

Credit Analysis

Guatemala

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB+
Country Ceiling	BBB-

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

Guatemala	
(USDm)	2008
GDP	38,976.5
GDP per head (USD 000)	2.8
Population (m)	13.7
International reserves	4,654.4
Net external debt (% GDP)	4.9
Central government total debt (% GDP)	19.9
CG foreign-currency debt	4,510.6
CG domestically issued debt (LCUm)	26,209

Analysts

Theresa A. Paiz-Fredel
+1 212-908-0534
theresa.paiz@fitchratings.com

Casey Reckman
+1 212-908-9155
casey.reckman@fitchratings.com

Related Research

- *Sovereign Rating Methodology (October 2007)*
- *Country Ceilings (September 2008)*
- *Guide to Sovereign Credit Report (October 2008)*
- *Global Economic Outlook (June 2009)*
- *Sovereign Review 2009 (June 2009)*
- *Bank Systemic Risk Report (May 2009)*
- *Latin American Sovereign Outlook 2009 (March 2009)*
- *Central America: External Vulnerabilities in Focus (October 2008)*
- *Guatemala Credit Analysis (July 2008)*

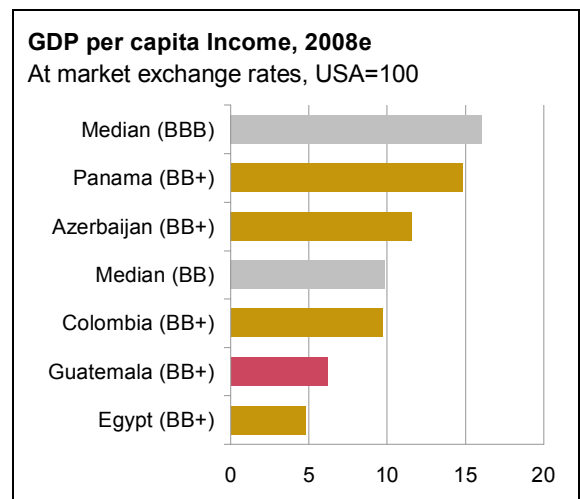
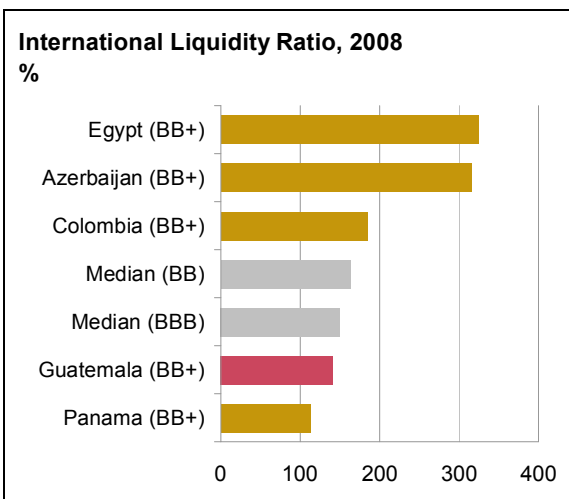
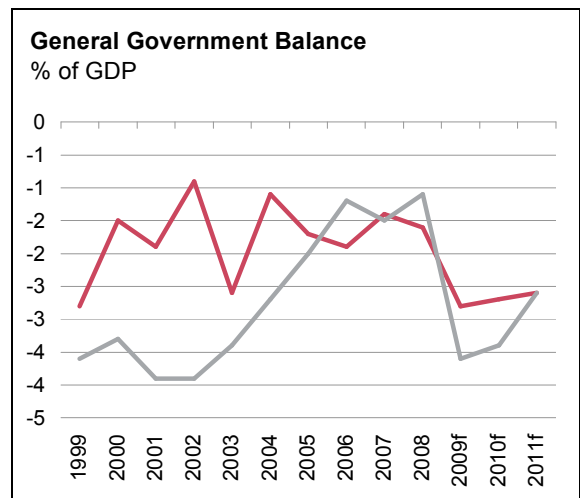
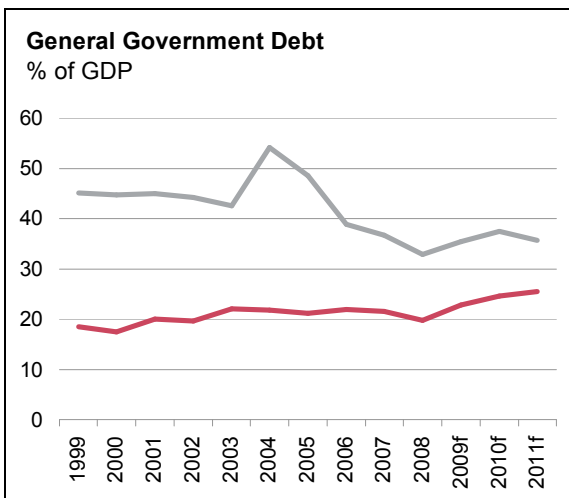
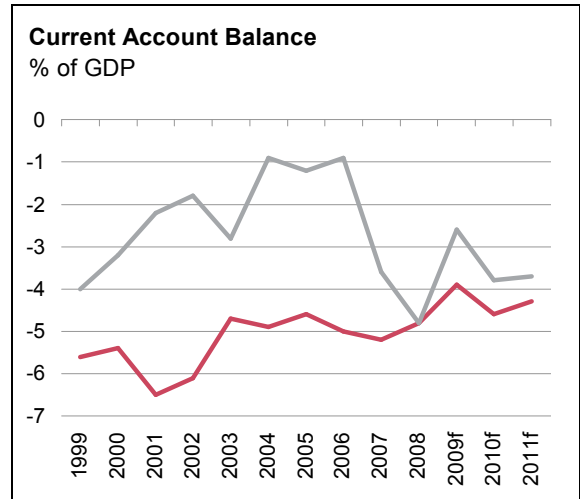
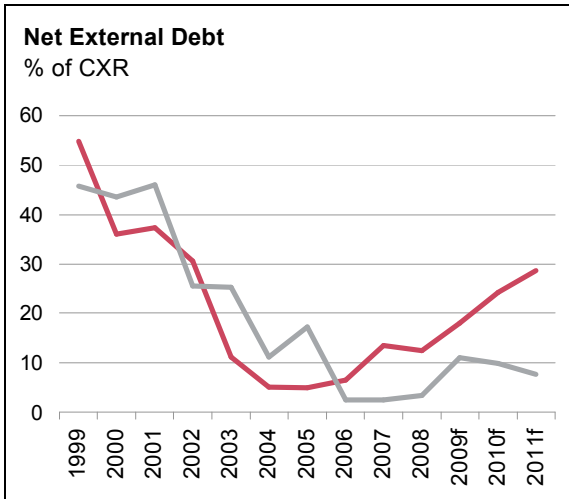
Rating Rationale

