I. Letter of Intent

Lisbon, May 17, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

1. Against the background of the structural challenges facing the Portuguese economy and contagion from the sovereign debt crisis in other euro area countries, financial conditions facing the Portuguese sovereign and banks have sharply worsened. To restore market confidence and to raise the potential of our economy to generate socially balanced growth and employment we are proposing a far-reaching reform programme, backed by substantial international financing to meet balance of payments needs.

2. Following up on already announced measures, we believe further comprehensive action is required on three fronts: (i) deep structural reforms to boost potential growth, create jobs, and improve competitiveness (including through a fiscal devaluation); (ii) a credible and balanced fiscal consolidation strategy, supported by structural fiscal measures and better fiscal control over PPPs and SOEs; and (iii) efforts to safeguard the financial sector against disorderly deleveraging through market-based mechanisms supported by back-up facilities. As our reform programme is implemented, priority will be given to protecting the most vulnerable groups.

3. To signal our strong commitment to implementing the ambitious reform programme, we request financing assistance from international partners. We estimate that the support needed for our external financing will be around €78 billion over the next three years. We therefore request that the Fund support our policy programme through an arrangement under the Extended Fund Facility in the amount of SDR 23,742 million (€26 billion) which could be drawn over a period of 36 months to cover the balance of payments needs. This arrangement, along with support of €52 billion from the European Financial Stability Mechanism and the European Financial Stability Facility will underpin confidence, support market access, and help ensure orderly adjustment and the restoration of sustainable growth. We will draw on these resources in parallel throughout the programme period, drawing on the EU/euro-area and IMF financing in a ratio of 2 to 1 following programme approval and after each review period (measured at the program exchange rate).

4. We are confident that the policies described in the attached Memorandum of Economic and Financial Policies (MEFP) are sufficient to achieve the objectives under the programme. Progress in the implementation of the policies under this programme will be monitored through

quarterly (and continuous) quantitative performance criteria (PCs) and indicative targets, prior actions, structural benchmarks, quarterly programme reviews, and consultation clauses. These are detailed in Tables 1 and 2. The attached Technical Memorandum of Understanding (TMU) contains definitions.

5. We stand ready to take additional measures that may be needed to meet the objectives of the economic programme and will maintain a close policy dialogue with the Fund, including to consult in advance of any necessary revisions to these policies. We are confident that resolute implementation of our economic programme will help our economy recover and bolster market sentiment. If fiscal consolidation proceeds faster than expected or if market conditions improve significantly during the programme period, we would refrain pari passu from drawing on the full EU/euro-area and IMF support.

6. This letter is copied to Messrs. Juncker, Matolcsy, Rehn, and Trichet.

Sincerely yours,

/s/

Fernando Teixeira dos Santos
Minister of State and Finance

/s/

Carlos da Silva Costa
Governor of the Banco de Portugal

Attachments: 1. Memorandum Of Economic And Financial Policies (MEFP)
2. Technical Memorandum of Understanding (TMU)