

San José, Costa Rica
August 29, 2020
PRE 0085-2020 / DM-1056-2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund

Dear Ms. Georgieva,

We are pleased to inform you that, after a thorough review, the Rapid Financing Instrument (RFI) was approved by Costa Rica's Legislative Assembly this week. The RFI will support our ongoing efforts to respond to the COVID-19 pandemic, helping address urgent financing needs while catalyzing important financial assistance from other multilateral partners.

Nevertheless, despite our proactive policy efforts, the combined impact of the global shock and domestic containment measures on our country's balance of payments and fiscal accounts is proving much sharper and protracted than expected, amid a resurgence in COVID-19 cases and a deeper contraction than initially envisaged. The Central Bank now projects GDP to decline by 5 percent this year, with only a gradual recovery over the medium term. The crisis is leading to sizable job losses, from an already high level of unemployment, especially among women and the youth. Most importantly, the sharp decline in revenue from the shock is projected to push the fiscal deficit to above 9% of GDP this year, with the central government's debt reaching almost 70% of GDP.

Against this background, we are committed to advancing an ambitious fiscal consolidation effort aimed at securing medium-term fiscal sustainability, while maintaining sound monetary and financial sector policies. We are also committed to pressing ahead with reforms to deliver an inclusive, sustainable recovery from the COVID-19 shock. We intend to build our fiscal consolidation strategy on a broad-based political and social dialogue to ensure support around the reform agenda.

To underpin our policy framework, we are writing to request, on behalf of the Republic of Costa Rica, follow-up financial assistance from the International Monetary Fund in the form of a three-year arrangement under the Extended Fund Facility, with access at 335 percent of quota (about USD 1.75 billion).

Together with financial assistance from other international financial institutions, the EFF arrangement would help address our balance of payments and budget support needs. It would also provide a policy anchor to our fiscal consolidation plans over the period required to achieve a primary surplus and place debt on a steady downward path. All of this is necessary to ensure a vigorous recovery from the pandemic and a higher medium-term growth path.

We are extremely grateful for the strong and rapid support the IMF has given to Costa Rica under the RFI at this challenging juncture, and look forward to continuing our close engagement over the next three years under the EFF arrangement.

Sincerely,



Rodrigo Cubero
President, Central Bank of Costa Rica



Elian Villegas
Minister of Finance