- Guatemala's track record of macroeconomic stability, low public and external debt burdens, as well as the government's solid commercial debt repayment history continue to support the sovereign's ratings. These strengths have provided a sufficient buffer to deal with adverse shocks in recent years. The country's key credit weaknesses include its low tax take, high level of poverty and inequality, as well as its weak social and governance indicators, factors which will take time to address and will constrain Guatemala's ratings to sub-investment grade over Fitch Ratings' rating horizon.
- Institutional weakness and poor governance have come to the forefront in recent months as criminal allegations against the executive branch have polarized the country and at best could further limit the government's effectiveness. The current crisis is likely to be resolved by democratic and constitutional procedures, as well as with the participation of the International Commission Against Impunity (CICIG) and the US Federal Bureau of Investigation (FBI). Nevertheless, Fitch believes that public discontent with the broader issues of crime and corruption could contribute to social and political instability.
- The adverse consequences of Guatemala's exposure to the US recession and financial crisis through vital trade and financial linkages began to emerge last year as growth slowed to 4% from 6.4% in 2007. In 2008, remittance inflows decelerated sharply leading to lower levels of consumption growth. The outlook for 2009 is more pessimistic as export receipts, remittances and private capital inflows are expected to contract, while the potential for further political uncertainty could dampen domestic demand. As a result, Fitch expects Guatemala to experience a mild recession this year, its first in over 20 years. In spite of this cyclical deterioration, most of the sovereign's economic and financial credit metrics will remain robust relative to 'BB' peers. As is the case in other emerging markets, inflationary pressures have receded and the authorities are expected to meet the year-end inflation target.
- Guatemala's gross and net public debt/GDP ratios compare favorably relative to the 10-year 'BB' medians and will continue to do so despite increased borrowing to fund the expected fiscal stimulus or revenue shortfalls. However, GDP measures of public debt understate Guatemala's debt burden due to the narrowness of the country's tax base. Similarly, as the public sector accounts for about half of Guatemala's external debt, gross and net external debt ratios are also low relative to the 10-year medians for similarly rated peers.

Key Rating Drivers

- The easing of Guatemala's rating constraints, including a low tax take, as well as weak social and governance indicators, through the implementation of reforms which strengthen public finances and sustain higher rates of economic growth, would be viewed positively.
- Conversely, political gridlock or increasing political and social instability which hinders the implementation of structural reforms or a marked deterioration in fiscal and external solvency, as well as liquidity indicators, could negatively affect Guatemala's ratings, especially in light of the weaker macroeconomic outlook.

Peer Comparison



— Guatemala

— Medians

Peer Group

Rating	Country
BBB-	Brazil
	Bulgaria
	Croatia
	Iceland
	India
	Kazakhstan
	Morocco
	Namibia
	Peru
	BB+
Azerbaijan	
Colombia	
Egypt	
Latvia	
Macedonia	
Romania	
BB	Armenia
	Costa Rica
	El Salvador
	Indonesia
	Philippines

Source: Fitch

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
22 Feb 06	BB+	BB+

Source: Fitch

Rating Factors

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Strength	Neutral	Strength	Weakness
Trend	Stable	Stable	Stable	Stable

Note: Relative to 'BB' category
Source: Fitch

Strengths

- Macroeconomic stability is well entrenched as illustrated by the low volatility of Guatemala's inflation and real effective exchange rates over the past 10 years relative to other 'BB' sovereigns.
- Guatemala's gross and net external debt indicators are considerably stronger than the 10-year 'BB' category medians. Low external indebtedness and the public sector's favourable amortization profile also drive Guatemala's comparably lower external debt service ratio and higher liquidity ratio relative to 'BB' peers.
- Guatemala's sovereign net foreign asset position (SNFA) as a proportion of GDP exceeds the 10-year 'BB' median and should continue to do so over the forecast horizon, even with expected fiscal slippage.
- Gross and net government debt ratios are substantially lower than the 10-year 'BB' category medians.

Weaknesses

- Based on the World Bank's survey, Guatemala's governance indicators, which evaluate government effectiveness, control of corruption, political stability and rule of law, are substantially weaker than the 'BB' category medians.
- Guatemala's income per capita indicators and broader human development, as measured by the United Nation's Human Development Index (HDI), are significantly weaker than the median of 'BB' credits.
- Guatemala's comparatively weaker business environment, low savings and investment rates, as well as low financial intermediation, suggest that future growth will continue to lag that of its 'BB' peers on average.
- At 11.3% in 2008, Guatemala has the lowest tax/GDP ratio among 'BB' peers and the government has encountered significant obstacles to increasing its tax take.

Local-Currency Rating

At 'BB+', Guatemala's Local-Currency Long-Term Issuer Default Rating (IDR) is equivalent to its Foreign-Currency Long-Term IDR. In spite of Guatemala's comparably lower government debt/GDP ratio, the low tax-take, a low level of monetization, a shallow domestic debt market, as well as well as political and social risks, supports the maintenance of these ratings at the same level.

Country Ceiling

Guatemala's country ceiling is 'BBB-', one notch above the Foreign-Currency Long-Term IDR. Membership of DR-CAFTA, WTO and Caricom underpin Guatemala's commitment to the free flow of capital and international trade, supporting the one notch uplift of the Country Ceiling over the Foreign-Currency Long-Term IDR.

