Commissioner Pierre MOSCOVICI
Commissioner responsible for Economic and Financial Affairs,
Taxation and Customs

EUROPEAN COMMISSION
Rue de la Loi 200/Wetstraat 200
B-1049 Bruxelles/Brussel
(BELGIUM)

Madrid, 18 May 2018

Dear Sir,

Since 2016, we, the undersigned, a group of Spanish independent professors and economists, have been submitting to several EC Commissioners detailed calculations proving the manipulation of the Spain's National Accounts.

According to our calculations, which have not been proven wrong by either your services or by those of other national and international institutions, we have demonstrated beyond any reasonable doubt that the Spain's 'official' GDP is overrated by 16% with respect to the 'real' GDP. Such discrepancy has far-reaching consequences on the magnitude of Spain's public deficits and on the long-term sustainability of its debt.

If we add to that the fact that the Spanish economic growth requires more than one euro of debt increase for each euro of wealth created (i.e. in 2017, an 'official' GDP growth of EUR 34 billion required issuing debt for an amount of EUR 56,000 billion), it is obvious that Spain depends entirely on the stimulus program of the ECB not to declare itself in bankruptcy.

The dynamics of non-compliance of Spain's promised deficits seems to have no end; moreover, it has accentuated in recent time. For a start, the 'official' public deficit of 2017 of 3.07% is false. This falsehood is kind of obvious to the expert eye, as the devolution of negative income tax statements to 400,000 taxpayers has been withheld, and in addition EUR 6,834 million of the Pension Reserve Fund have been used, raising the 'real' deficit to 3.75%.

The 2018 budget submitted to the EU (1) contemplates a EUR 9,200 million increase in public expenditure (salary increases for civil servants, rescue of tolled highways, and not a single euro of cut in the huge political squander where only duplications between public administrations represent a waste of 36,000 million euros per year, and overall inefficiencies in the public sector reaching EUR 100 billion). In short, no spending cuts anywhere in a 2018 budget that is exactly the opposite of what has been agreed with Brussels: less revenue and more expenditure.

But this is not the worst, the truly serious thing has been the complete abandonment of any policy of controlling expenditure, but above all ignoring completely the devastating consequences of the rise in the price of oil and the EUR/USD exchange rate, which will subtract by 0,9% GDP and will destroy 187,000 jobs only in 2018.

The political pact made between the Government and the Basque Nationalist Party has further destroyed the 2013 Pensions' Sustainability Law, with which the Government intended to tackle the growing deficits of Social Security. Only the additional cost of updating pensions with the inflation rate will raise the deficit to some EUR 21,660 million – to be financed with debt amounting to EUR 15,160 million already planned and with EUR 6,500 million from the Reserve Fund, which will be reduced to less than EUR 2,000 million -. The non-application of the Pension's Sustainability Law, which affects 350,000 new pensioners every year, will bring

additional deficits of EUR 1,500 million in 2019, EUR 3,000 million in 2020, EUR 4,500 million in 2021, and so on. To sum up, an absolute budgetary mess.

But all the above is dwarfed by the effects of the evolution of the price of crude oil and gas and the EUR / USD exchange rate. The 2018 Budgets sent by the Government of Spain have been made under the assumptions of average price of Brent crude of 67.7 $ / barrel and a EUR / USD exchange rate of 1.20. Nothing is further from reality, even being optimistic because things can get worse, an average of $ 79 / barrel for the rest of the year and an exchange rate of 1.18 would be the most probable hypothesis today. This means that against a price of crude oil foreseen in the PGE 2018 of 56.4 EUR / barrel, the reality will be from 66.9 EUR / barrel, 18.6% more.

For the years 2019, 20 and 21, the forecast of the Budgets is a Brent price of $ 63.9 / barrel, when the average of analysts estimates a range between $ 85 and $ 95. The Bank of America affirmed on Friday that "Brent crude could reach $ 100 / barrel in 2019 or even earlier" and Goldman Sachs estimates a price of $ 82.5 in the second half of the year. An average of $ 85 in 2019, $ 90 in 2020 and $ 95 in 2021 seems a reasonable hypothesis. And how does it affect Spain? The Ministry of Economy estimates that every 10% increase in the price of crude oil reduces growth by 0.7 points and employment by 150,000 people. Since there are 7.5 months left to finish the year $ 79 / barrel and the EUR / USD exchange rate at 1.18, it would reduce GDP by 0.8 points and 137,000 jobs.

Additionally, with the aforementioned price estimates, the drop in GDP in 2019 will be 2.8% and 600,000 jobs will be destroyed and even worse in the following years, an unsustainable situation. This means zero growth and zero job creation after 2019, so that the end of the debt purchase policy by the ECB and the rise in interest rates, will lead Spain to suspend payments.

Spain's future and that of the Eurozone is at stake. . Only the European Union can force the government to take the drastic measures of cutting political waste amounting to 100,000 million euros, to avoid the economic disaster of our nation. They can no longer ignore it.

Needless to say, we remain at your complete disposal to meet in Madrid or Brussels with those responsible for their services and show them the figures and facts that, without your help, will take us all to the abyss.

Yours faithfully,

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