



Commonwealth of Puerto Rico
Office of the Governor
Puerto Rico Planning Board

June 30, 2006

CHANGES IN THE ECONOMY MOVES THE PUERTO RICO PLANNING BOARD TO REVISE ITS GROWTH FORECASTS FOR 2006 AND 2007

The Chairman of the Puerto Rico Planning Board, Ángel D. Rodríguez, announced today that the agency revised the estimate of the macroeconomic variables for fiscal year 2006 and the projection for fiscal year 2007 as a result of the changes occurred in Puerto Rico's economy from January 2006 to June 2006.

According to the revision, the Gross National Product (GNP) growth rates for Puerto Rico for fiscal year 2006 have been estimated in 1.2% in real terms for the base case scenario, and of 1.0% and 1.4% for the minimum and maximum scenarios, respectively. The projections in term of current prices were 6.6% for the base case scenario, 6.3% for the minimum, and 6.9% for the maximum.

For fiscal year 2007 the Planning Board has forecasted a real GNP growth of 0.6% for the base case scenario, 0.1% for the minimum and 1.1% for the maximum. The projection in term of current prices is 4.9% for the base, 4.6% for the minimum and 5.3% for the maximum scenarios.

In January 2006, the Planning Board projected Puerto Rico's real GNP growth for fiscal year 2006 in 2.2% for the base projection, and 1.9% for the minimum, and 2.5% for the maximum scenarios. Whereas, the forecast for the real GNP for 2007 was 2.5% for the base case, 2.1% for the minimum, and 2.9% for the maximum scenarios.

This is the first time that the Planning Board revises its economic forecasts other than in January of each year, when the agency releases its annual projections that are then used to estimate the revenues collected from taxes and excise taxes by the Department of the Treasury.

According to the Planning Board Chairman, the agency will be revising the forecasts more frequently, with the next revision scheduled for September 2006.

These revisions are now possible because the Board has the Coincident Economic Activity Index (CEAI) that allows it to measure the changes occurring in the GNP growth rate. The CEAI is computed monthly and published in the weekly economic summary that the agency produces each week. Also, the Board has developed the necessary expertise to carry out revisions based on the econometric instruments it has available and keeps the data base of all economic variables used for the projections updated, in addition to keeping an extensive data base of other economic indicators. These data include variables for the Puerto Rico economy, the United States economy, and the world economy. The Board also constantly monitors the prices of oil and its derivative products.

“Although the CEAI is calculated monthly, it is preferable to make the projection revision quarterly,” the Planning Board Chairman stated. According to Rodríguez quarterly revisions are preferable because they allow them to better handle the seasonal changes that can affect the variables reported monthly.

According to the Planning Board, from January 2006 to June 2006 Puerto Rico’s economic condition measured in terms of the GNP has deteriorated rapidly, as shown by the CEAI. The fundamental reasons that have caused this deterioration are: (1) the continued rises in the price of oil and its derivative products; (2) the increments in the preferential interest rate made by the Federal Reserve Bank; (3) a more moderate growth rate of the U.S. economy; (4) a reduction in exports; (5) a reduction in investment in construction, particularly in public construction; (6) the general uncertainty caused by the fiscal condition of the Government; (7) the lack of a tax reform in place that can provide the necessary revenues to the government, and at provide tax relief, stimulate investment and work, and provide for the informal sectors of our economy to contribute to the coffers; and (8) the downgrading of the Commonwealth bonds by the credit rating agencies.

“All these elements were considered as part of the revision conducted by the Social and Economic Planning Program of the Board and the results reported reflect their effects,” Rodríguez

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