Outlook and Key Issues

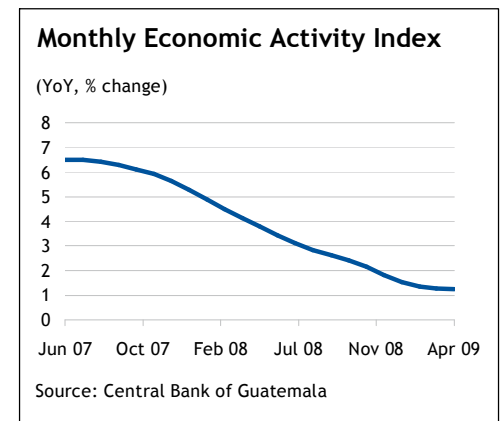
In the Shadow of the US Recession

Following a modest acceleration of average growth over the past five years, Fitch expects the Guatemalan economy to slip into a mild recession for the first time in 20 years in 2009. As a small and moderately open economy with strong economic and financial links to the US, Guatemala is feeling the pinch of the recession in major advanced economies, as well as reduced capital and financial flows. Growth, as illustrated by Guatemala's monthly economic activity index, has been steadily decelerating since June 2007, when the index peaked at 6.5% compared with the same period in the previous year. The most recent data release for this indicator reached only 1.25% in April 2009. It will be challenging to avoid contagion from the recessionary conditions in the country's key export markets, mainly the US and other Central American countries. Fitch expects a contraction in exports, remittances and capital inflows, as well as a marked deceleration in credit growth, to continue dragging down economic activity in the coming months. On a more positive note, the drop in commodity prices has reduced the current account deficit and contributed to a sharp deceleration in inflation over the past six months. Overall, the global economic and financial crisis has had a negative impact on the Guatemalan economy and significant downside risks remain. However, the Guatemalan authorities obtained a precautionary stand-by agreement with the IMF last April in the amount of USD950m, underpinning confidence to face current external challenges.

In an effort to support growth, the authorities have entered a period of counter-cyclical monetary and fiscal policies, although the latter is constrained by a low revenue base and financing limitations. Since December 2008, the central bank's benchmark policy interest rate has been reduced by 2.0 percentage points, reaching 5.25%. There appears to be scope for further monetary easing in the future given the rapid decline in inflation and deceleration in economic activity. Additional measures to increase domestic liquidity, such as increased

flexibility in computing reserve requirements and the temporary suspension of certificate of deposit placements, have also been implemented. Nevertheless, credit growth has stagnated since the end of 2008, in part reflecting reduced demand in an increasingly unfavorable business environment.

The government launched its National Program for Economic Emergency and Recovery earlier this year, which includes fiscal measures to jump start the economy such as strengthening Guatemala's social safety net with targeted conditional income transfer programs and investing in infrastructure. Initially, the government estimated that the public sector deficit would reach about 2.4% of GDP this year compared with 1.7% in 2008. However, the authorities have since revised the public sector deficit up to 2.8% based on revenue shortfalls experienced in the first half of 2009. This revised deficit appears reasonable, even if revenues continue to fall at a similar pace in the latter half of the year, as the government has been under-executing its budget, particularly capital expenditures¹. Furthermore, the government's flexibility to fully implement its fiscal stimulus program may be hindered by challenges to obtain congressional approval for additional financing



¹ The central government executed only 38% of total expenditures in the first half of 2009 compared to expenditure execution of 40% in the same period in 2008

needed as a result of the expected revenue shortfall. The government has prioritized funding its fiscal stimulus package and recently presented a request to Congress to increase its domestic issuance. As the Guatemalan authorities have a solid track record of maintaining a sustainable fiscal position, Fitch believes that expenditure cuts could be in the offing if additional financing is not approved by Congress, which could dampen fiscal stimulus efforts. In light of the challenges to implementing counter-cyclical policies, combined with the potential for political and social uncertainty to further dampen domestic demand, Fitch is now forecasting that the Guatemalan economy will contract by about 0.6% in 2009.

Public Finances: Sources and Uses

(% GDP)	2008	2009f	2010f	2011f
Uses	2.9	3.7	4.0	5.0
Budget balance	1.6	2.8	2.7	2.6
Amortisation (by place of issue)	1.3	0.9	1.3	2.4
Domestic	0.6	0.3	0.5	0.6
Foreign	0.6	0.7	0.7	1.8
Sources	2.9	3.7	4.0	5.0
Gross borrowing (by place of issue)	2.2	3.6	3.6	5.0
Domestic	1.3	1.2	1.2	4.1
Foreign	0.9	2.4	2.5	0.9
Privatisation	0.0	0.0	0.0	0.0
Other	0.6	0.2	0.4	0.0

Source: Fitch

Social and Political Risks

Guatemala's democratic institutions have been consolidating since the late 1990s; however, their effectiveness remains constrained. Advances with respect to reducing opportunities for corruption and improving transparency have occurred since the last review. As such, Guatemala's governance indicators based on the World Bank's survey improved in 2008. Nevertheless, the improvement in these indicators lagged that of 'BB'-rated peer medians. Corruption remains a problem, undermining the credibility of institutions and permeating all branches of government. Although the current political crisis appears to be winding down, Fitch is concerned about the potential for increased social unrest over its rating horizon, particularly in light of the timing of the current crisis with an economic downturn. Furthermore, without progress on structural reforms, delivering on election promises to boost spending on education, healthcare and rural development will become increasingly difficult given current revenue constraints, which could also exacerbate social instability.

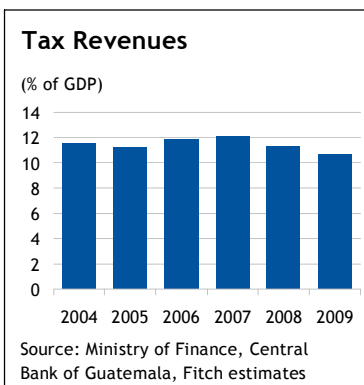
The murder of a lawyer last May in which the victim posthumously accused the president, his wife and close advisors of ordering the killing, sparked the current political crisis. President Colom has denied all allegations, and has asked a United Nations supported body, the International Commission against Impunity in Guatemala (CICIG), as well as the US Federal Bureau of Investigation (FBI), to investigate the case. Fitch believes this was a wise decision as the local law enforcement authorities and the judicial system lack credibility. Last May, political opponents asked President Colom to step down and held numerous demonstrations, while the president's supporters, mostly the poor that have benefited from the government's social programs, held counter-demonstrations. Although not Fitch's base case scenario, the present scandal could heighten the polarization of a country that is already marred by ethnic division and severe income inequality, which could also potentially feed social pressures. However, at this time it appears the president is likely to remain in office and the level of social protests has dissipated. Furthermore, evidence that would support a broader anti-government popular movement has not materialized thus far since the issues of violence and impunity are well-entrenched and are not specific to the current administration.

