



Ministerio de Economía

Buenos Aires, 26th August 2020

Ms. Kristalina Georgieva
The Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Georgieva:

At this juncture, we would like to reach out to you after more than 9 months of fruitful collaborative work. In effect, we are very glad of the constructive relationship we have jointly built with your team. During this time we have been able to understand each other's perspectives and strive for the common objective of debt sustainability.

We are also writing to you in order to formally request the initiation of consultations so as to agree a new Fund-supported program that will succeed the cancelled and derailed 2018 Stand-By Arrangement (SBA). In that vein, we would like to make some brief observations.

1. Between 2017 and 2019, Argentina reduced the primary fiscal deficit from 3.8% to 0.9% of gross domestic product, while the current account deficit fell from about 4.8% to 0.9% of gross domestic product. Despite the fact that Argentina fulfilled such performance criteria established in the 2018 SBA, the flight from peso-denominated assets continued and the country was not able to achieve satisfactory roll-over rates and ensure public debt sustainability. Economic activity contracted by 2.6% and 2.1% during 2018 and 2019 and the inflation rate of the consumer price index stood at 47.6% and 53.8%, respectively, paired with an unprecedented monetary contraction.

2. Since December of 2019, when the new Administration took office, we have been implementing a different set of policies aimed at preventing a further fall in output and employment, reducing the inflation rate, restoring public and external debt sustainability and creating the conditions that can facilitate in due time the removal of restrictions on the access to the official exchange market. To strengthen the domestic capital market, we have been gradually reducing the monetary policy rates in line with declining inflation keeping them positive in real terms, while achieving increasing rates of roll-over for the peso-denominated segment.

3. Since the announcement of the intentions to initiate the public debt restructuring process in January 21th of 2020, we have engaged with creditors in good faith. We hope to complete the process of public sector debt restructuring with bondholders soon, achieving a high acceptance ratio and consolidating an agreement that is consistent with public sector debt sustainability and economic recovery. In parallel with the foreign law instruments' debt restructuring, we maintained our commitment to equitable treatment to bondholders of the local segment of the public sector debt in foreign currency.

4. Argentina was severely hit by the COVID-19 pandemic. As of August 24th 2020, there were 350,867 recorded cases and 7,366 deaths. Starting on March 20th, 2020, we



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announced a full lockdown and we excluded essential activities, followed by the closing of our borders as of March 26th except for Argentine nationals and residents wishing to return home. Output contracted by approximately 20% during the second quarter of 2020. To address the difficult health and economic situation, we have adopted several measures to support people and business, such as the “emergency family income” to assist families without registered incomes and the “assistance to work and production” to pay up to 50% of the wages. Other initiatives include the provision of loans with subsidized interest rates for vulnerable firms and the reinforcement of pensions, the incomes of health sector workers and the transfers associated to social programs.

5. The policy effort and the reduction of tax collection associated to the COVID-19 pandemic increased the primary fiscal deficit, which has reached 3.3% of gross domestic product during the first semester of 2020. We are determined to restart the process of pursuing a consistent fiscal path once the effects of the pandemic disappear, by reducing the primary fiscal deficit in a way that is both compatible with public debt sustainability and economic recovery.

6. As a consequence of the incapacity of the previous Stand-By Arrangement to neither restore confidence nor build resilience through an increase in the level of foreign exchange reserves, we face an important balance of payments needs for the term 2021-2024, mainly associated to the previous purchase of about SDR 31.91 billion from the IMF. On this basis, we formally request financial assistance under a Fund-supported program and we invite the staff for a mission to begin discussions.

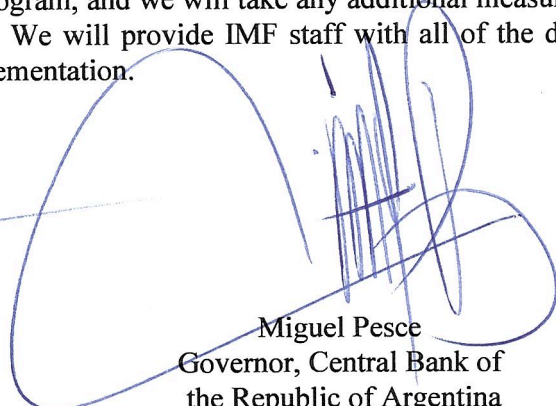
7. We hope that the discussions and the new Program will not repeat what the current Administration considers to be flawed assumptions of the 2018 Program. To that end it is essential that an accurate assessment of Argentina’s challenges be made, and we look forward to exchanging views with your staff on these issues.

8. We plan to put forward consistent policies to achieve the macroeconomic and financial stability objectives of the program, and we will take any additional measures, that may be appropriate for this purpose. We will provide IMF staff with all of the data and information needed for program implementation.

Yours sincerely,



Martín Guzmán
Minister of Economy



Miguel Pesce
Governor, Central Bank of
the Republic of Argentina