

II. LETTER OF INTENT

Lisbon, May 13, 2011

Mr Jean-Claude Juncker
President
Eurogroup

Mr György Matolcsy
President
Council of the European Union (ECOFIN)

Mr Olli Rehn
Commissioner
European Commission

Mr Jean-Claude Trichet
President
European Central Bank

Dear Sir:

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 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 support from the European Financial Stability Mechanism and the European Financial

Stability Facility which could be drawn over a period of 36 months. The overall total of this support will be €52 billion. We are also sending a parallel request for financial assistance to the IMF for a total amount of €26 billion (SDR 23.7 billion). This arrangement 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 program period, drawing on the EU/euro-area and IMF financing in a ratio of 2 to 1 following programme approval and for each review period (measured at the programme 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. An annexed Memorandum of Understanding (MoU) specifies detailed economic policy measures that will be used as benchmarks for assessing policy performance in the context of the quarterly reviews, in coordination with the IMF and the European Commission, under the financial assistance programme. The reviews will assess progress in the programme's implementation and permit understandings on any additional measures that may be needed to achieve its objectives.

5. In particular, 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 any consultation clauses (these are detailed in Tables 1 and 2; the attached Technical Memorandum of Understanding (TMU) contains definitions), and through the detailed and specific economic policy criteria in the MoU.

6. The conditionality under the programme provides substantial comfort that the programme will be delivered and that the support will be repaid. We will ensure that the financial assistance in the context of the EFSM and EFSF to be provided to Portugal will be subject to the loan terms and conditions that will protect the EU, the euro-area and EU Member States' financial and legal interests in a non discriminatory way as compared to the assistance provided by the euro-area and the EU to other Member States.

7. The Portuguese Government and Banco de Portugal believe that the policies set forth in the attached MoU are adequate to achieve the objectives of our economic programme. We, nonetheless, stand ready to take additional measures that may be needed to meet the objectives set. We will maintain a close policy dialogue and will consult with the European Commission, the ECB and the IMF prior to the adoption of any such measures and in advance of any necessary revisions to the policies included in the MEFP and the MoU. All available information requested by the European Commission, the ECB and the IMF to assess implementation of the programme will be provided.

8. 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 financing assistance.

9. This letter is copied to Mr. Strauss-Kahn.

Sincerely yours,

/s/

Fernando Teixeira dos Santos
Minister of State and Finance

/s/

Carlos da Silva Costa
Governor of Banco de Portugal

Attachment: 1. Memorandum of Economic and Financial Policy Conditionality (MEFPC);