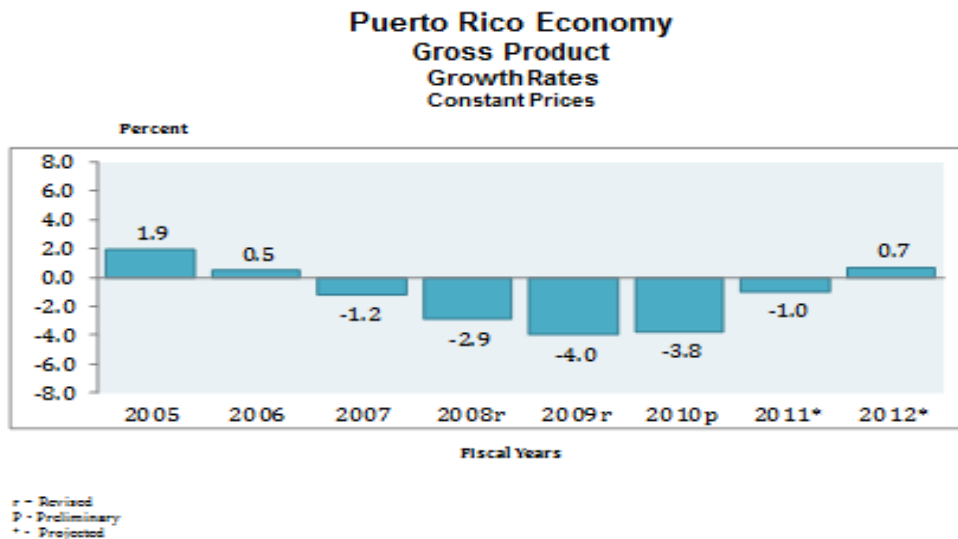
Puerto Rico's economy during fiscal year 2010 ended with a real decrease of 3.8% in its growth, which represented the fourth consecutive year of economic contraction. Some of the components of the gross product that influenced this reduction were: the drop in construction investment, the significant reduction of government expenditure and the decrease in the level of sales to the rest of the world, which caused an increase in the negative balance of commerce of goods and services.

Gross Product

Puerto Rico real gross product projection for fiscal year 2011 is a reduction of 1.0%, for a value of \$6,195.0 millions and a growth of 0.7%, for a value of \$6,239.0 millions in 2012. This small growth in our economy is influenced, or impacted, by the different economic measures both state and federal, in which includes the ARRA funds, the PEC, the APP, and the Tax Reform, that significantly impacts available personal income and personal consumption, resulting in an increment in the productive activity.

In terms of current prices, the estimated values for fiscal years 2011 and 2012 are \$64,973.0 and \$67,610.0 millions, with an increase of 2.7% and 4.1% respectively.

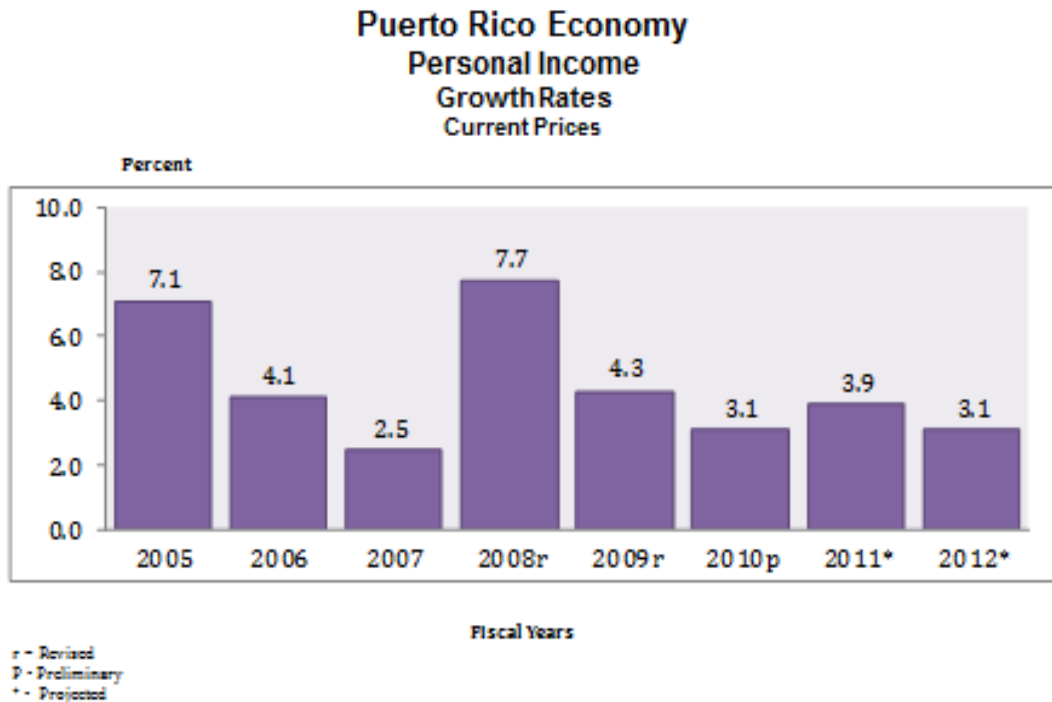
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Personal Income and Consumption

