



EUROPEAN CENTRAL BANK

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President

COURTESY TRANSLATION

Mr Diogo Feio
Member of the European Parliament
European Parliament
60 Rue Wiertz
B-1047 Brussels

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Dear Mr Feio,

Thank you for your letter regarding the economic situation in Portugal, which was communicated to me through a letter of 21 January 2010 by Ms Bowles, Chairperson of ECON.

Several euro area countries face challenges which need to be addressed. While the risks and challenges might, *prima facie*, appear similar for some countries, a more in-depth analysis of individual countries' issues and related policy responses is important.

As regards the challenges for Portugal, the Portuguese Government is called upon to take the decisive and effective measures needed to correct the large fiscal deficit recorded in 2009. Further budgetary consolidation measures should be geared, in particular, towards enhancing the quality of public finances and reinforcing the growth potential of the Portuguese economy, as underlined by the ECOFIN Council in its recommendation of 30 November 2009.

In addressing these challenges, it is encouraging that Portugal can look back on an experience of successfully reducing its budget deficit: in 2006, a significant consolidation strategy was initiated and led to a sharp reduction in the structural deficit. From 6.1% of GDP in 2005, the fiscal deficit declined to 2.6% in 2007.

The Portuguese economy also needs to improve its competitiveness and growth prospects. This implies reforms targeted at increasing productivity and at enhancing the flexibility of the wage formation process, allowing compensation per employee to be more closely linked to changing economic conditions (productivity, labour market situations and competitiveness). A wage moderation strategy will help in addressing the sharp rise of the unemployment rate most recently observed.



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I should like to conclude by saying that the ECB calls upon all governments of the euro area to embark on fiscal consolidation and structural reforms that will make their economies more flexible and competitive, and will contribute to supporting growth and employment.

With best regards,

[signed]