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**Research Update:**

# Republic of Guatemala Outlook Revised To Stable From Positive; Ratings Affirmed

**Primary Credit Analyst:**

Roberto Sifon Arevalo, New York (1) 212-438-7358; roberto\_sifon-arevalo@standardandpoors.com

**Secondary Credit Analyst:**

Joydeep Mukherji, New York (1) 212-438-7351; joydeep\_mukherji@standardandpoors.com

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## Research Update:

# Republic of Guatemala Outlook Revised To Stable From Positive; Ratings Affirmed

## Rationale

On Nov. 18, 2008, Standard & Poor's Ratings Services revised its outlook on the Republic of Guatemala to stable from positive. At the same time, Standard & Poor's affirmed its 'BB/B' foreign currency and 'BB+/B' local currency sovereign credit ratings and its 'BBB-' transfer and convertibility assessment on the republic.

The ratings on Guatemala are supported by:

- A long track record of cautious fiscal policies.
- Relatively low levels of government debt.
- Continuing improvements in general government debt profile.

The ratings are constrained by:

- Limited fiscal flexibility because of low tax revenues compared with those of its rated peers.
- Poverty and a highly skewed income distribution, which continue to constrain economic and social development.
- The persistence of large current account deficits.

We revised the outlook to stable to reflect the slowdown of the encouraging momentum seen in both Guatemala's tax collections and GDP growth in the last two years. We expect that tax revenues will be about 11.7% of GDP in 2008, which is lower than in prior years, and it will likely remain low in 2009. Standard & Poor's also has revised its GDP growth projections for 2008 and 2009 to 3.8% and 3.5%, respectively, because of adverse external conditions. The recession in the U.S. economy is already affecting the pace of growth of workers' remittances, which should grow about 6% in 2008 versus 14% in 2007 and could decline in 2009. Slower economic growth throughout Central America will likely hurt regional demand for Guatemalan imports, dampening medium-term growth prospects.

Guatemala's relatively low level of debt and still-manageable--albeit deteriorating--fiscal deficit continue to support the ratings. The general government deficit was about 1.5% in 2007 and is expected to increase to 2% in 2008 and in 2009 as a result of high inflationary pressures and spillover effects of the recession in the U.S. economy as well as its impacts in the other regional economies. In addition, Guatemala's fiscal flexibility and creditworthiness will continue to be constrained over the medium term by a narrow tax base and continual current account deficits that in 2008 are expected to increase to about 6% of GDP.

## Outlook

Further steps to improve transparency and political cohesion--as well as to lower the general government debt-to-revenues ratio through widening the tax base while containing debt levels--would improve Guatemala's financial

profile, potentially boosting the ratings. On the other hand, fiscal slippage and a return to political polarization that limits the government's ability to apply effective economic policies could place downward pressure on the ratings.

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Guatemala (Republic of)		
Sovereign Credit Rating		
Foreign Currency	BB/Stable/B	BB/Positive/B
Local Currency	BB+/Stable/B	BB+/Positive/B
Transfer & Convertibility Assessment	BBB-	
Senior Unsecured (3 issues)		
Foreign Currency	BB	
Recovery Rating	3	

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

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