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February 22, 2012

Mr. António José Seguro  
Secretary General of the Socialist Party  
Largo do Rato, 2 – 1269-143 Lisbon  
Portugal

Dear Mr. Seguro:

Thank you for your letter dated February 17.

Let me start by noting that I very much share your concerns and the government's concern regarding the sharp increase in unemployment. And, as you know, the goal for the EC-ECB-IMF's involvement in Portugal is to help address the policy missteps that engendered the economic crisis and place the economy on a durable growth path that can generate the jobs that people need.

The very high burden of public debt and the binding financing constraint that Portugal faces are what make fiscal adjustment unavoidable. It is certainly not from an expectation that such fiscal adjustment is expansionary. Indeed, as the financing constraint has eased somewhat and the adverse implications for the debt path have seemed more manageable, the joint mission teams worked with the government to revise the fiscal deficit targets. This was the case, for example, last September when the deficit objective for 2013 was eased from 3 to 4½ percent of GDP.

Economic policies in Portugal need to maintain a difficult balance—making progress on the required fiscal adjustment, while also avoiding undue strains on output and employment. These principles will also guide the work of the IMF team during the upcoming visit. The purpose of the quarterly program reviews is to assess economic circumstances and, importantly, to ensure that the right balance is being maintained.

Portugal has made strong progress in addressing the macroeconomic imbalances it faced. Financial stability has been preserved. And a comprehensive set of structural reforms are also under way.

But some fiscal adjustment remains to be done still, to which end we expect the ongoing Public Expenditure Review to provide a road map. Continued efforts to put Portugal's public finances on a sustainable footing will be essential to avoid a deeper economic crisis that could place even greater strains on society—something we all want to avoid. I am conscious that this work will not be easy. However, progress on this front is important to eliminate the remaining imbalances and pave the way for sustainable growth and job creation.

The progress that Portugal has made to date would not have been possible without broad-based political and social support. I am very grateful for this opportunity to exchange views with you and hope you can continue to play a constructive role to support the required reforms.

Sincerely yours,

A handwritten signature in blue ink, appearing to read 'Chiyach', is centered below the closing text.

cc: Mr. Montanino, Executive Director, IMF