While it is too soon to determine how the investigations will evolve, recent events highlight concerns about escalating violence in Guatemala and the spread of organized crime in particular. The country has one of the highest crime rates in Latin American and the worst track record with regards to impunity. Politically motivated murders have been on the rise in recent years. The Colom administration has taken measures to address the crime situation, such as re-assigning and dismissing police officers, establishing the UN-backed CICIG, as well as the recent approval of laws with respect to weapons, penal prosecution and the appointment of Supreme Court justices. However, hope for progress on reducing violent crime is balanced by the breadth and depth of obstacles such as organized crime's infiltration of the criminal justice system.

The government maintains its intent to prioritize the social policy agenda; however, it also expressed its commitment to prudent fiscal policy and plans to meet its goals through a reallocation of expenditures and to the extent possible, a fiscal reform. Additionally, the Colom government aims to improve the legal framework for public/private partnerships, which could help tackle infrastructure challenges currently limiting economic and social advancement. Nevertheless, progress on the structural reform front has been constrained by the make-up of Guatemala's Congress as illustrated by the stalled approval of draft legislation related to fiscal reform and public private partnerships. Despite the fact that Guatemala's multi-party system is less polarized than in other Central American countries, it remains fragmented and can create obstacles to governability. As many types of legislation require a two-thirds vote, the executive is required to negotiate with all parties to secure passage of legislative initiatives. Internal party discipline issues within Unidad Nacional de la Esperanza (UNE) and frequent defections among all parties further complicate prospects for approving structural reforms. In addition, the current scandal could embolden the opposition and provide new challenges to the Colom administration's effectiveness in the future. As a result, the government's fiscal reform efforts are likely to be diluted, which could make it difficult to meet social spending priorities during this administration.

Structural Fiscal Challenges

Even though the Guatemalan authorities have an established track record of maintaining a sustainable fiscal position, its low revenue base constitutes a key credit challenge. Furthermore, the tax-take as a proportion of GDP has been slipping since 2007 and is unlikely to recover without meaningful fiscal reform, suggesting that these ratios could continue deteriorating over Fitch's forecast horizon. The government continues to prioritize the implementation of fiscal reforms and has made some progress under its Plan for Fiscal Modernization, which targets increasing the tax take, enhancing transparency, and improving the quality of public expenditure. Nevertheless, obtaining congressional approval of a revenue-enhancing tax reform remains difficult. Even after a broad process of consultation that began with the previous government, only limited success with respect to tax policy measures has been achieved. The government established the Solidarity Tax, which replaces the Extraordinary and Temporary Tax in Support of the Peace Accords (IETAAP) as a minimum income tax on individuals and corporations, and reduces future downside risks to tax collection.² Reforms to enhance transparency and improve the quality of public expenditure have progressed since Fitch's last review, with the implementation of the Free Access to Public Information Law and the congressional approval of modifications to the Government Procurement Law. However, the government's proposed reform to strengthen indirect taxation has languished in Congress and the focus has now shifted to managing the fallout from the global economic and financial crisis.³ Furthermore, even though there appears



² Without this measure, revenue losses could have been up to an estimated 1% of GDP

³ The reform includes a new tax on the registration of vehicles, a graduated increase in the tax rate on vehicles in circulation, and legislation to strengthen tax administration. It is only expected to yield 0.2% of GDP if approved

to be ample societal consensus that the government needs to increase its revenue base to address poverty and nagging social issues, the reform is likely to face continued resistance from the private sector due to the worsening economic environment.

Forecast Summary

	2005	2006	2007	2008	2009f	2010f	2011f
Macroeconomic indicators and policy							
Real GDP growth (%)	3.1	5.3	6.4	4.0	-0.6	1.4	3.0
Consumer prices (annual average % change)	8.6	5.8	8.7	6.7	5.8	5.4	5.0
Short-term interest rate (%) ^a	4.3	4.5	4.8	5.1	5.0	5.0	5.0
General government balance (% of GDP)	-1.7	-1.9	-1.4	-1.6	-2.8	-2.7	-2.6
General government debt (% of GDP)	21.1	21.9	21.6	19.7	22.8	24.6	25.5
LC per USD (annual average)	7.6	7.6	7.7	7.6	7.9	8.1	8.3
Real effective exchange rate (2000 = 100)	119.0	122.8	122.7	129.8	128.5	127.2	125.9
External finance							
Current account balance (USDm)	-1,240.7	-1,524.1	-1,785.8	-1,862.7	-1,464.1	-1,777.4	-1,773.8
Current account balance (% of GDP)	-4.6	-5.0	-5.2	-4.8	-3.9	-4.6	-4.3
Current account balance plus net FDI (% of GDP)	-2.8	-3.2	-3.1	-2.7	-2.8	-3.3	-3.1
Net external debt (USDm)	518.2	801.1	1,904.3	1,890.4	2,548.3	3,564.7	4,478.4
Net external debt (% of GDP)	1.9	2.7	5.6	4.9	6.7	9.1	10.9
Net external debt (% of CXR)	4.9	6.5	13.5	12.4	18.0	24.2	28.6
Official international reserves including gold (USDm)	3,762.0	4,048.3	4,284.2	4,654.4	5,114.5	5,228.1	5,346.6
Official international reserves (months of CXP cover)	3.8	3.5	3.2	3.3	3.9	3.8	3.7
External interest service (% of CXR)	3.8	4.1	4.1	3.8	4.0	4.2	4.1
Gross external financing requirement (% int. reserves)	44.0	48.8	51.6	59.2	50.4	54.3	60.4
Memo: Global forecast summary							
Real GDP growth (%)							
US	2.9	2.8	2.0	1.1	-3.1	1.3	1.7
Japan	1.9	2.0	2.3	-0.7	-7.2	0.7	1.5
Euro area	1.8	3.0	2.7	0.6	-4.4	0.0	1.9
World	3.3	3.8	3.6	1.7	-2.7	1.4	3.3
Commodities							
Oil (USD/barrel)	54.4	65.4	72.6	97.0	55.0	65.0	70.0

^a Money market interest rate (annual average)

Source: IMF, Central Bank of Guatemala, Guatemala Ministry of Public Finance, Joint BIS-IMF-OECD-WB statistics on external debt, Fitch estimates and forecasts