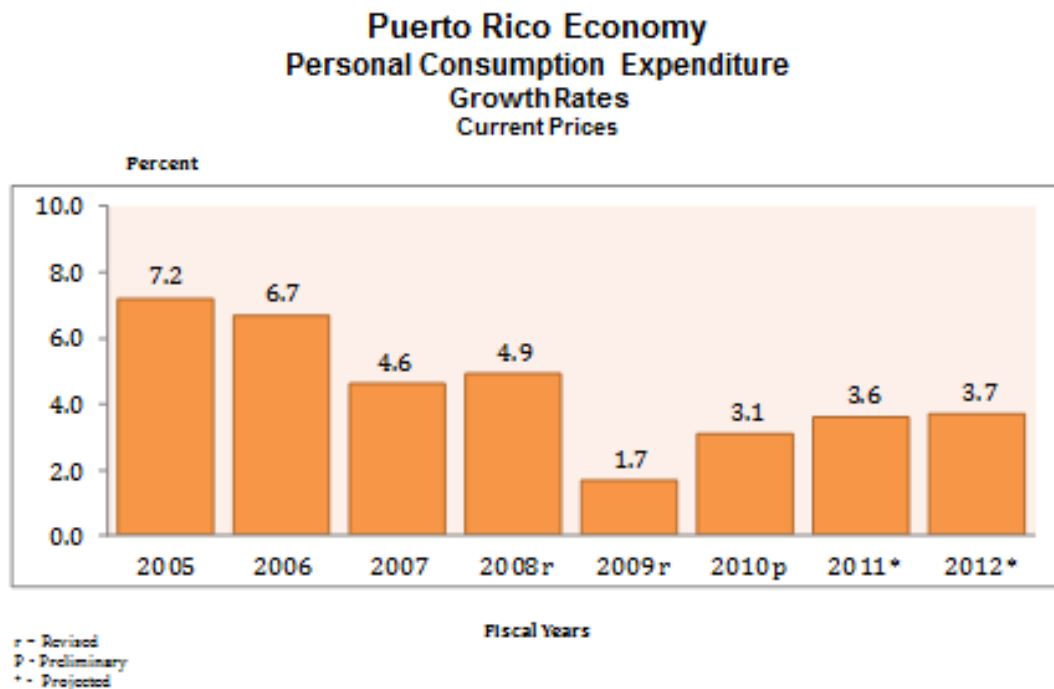
The behavior of personal income during fiscal year 2010 reached an increment of 3.1% compared to the previous fiscal year, registering the figure of \$60,400.9 millions. It is projected to reach the amount of \$62,743.0 millions for fiscal year 2011 and a total of \$64,691.0 millions during fiscal year 2012, with an increase of 3.9% and 3.1% for the respective fiscal years.

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Personal consumption expenditure, main component of gross product, totaled \$57,162.0 millions in fiscal year 2010. This is equivalent to an increment of 3.1% compared to the previous fiscal year. The projected value of this variable for fiscal years 2011 and 2012 are \$59,211.0 and \$61,426.0 millions, with an increase of 3.6 and 3.7%, respectively.

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Finally, it is important to note that economic projection certainty is a function of the prospective movement of the subjacent exogenous factors as the basis of them. Thus, every economic projection has to be subjected to an evaluation in accordance with the changes that occur in these factors and in the diverse assumptions used in the projection.