Comparative Analysis: Macroeconomic Performance and Policies

Guatemala

	2008						
	Azerbaijan BB+	Colombia BB+	Egypt BB+	Guatemala BB+	Panama BB+	BB median	BBB median
Real GDP (5-yr average % change)	21.0	5.5	5.9	4.4	8.8	6.0	5.3
Volatility of GDP (10-yr rolling SD)	9.7	3.3	1.6	1.2	3.5	3.1	2.1
Consumer prices (5-yr average)	19.4	5.6	10.2	7.8	3.7	7.9	5.4
Volatility of CPI (10-yr rolling SD)	16.8	2.0	5.0	1.6	2.6	3.7	2.5
Years since double-digit inflation	0.0	9.0	0.0	12.0	28.0	n.a.	n.a.
Unemployment rate	n.a.	10.6	8.7	3.0	4.2	7.5	7.6
Type of exchange rate regime	Fixed	Managed float	Managed float	Managed float	Dollarized	n.a.	n.a.
Dollarization ratio	55.5	0.0	28.0	14.7	n.a.	51.2	20.3
REER volatility (10-yr rolling SD)	10.3	8.9	12.1	4.9	4.2	8.9	4.3

Source: Local authorities, IMF and Fitch

Strengths

- Consumer price inflation (CPI) is in line with similarly rated peers, while the volatility of Guatemala's CPI is lower. Inflation has been maintained between 5% and 9% for the past decade, in part reflecting the growing credibility of the country's inflation-targeting regime, which was implemented in 2006.
- Dollarization is lower relative to non-officially dollarized 'BB' peers, providing more flexibility with respect to monetary and exchange rate policies.
- The volatility of Guatemala's real effective exchange rate over the past 10 years has been lower than peers' under its managed float exchange rate regime.

Weaknesses

- Average real GDP growth over the past five years is significantly lower than that of its peers. Although lower growth has not negatively affected Guatemala's public and external debt dynamics, a higher rate of growth is necessary to reduce comparably higher poverty levels and improve social indicators.

Commentary

Banco de Guatemala operates as an autonomous and decentralized institution of the government whose fundamental objective is price stability. However, independence is somewhat constrained as the Ministers of Public Finance, Economy and Agriculture, as well as a representative of Congress, are all members of the board of directors of the central bank, which could result in competing views on the conduct of monetary policy. The central bank amended the foreign exchange intervention rule to include symmetric and limited intervention. This should allow for greater exchange rate flexibility to facilitate economic adjustments to shocks, although the authorities reserve the right to conduct discretionary interventions to avoid sudden movements in the exchange rate.

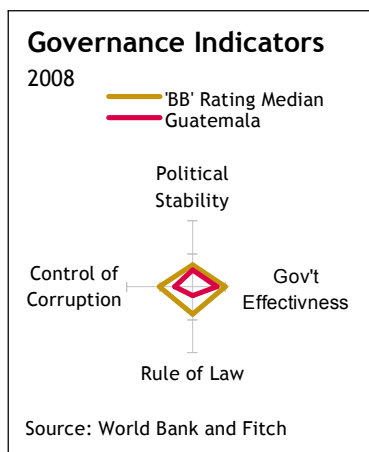
Banco de Guatemala has not consistently met its inflation targets since implementing the regime in 2006. As in other emerging markets, higher food and energy prices contributed to inflationary pressures last year. Consumer price inflation reached 9.4% at year-end 2008, well above the upwardly revised targeted range of inflation of 5% to 7%. Nevertheless, the inflation targeting regime is still in its incipient stages and the central bank has gained credibility in its efforts to maintain economic stability. Furthermore, the authorities conduct monetary policy in a transparent manner and continue to focus on improving the effectiveness of the transmission channels and developing the secondary market to enhance their inflation-targeting regime. Inflation has been rapidly decelerating since last November, reaching an average annualized rate of 4.3% in June, and is expected to be within the reduced year-end 2009 target of 4.5% to 6.5%.

Comparative Analysis: Structural Features

Guatemala

	2008						
	Azerbaijan BB+	Colombia BB+	Egypt BB+	Guatemala BB+	Panama BB+	BB median	BBB median
GNI per capita PPP (USD, latest)	6,260	6,640	5,400	4,440	10,830	6,640	9,700
GDP per capita (USD, mkt exchange rates)	5,310	4,459	2,205	2,847	6,787	4,527	8,526
Human Development Index (percentile, latest)	44.7	58.5	37.5	34.2	65.7	50.2	61.3
Ease of Doing Business (percentile, latest)	46.4	63.3	29.4	36.2	63.9	47.8	74.6
Trade openness (CXR and CXP % GDP)	56.2	26.7	38.1	41.4	86.1	46.1	58.6
Gross domestic savings (% GDP)	56.6	21.7	16.2	2.0	27.4	19.1	23.8
Gross national savings (% GNP)	62.3	21.6	21.4	14.3	18.9	21.6	25.7
Gross domestic investment (% GDP)	19.7	23.9	22.3	18.7	29.7	24.1	26.6
Private credit (% GDP)	16.4	45.4	39.1	26.9	90.8	33.4	62.7
BSR indicators	E3	D3	E1	n.a.	C1	n.a.	n.a.
Bank system CAR	19.6	13.4	14.8	13.7	13.7	14.5	13.1
Foreign bank ownership (% assets)	8.7	17.7	30.0	11.6	64.6	31.6	28.8
Public bank ownership (% assets)	42.5	18.8	45.0	5.9	11.0	17.3	20.0
Default record (year cured) ^a	1998	n.a.	1995	1993	1995	n.a.	n.a.

^a Modern (ie. since 1980) rescheduling history: 1993 Paris Club debt relief and rescheduling
Source: Local authorities, World Bank, United Nations and Fitch



Strengths

- Guatemala has a solid commercial debt repayment history.
- Guatemala has a lower level of public sector ownership of its banking system relative to peers, minimizing the potential contingent liability to the sovereign.

Weaknesses

- Guatemala's income per capita indicators and broader human development, as measured by the United Nation's HDI, are significantly weaker than the median of 'BB' credits. In the 'BB' category, only the African sovereigns have a lower percentile ranking. However, the government remains committed to prioritizing the social policy agenda and abiding by the 1996 Peace Accords though the impact on education, crime, and poverty will not be evident in the short term.
- According to the World Bank's 'Ease of Doing Business' survey, Guatemala's business environment still lags the median of 'BB' category credits, contributing to lower investment levels and constraining the country's medium-term growth trajectory relative to peers.
- Similarly, lower domestic and national savings rates relative to peers also suggest constraints to future growth. Another potential drag on economic growth is Guatemala's lower level of financial intermediation relative to most 'BB' peers.
- Based on the World Bank's survey, Guatemala's governance indicators, which evaluate government effectiveness, control of corruption, political stability and rule of law, are substantially weaker than the 'BB' category medians.

Commentary

Although there have been improvements in bank supervision and regulation over the past year, the primary risk factors faced by financial institutions in Guatemala continue to include comparably low loan loss reserves, as well as still weak capitalization and asset quality, areas that need to be addressed to improve the system's resilience to future adverse shocks. However, the Monetary Board recently implemented a new regulation that will require banks to gradually increase loan loss provisions on a quarterly basis from June 2009 to 2011. Other risks to the banking system continue to include its concentrated nature (the top three banks account for 45% of system assets) and still high levels of related party lending.

Comparative Analysis: External Finances

Guatemala

	2008					Last 10 years	
	Azerbaijan BB+	Colombia BB+	Egypt BB+	Guatemala BB+	Panama BB+	BB median	BBB median
GXD (% CXR)	27.3	91.1	75.8	52.6	217.5	111.5	103.5
GXD (% GDP)	20.2	22.8	28.6	20.5	174.1	43.5	50.1
NXD (% CXR)	-40.1	0.9	-23.8	12.4	2.6	24.5	26.1
NXD (% GDP)	-29.7	0.2	-9.0	4.9	2.1	10.8	12.9
GSXD (% GXD)	19.7	62.9	78.6	54.8	18.7	48.3	33.5
NSXD (% CXR)	-48.9	4.3	8.7	-1.8	20.0	12.6	-7.6
NSXD (% GDP)	-36.1	1.1	3.3	-0.7	16.0	4.9	-4.4
SNFA (USDm)	16,721.2	-2,131.8	-5,859.8	272.4	-3,699.7	-2,323.7	1,316.2
SNFA (% GDP)	36.1	-1.1	-3.6	0.7	-16.0	-5.6	5.0
Ext. debt service ratio (% CXR)	3.1	16.7	6.7	8.2	18.8	17.4	15.6
Ext. interest service ratio (% CXR)	0.9	6.5	1.0	3.8	8.8	5.4	4.0
Liquidity ratio (latest)	314.8	184.2	323.7	140.8	112.9	115.3	129.3
Current account balance (% GDP)	35.6	-3.4	-0.7	-4.8	-12.1	-2.7	-2.8
CAB plus net FDI (% GDP)	34.4	0.8	3.5	-2.7	-1.7	1.4	0.4
Commodity dependence (% CXR, latest)	64.7	45.3	35.8	32.8	53.5	25.9	19.1
Sovereign net FX debt (% GDP)	-5.9	2.6	-0.6	0.2	-10.5	2.3	-3.5

Source: Local authorities, IMF, Joint BIS-IMF-OECD-WB statistics on external debt and Fitch

Strengths

- Guatemala's gross and net external debt indicators are considerably stronger than the 10-year 'BB' category medians, reflecting a low level of private and public sector external indebtedness relative to peers. Low external indebtedness and the public sector's favourable amortization profile also drive Guatemala's comparably lower external debt service ratio. Even with the maturity of the government's 2011 bonds, Guatemala's external debt service ratio will remain well below the 10-year 'BB' median.
- Guatemala's sovereign net foreign asset position (SNFA) as a proportion of GDP exceeds the 10-year 'BB' median thanks to sustainable fiscal policies, steady growth and reserve accumulation.
- Low debt service and reserve accumulation boost Guatemala's liquidity ratio above that of its peers even though a rise in short-term debt reduced Guatemala's external liquidity ratio in 2008.

Weaknesses

- Guatemala's current account deficit is almost twice the 10-year 'BB' median and has been consistently above 4.5% of GDP since 1998, reflecting its low level of national savings relative to investment needs.
- Unlike many 'BB' peers, Guatemala's foreign direct investment inflows are not sufficient to finance current account deficits, and as a result external indebtedness is expected to continue gradually increasing over the forecast horizon, albeit from a low base.

Commentary

Based on first quarter data, Fitch expects declines in exports of goods and services, as well as remittances this year. However, as a net oil importer, the decline in average oil prices will contribute to a reduction in Guatemala's current account deficit to around 4% of GDP this year. Rising indebtedness, fuelled by the need to finance moderate current account deficits, will continue to pressure liquidity, particularly as foreign direct investment inflows remain low relative to peers.

Comparative Analysis: Public Finances

Guatemala

	2008 ^a					Last 10 years	
	Azerbaijan BB+	Colombia BB+	Egypt BB+	Guatemala ^b BB+	Panama BB+	BB median	BBB median
Budget balance (% GDP)	12.3	-0.7	-7.5	-1.6	-0.6	-2.3	-2.3
Primary balance (% GDP)	12.7	3.4	-1.9	-0.3	2.5	0.9	0.3
Revenues and grants (% GDP)	46.0	30.9	27.8	12.1	26.1	23.8	31.6
Volatility of revenues/GDP ratio	9.5	8.9	6.2	5.4	8.7	6.5	6.5
Interest payments (% revenue)	0.7	13.2	22.8	11.3	1.7	12.0	7.4
Debt (% revenue)	20.7	149.1	249.4	162.9	163.2	190.5	118.7
Debt (% GDP)	9.5	46.1	69.2	19.7	42.6	41.7	35.1
Net debt (% GDP)	-14.5	37.8	55.2	11.7	26.4	34.5	26.3
FC debt (% total debt)	85.2	31.3	26.8	61.6	n.a.	66.3	46.5
CG debt maturities (% GDP)	1.6	4.9	14.7	1.3	7.5	5.8	6.1
Average duration of CG debt (years)	n.a.	n.a.	2.2	n.a.	7.5	3.0	4.5

^a GG if not otherwise specified

^b Budget balance is for central government and debt is for NFPS

Source: Local authorities and Fitch

Strengths

- Guatemala's budget balance is better than the 10-year 'BB' median reflecting the implementation of sustainable fiscal policies as well as moderate economic growth.
- The sovereign's sustainable fiscal position has resulted in comparably lower gross and net public debt as a proportion of GDP ratios relative to the 10-year 'BB' median, although lower debt levels are desirable given Guatemala's weak tax base.
- In light of Guatemala's lower debt burden and favourable maturity structure, the government's debt maturities as a proportion of GDP are among the lowest in the 'BB' category.

Weaknesses

- Although the volatility of Guatemala's revenue to GDP ratio is low, this reflects the narrowness of the government's revenue base. Guatemala has the lowest revenue base in the 'BB' category.
- Guatemala's narrow tax base also drives its high public debt/revenue ratio. Although this ratio remains below the 10-year median, it will rise above this level as early as next year and was among the highest ratios in the 'BB' category for 2008.

Commentary

The government's prudent fiscal position has contributed to the maintenance of macroeconomic stability; however, Guatemala's low tax/GDP ratio is problematic given the country's high levels of poverty and poor social indicators as well as its vulnerability to natural disasters. Furthermore, if progress in reducing poverty and improving social indicators remains slow, domestic support for the current economic model could weaken.

The government's financing needs are low relative to peers given its prudent fiscal stance and low levels of public debt. The government intends to meet its financing needs with local market debt issuance and multilateral disbursements. Improved access to the domestic capital markets has strongly benefited public financial flexibility and represents a good source of financing. Guatemala continues to increase its reliance on domestically issued bond debt and all issuance in 2008 was long-term and in local currency.

Fiscal Accounts Summary

(% of GDP)	2006	2007	2008	2009f	2010f	2011f
General government						
Revenue	12.7	12.9	12.1	11.3	11.9	12.5
Expenditure	14.7	14.3	13.7	14.1	14.6	15.1
O/w interest payments	1.4	1.5	1.4	1.6	1.6	1.8
Primary balance	-0.6	0.0	-0.3	-1.2	-1.1	-0.8
Overall balance	-1.9	-1.4	-1.6	-2.8	-2.7	-2.6
General government debt						
2006	21.9	21.6	19.7	22.8	24.6	25.5
% of general government revenue	172.2	167.9	162.9	201.2	206.0	203.9
General government deposits	9.4	9.2	8.0	7.7	7.0	6.3
Net general government debt	12.5	12.5	11.7	15.0	17.5	19.2
Central government						
Revenue	12.7	12.9	12.1	11.3	11.9	12.5
O/w grants	0.2	0.2	0.1	0.3	0.3	0.3
Expenditure and net lending	14.7	14.3	13.7	14.1	14.6	15.1
O/w current expenditure and transfers	9.4	9.5	9.2	9.8	10.2	10.7
- Interest	1.4	1.5	1.4	1.6	1.6	1.8
O/w capital expenditure	5.3	4.8	4.5	4.3	4.4	4.4
Current balance	3.1	3.2	2.7	1.2	1.4	1.6
Primary balance	-0.6	0.0	-0.3	-1.2	-1.1	-0.8
Overall balance	-1.9	-1.4	-1.6	-2.8	-2.7	-2.6
Central government debt	21.6	21.5	19.9	23.3	25.0	26.0
% of central government revenues	169.8	166.7	164.7	205.8	210.0	207.4
Central government debt (GTQm)						
2006	49,676.6	56,040.0	58,600.5	69,596.8	78,970.9	88,044.1
By residency of holder						
Domestic	19,931.5	24,014.1	26,046.7	28,534.7	32,378.1	36,098.1
Foreign	29,745.3	32,026.2	32,554.6	41,062.1	46,592.8	51,946.0
By place of issue						
Domestic	20,188.6	24,191.0	26,209.0	30,372.8	33,782.9	37,201.8
Foreign	29,488.0	31,849.0	32,391.5	39,224.0	45,188.0	50,842.3
By currency denomination						
Local currency	15,980.0	20,459.4	23,534.1	22,967.0	26,060.4	29,054.5
Foreign currency	33,696.8	35,580.9	35,067.2	46,629.9	52,910.5	58,989.5
In USD equivalent (eop exchange rate)	4,419.5	4,662.8	4,510.6	5,828.7	6,478.6	7,036.0
By maturity						
Less than 12 months (residual maturity)	2,732.2	3,761.2	3,744.5	2,780.9	4,012.5	6,666.0
Average maturity (years)	18.2	14.9	15.6	25.0	19.7	13.2
Average duration (years)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Memo						
Non-financial public-sector balance (% GDP)	-1.2	-0.7	-0.7	-2.6	-2.6	-2.5
Net non-financial public-sector debt (% GDP)	12.2	12.3	11.9	17.2	19.1	20.3
Nominal GDP (GTQm)	229,548.5	261,129.3	294,663.4	299,185.5	315,481.0	339,229.7

Source: Ministry of Public Finance and Fitch estimates and forecasts

External Debt and Assets

(USDm)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross external debt	3,702.9	3,727.7	4,986.9	4,880.2	5,082.3	5,274.5	5,417.0	5,830.0	7,165.0	7,992.0
% of GDP	20.2	19.3	26.7	23.5	23.2	22.0	19.9	19.3	21.1	20.5
% of CXR	85.9	74.8	76.7	66.3	62.7	55.0	50.7	47.2	50.7	52.6
By maturity										
Medium- and long-term	2,792.9	2,785.7	4,037.9	3,948.2	3,912.3	3,898.0	4,139.0	4,444.3	4,676.3	5,659.0
Short-term	910.0	942.0	949.0	932.0	1,170.0	1,376.5	1,278.0	1,385.7	2,488.7	2,333.0
% of total debt	24.6	25.3	19.0	19.1	23.0	26.1	23.6	23.8	34.7	29.2
By debtor										
Monetary authorities	126.9	102.8	91.3	80.7	70.4	0.0	0.3	0.0	0.0	0.0
General government	2,630.9	2,643.7	2,925.0	3,119.1	3,467.2	3,713.0	3,592.3	3,959.0	4,226.0	4,382.0
O/w central government	2,034.4	2,165.4	2,548.5	2,773.3	3,149.5	3,608.6	3,582.0	3,901.3	4,197.0	4,187.4
Banks	162.0	142.0	121.0	102.0	86.0	197.0	406.1	719.0	1,186.9	1,044.1
Other sectors	910.0	942.0	1,940.9	1,659.1	1,529.1	1,364.5	1,418.6	1,152.0	1,752.1	2,565.9
Gross external assets (non-equity)	1,337.6	1,933.5	2,557.3	2,626.0	4,179.1	4,793.4	4,898.8	5,028.9	5,260.7	6,101.6
International reserves, incl. gold	1,249.2	1,806.7	2,351.1	2,366.2	2,913.2	3,516.0	3,762.0	4,048.3	4,284.2	4,654.4
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	88.4	126.8	206.3	259.8	1,265.9	1,277.5	1,136.8	980.6	976.5	1,447.2
Other sector foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net external debt	2,365.3	1,794.2	2,429.6	2,254.2	903.2	481.0	518.2	801.1	1,904.3	1,890.4
% of GDP	12.9	9.3	13.0	10.8	4.1	2.0	1.9	2.7	5.6	4.9
% of CXR	54.9	36.0	37.4	30.6	11.1	5.0	4.9	6.5	13.5	12.4
Net sovereign external debt	1,381.7	837.0	573.9	752.9	554.0	197.0	-169.7	-89.3	-58.2	-272.4
% of GDP	7.5	4.3	3.1	3.6	2.5	0.8	-0.6	-0.3	-0.2	-0.7
Net bank external debt	73.6	15.2	-85.3	-157.8	-1,179.9	-1,080.5	-730.7	-261.6	210.4	-403.1
Net other external debt	910.0	942.0	1,940.9	1,659.1	1,529.1	1,364.5	1,418.6	1,152.0	1,752.1	2,565.9
Net international investment position	-2,365.3	-1,794.2	-2,429.6	-2,254.2	-903.2	-481.0	-518.2	-801.1	-1,904.3	-1,890.4
% of GDP	-12.9	-9.3	-13.0	-10.8	-4.1	-2.0	-1.9	-2.7	-5.6	-4.9
Sovereign net foreign assets	-1,381.7	-837.0	-573.9	-752.9	-554.0	-197.0	169.7	89.3	58.2	272.4
% of GDP	-7.5	-4.3	-3.1	-3.6	-2.5	-0.8	0.6	0.3	0.2	0.7
Debt service (principal & interest)	345.5	379.4	782.9	712.8	581.8	675.3	716.7	811.1	877.4	1,246.7
Debt service (% of CXR)	8.0	7.6	12.0	9.7	7.2	7.0	6.7	6.6	6.2	8.2
Interest (% of CXR)	3.4	3.7	5.6	4.7	3.9	3.7	3.8	4.1	4.1	3.8
Liquidity ratio (%)	118.5	103.7	112.1	153.9	173.5	226.5	229.0	234.5	222.2	140.8
Net sovereign FX debt (% of GDP)	7.5	4.3	4.9	4.8	4.4	2.9	2.2	1.2	1.2	0.2
Memo										
Nominal GDP	18,317.5	19,289.0	18,702.8	20,776.6	21,917.6	23,965.3	27,211.3	30,193.3	34,030.9	38,976.5
Gross sovereign external debt	2,630.9	2,643.7	2,925.0	3,119.1	3,467.2	3,713.0	3,592.3	3,959.0	4,226.0	4,382.0
Inter-company loans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Central Bank of Guatemala, IMF, Joint BIS-IMF-OECD-WB statistics on external debt, World Bank and Fitch estimates

Debt Service Schedule on Medium- and Long-Term Debt at Date

(USDm)	2008	2009	2010	2011	2012	2013	2014+
Sovereign	417	447	424	731	392	666	3,756
Official bilateral	45	46	42	36	31	26	384
O/w Paris Club	0	0	0	0	0	0	0
Multilateral	372	401	383	369	360	340	3,043
O/w IMF	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Bonds placed in foreign markets				325		300	330
Non-resident holdings of domestic debt	0	0	0	0	0	0	0
Interest	245	241	250	238	192	180	1,361
Total sovereign debt service	662	687	674	968	584	846	5,118
Private sector							
Amortisation	255	435	575	655	n.a.	n.a.	n.a.
Interest	341	333	376	419	n.a.	n.a.	n.a.
Total private debt service	596	769	951	1,075	n.a.	n.a.	n.a.

Sources: Ministry of Public Finance, Central Bank of Guatemala and Fitch estimates/forecasts

Balance of Payments

(USDm)	2006	2007	2008	2009f	2010f	2011f
Current account balance	-1,524.1	-1,785.8	-1,862.7	-1,464.1	-1,777.4	-1,773.8
% of GDP	-5.0	-5.2	-4.8	-3.9	-4.6	-4.3
% of CXR	-12.3	-12.6	-12.3	-10.4	-12.1	-11.3
Trade balance	-4,852.3	-5,487.1	-5,573.9	-4,702.6	-5,058.5	-5,207.1
Exports, fob	6,082.1	6,983.1	7,848.1	7,377.2	7,746.1	8,365.8
Imports, fob	10,934.4	12,470.2	13,422.0	12,079.8	12,804.6	13,572.9
Services, net	-259.6	-310.0	-369.9	-476.6	-480.0	-433.0
Services, credit	1,518.8	1,731.2	1,789.0	1,574.3	1,653.0	1,785.3
Services, debit	1,778.4	2,041.2	2,158.9	2,051.0	2,133.0	2,218.3
Income, net	-680.4	-842.7	-929.3	-953.5	-1,034.5	-1,059.8
Income, credit	434.6	556.0	535.0	481.5	529.7	582.6
Income, debit	1,115.0	1,398.7	1,464.3	1,435.0	1,564.2	1,642.4
O/w: interest payments	501.0	575.3	574.3	562.8	613.5	644.1
Current transfers, net	4,268.2	4,854.0	5,010.4	4,668.6	4,795.6	4,926.1
Memo						
Non-debt-creating inflows (net)	468.2	534.9	859.5	400.0	500.0	500.0
O/w equity FDI	551.6	719.7	821.5	400.0	500.0	500.0
O/w portfolio equity	-83.4	-184.8	38.0	0.0	0.0	0.0
O/w other	142.2	0.0	0.0	150.0	0.0	0.0
Change in reserves (-= increase)	-252.0	-216.4	-332.7	-453.9	-102.6	-107.4
Gross external financing requirement	1,834.2	2,087.9	2,535.1	2,346.2	2,777.1	3,159.7
Stock of international reserves, incl. gold	4,048.3	4,284.2	4,654.4	5,114.5	5,228.1	5,346.6

Sources: Central Bank of Guatemala and Fitch estimates and forecasts

Copyright © 2009 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.